

THE ROLE OF MICROFINANCE IN THE ECONOMIC PERFORMANCE OF PETTY TRADERS IN PENANG: THE CASE OF PROGRAMS TITIAN SAKSAMA RAKYAT BY PENANG DEVELOPMENT CORPORATION

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ABSTRACT

This paper aims to examine the impact of the Program Titian Saksama Rakyat (PTSR) to the petty traders. PTSR is a microfinance program which focuses on the growth and the development of the micro entrepreneurs in Penang, Malaysia. It was initiated by the Penang Development Corporation (PDC) in co-operation with the Penang State Government in November 2008. Based on the sample of 150 petty traders involved in various business activities, the results showed that the amount of the loan received has a significant effect on their income. In addition, this study revealed that the amount of the loan received and the actual amount of the loan application (whether it is fully approved or not) were significantly affect the success of these traders. The results of the analysis also indicated that, the traders enjoyed significant benefits from the PTSR as this program was able to increase their income, expand their business, lift them out of poverty, improve their ability to increase the amount of deposits and their property, improve the quality of their health and improve their ability to own a house and land. Because of these benefits, these traders are interested and plan to apply for another loan from the PTSR program. This study, therefore, suggests that the PTSR program should be continued as it played significant roles in improving the socio-economic performance of the petty traders.

Keywords: *New economic model, PTSR, microfinance, microcredit and petty traders*

INTRODUCTION

Microcredit is defined as the process of giving a loan capital in small amounts to the poor to enable them self-employed or venturing into a business (Kasim and Jayasooria, 2001). On the other hand, microfinance is defined by the Asian Development Bank (ADB) as "the provision of a broad range of financial services such as deposits, loans, payment services, money transfers, and insurance to poor and low-income households and their microenterprises" (ADB, 2000). In general "microcredit" and "microfinance" have been used interchangeably by many researchers, but in actual fact, microcredit is a part of the microfinance. Microcredit loan program was a great success, as has been proven and demonstrated achievement by Professor Muhammad Yunus, through the creation of Grameen Bank. Microcredit has also been identified as a mean to stimulate economic growth and socio-economic which encompassing poverty reduction, increase in savings, asset accumulation, create jobs and meet the needs of the household (Md Saad, 2011; Chong, 2010).

The previous studies have highlighted the problems faced by small firms, which is the limited access to the financial resources available compared to larger organizations. These constraints pose a serious threat to the growth and development of SMEs (Levy, 1993). SME development is an important national agenda because it could be considered as a catalyst towards achieving the objectives of socio-economic and wider economy, particularly in the eradication of poverty (Hallberg, 2000; OECD, 2004). The idea of "credit as a human right" which was revolutionized by Grameen Bank has become the most effective weapon in the fight against poverty (Omar, 2010). The microcredit scheme like Grameen Bank is an important scheme in

helping the poor in poverty reduction (Hulme D, 2000) by providing a loan without any form of collateral needed Hossain (2002) so that they can undertake productive activities or business activities that can increase their incomes (Mawa, 2008). As in 2012, there are more than 250 institutions providing microcredit loan facilities around the world, including Malaysia which adopted the model implemented by Grameen Bank (Yunus, 2007).

In Malaysia, financing through microcredit system has been introduced through a pilot project in 1987. Since that, it has grown and proven to be effective to solve the problem of poverty and thus able to improve the standard of living of low-income communities, particularly in urban or rural areas (Omar *et al.*, 2012). Whether channeling loans to low-income groups in urban or rural areas, microcredit lending is intended to supplement their incomes by providing a source of loans for starting a business on a small scale. Several famous microfinance scheme that have been implemented in Malaysia are including Urban Micro Microfinance Programme or *Program Kewangan Mikro Bandar* (PKMB) by Amanah Ikhtiar Malaysia in 2008, *TEKUN* financing scheme, *Koperasi Kredit Rakyat in Selangor* (KKR), *Yayasan Basmi Kemiskinan* (YBK) under several state governments, *Yayasan Usaha Maju* (YUM) in Sabah, *Yayasan Bina Upaya* (YUB) in Perak, *Projek Titian Saksama Rakyat* (PTSR) in Pulau Pinang, *Perbadanan Kemajuan Negeri Kedah* (PKNK) and *Skim Mikrokredit Selangor* (SKIMSEL) in Selangor. The focus of this study is on the PTSR program which is has been initiated by Penang Development Corporation (PDC) and Penang State Government in 2008.

The main purpose of PTSR is to provide micro-loan to the petty traders to be used for financing income generating activities. PTSR main vision is to ensure the maximum benefit that could be enjoyed by the targeted groups through the Key Transformation Indicators or KTI namely (a) sustainable incomes and increased household incomes, (b) generating household incomes, (c) increase household assets, (d) preparation of self-employment opportunities for adult members of the households, (e) meeting basic household needs such as food, shelter, health, education and other necessities and (f) the ability to fulfill the requirements of religion such as charity, performing the pilgrimage and other requirements. As of April 2014, a total of 3,675 applications and after the screening exercise a total of 1744 applications have been approved and 1874 applications were rejected. The present study was undertaken to examine the impact of the Program Titian Saksama Rakyat (PTSR) to the petty traders.

RESEARCH METHOD

This study involved a total of 150 petty traders running various types of business located in five districts in Penang namely the South West District, the North East District, North Seberang Perai, South Seberang Perai and Central Seberang Perai. In each district, participants were selected using a simple random sampling based on their business activities. The data gathered were analyzed using the Statistical Package for Social Science (SPSS) Programme, version 22. The analysis involved frequency analysis, descriptive analysis, and t-test analysis.

RESULTS AND DISCUSSION

Profile of the respondents

The profile of the respondents is presented in two sections which are personal profile and business profile. The personal profile of the respondents is presented in Table 1. The table shows that majority of the respondents are in the age of 30 to 30 years old (36.7%). Most of them are male (60.7%) and were married (89.3%). The majority of the respondents are Malays (82%). Most of the respondents obtained lower secondary school as the highest educational qualification (74.7%). Regarding the number of children, the majority of them have around 1 to 3 children (60%).

The respondents' business profile is shown in Table 2. From the table, the results show that majority of the respondents in this study operating their business in Southwest District (47.3%). Most of them are in the foods and beverage industry (42%) and having a shop as their business premise (44%). The majority of the respondents running their business as a sole proprietorship (92%) and most of them have around 3 to 4 years of business experiences (20.7%).

Table 1. Personal profile of the respondents

| Items | Frequency | Percentage (%) |
|-----------------------------------|-----------|----------------|
| Age | | |
| 21 - 29 | 19 | 12.7 |
| 30 - 39 | 55 | 36.7 |
| 40 - 49 | 41 | 27.3 |
| 50 - 59 | 31 | 20.7 |
| 60 and above | 4 | 2.7 |
| Gender | | |
| Male | 91 | 60.7 |
| Female | 59 | 39.3 |
| Marital Status | | |
| Single | 13 | 8.7 |
| Married | 134 | 89.3 |
| Divorced/Separated | 2 | 1.3 |
| Widow/Widower | 1 | 0.7 |
| Ethnic group | | |
| Malay | 123 | 82.0 |
| Chinese | 10 | 6.7 |
| Indian | 16 | 10.7 |
| Others | 1 | 0.7 |
| Highest education obtained | | |
| Primary School | 17 | 11.3 |
| Lower Secondary School | 112 | 74.7 |
| Higher Secondary School | 10 | 6.7 |
| Diploma | 11 | 7.3 |
| Number of children | | |
| None | 26 | 17.3 |
| 1 - 3 | 90 | 60.0 |
| 4 - 6 | 33 | 22.0 |
| 7 and above | 1 | 0.7 |

Reasons for choosing and joining PTSR

The reasons for choosing and joining PTSR are shown in Table 3. The table shows that most of the respondents joined the PTSR program for the purpose of to add more capital to their business (78.7%). The majority of them indicate that they choose PTSR instead of other schemes because PTSR offers simple rules and regulations compared to others (75.3%).

The impact of the loan received to the changes in income

This study examines the impact of the loan received to the changes in the respondents' income. This is done through Chi-Square analysis. The result of the analysis is presented in Table 4. Based on Table 4, the results of Pearson Chi-Square ($\chi^2 = 12.960$, $df = 2$, $p < .05$) indicated that there is a significant different in income among the respondents based on the amount of the loan received. The standard residual value 0.8 (RM10,000 – income increase), 0.5 (RM8,000 – income increase) and 2.3 (RM5,000 – income decrease) contribute to such differences. This means that, significantly, the population in which the sample was taken, the respondents who received loans of RM8,000 and RM10,000 managed to increase their income while the respondents who received loans of RM5,000 cannot manage to increase their income.

Table 2. Business profile of the respondents

| Items | Frequency | Percentage (%) |
|-------------------------------------------|-----------|----------------|
| <i>Business Location</i> | | |
| Northeast District | 27 | 18.0 |
| Southwest District | 71 | 47.3 |
| North Seberang Perai District | 19 | 12.7 |
| Central Seberang Perai District | 9 | 6.0 |
| South Seberang Perai District | 24 | 16.0 |
| <i>Types of Business</i> | | |
| Grocery | 19 | 12.7 |
| Foods and Beverages | 63 | 42.0 |
| Handicraft | 2 | 1.3 |
| Services | 38 | 25.3 |
| Tourism | 4 | 2.7 |
| Manufacturing | 1 | 0.7 |
| Agriculture | 3 | 2.0 |
| Others | 20 | 13.3 |
| <i>Types of Premises</i> | | |
| Shop | 66 | 44.0 |
| Stall | 39 | 26.0 |
| Mobile business / Night Market | 17 | 11.3 |
| Mobile Stall | 9 | 6.0 |
| Home Based Business | 19 | 12.7 |
| <i>Types of Business Ownership</i> | | |
| Sole Proprietorships | 138 | 92.0 |
| Partnership | 8 | 5.3 |
| Joint Venture | 4 | 2.7 |
| <i>Business Experiences</i> | | |
| Less than 1 year | 18 | 12.0 |
| 1 – 2 years | 14 | 9.3 |
| 3 – 4 years | 31 | 20.7 |
| 5 – 6 years | 26 | 17.3 |
| 7 – 8 years | 19 | 12.7 |
| 9 – 10 years | 17 | 11.3 |
| 11 – 12 years | 4 | 2.7 |
| 13 – 14 years | 3 | 2.0 |
| 15 years and above | 18 | 12.0 |

Table 3. Reasons for choosing and joining PTSR

| Items | Frequency | Percentage (%) |
|---------------------------------------------------|-----------|----------------|
| <i>Reasons for joining PTSR</i> | | |
| To add more capital | 118 | 78.7 |
| To expand the current business | 22 | 14.7 |
| To change the business asset | 9 | 6.0 |
| Others | 1 | 0.7 |
| <i>Reasons for choosing PTSR</i> | | |
| Location – easy access | 29 | 19.3 |
| Low interest | 61 | 40.7 |
| Simple rules and regulations | 113 | 75.3 |
| Does not require collateral and formal procedures | 51 | 34.0 |

Table 4: The impact of loan received to the changes in income

| | | Loan Received | | | Total |
|-------------------|---------------|---------------|---------|----------|-------|
| | | RM5,000 | RM8,000 | RM10,000 | |
| Changes in Income | Increase | 61 | 23 | 46 | 130 |
| | Std. Residual | -.9 | .5 | .8 | |
| | Decrease | 18 | 1 | 1 | 20 |
| | Std. Residual | 2.3 | -1.2 | -2.1 | |
| Total | | 79 | 24 | 47 | 150 |

The impact of loan on the respondents' success

In this study, the success of the respondents is measured by the changes in business income after they joined PTSR. Table 5 presented the results of the respondents' business income status after joining PTSR. The results indicated that the majority of the respondents were able to increase their business income (86.7%). Therefore, it can be concluded that most of the respondents were success in their business.

To examine the impact of the loan received to the success of the respondents, the Kruskal-Wallis analysis was conducted. The result is presented in Table 6. Based on the result, this study revealed that the amount of the loan received and the actual amount of the loan application (whether it is fully approved or not) were significantly affect the success of the respondents. Specifically, the success of the respondents in business vary significantly according to the amount of loans they receive, $\chi^2(2, n=150) = 12.873, p < .005$ as well as depending on whether the amount applied for were fully approved or not $\chi^2(1, N=150) = 32.583, p < .005$

Benefits of PTSR

In this study, the respondents were asked their opinions regarding the benefits the received after joining PTSR. The results are presents in Table 7. From the table, it can be concluded that PTSR give a significant impact in increasing their income (mean = 4.31; SD = 0.615), expand their business (mean = 4.29; SD = 0.606), lift them out of poverty (mean = 4.22; SD = 0.694), improve the quality of their health (mean = 3.70; SD = 0.784), improve their ability to increase the amount of deposits and their property (mean = 4.22; SD = 0.694) and improve their ability to own a house and land (mean = 3.57; SD = 0.854). Because of these benefits they received from the PTSR, most of the respondents were interested and plan to apply for another loan from PTSR (mean = 4.43, SD = 0.727).

Table 5. Changes in business income

| Changes in Business Income | Frequency | Percentage (%) |
|----------------------------|-----------|----------------|
| Increase | 130 | 86.7 |
| Decrease | 20 | 13.3 |

Table 6. The impact of the loan on the respondents' success

| Factor | | N | Mean Rank | Chi-square | df | Asymp. Sig. |
|-----------------------------------------------------|---------|----|-----------|------------|----|-------------|
| Loan Received | RM5000 | 79 | 82.59 | 12.873 | 2 | .002 |
| | RM8000 | 24 | 68.63 | | | |
| | RM10000 | 47 | 67.10 | | | |
| The actual amount of the loan apply fully approved? | Yes | 94 | 90.95 | 32.583 | 1 | .000 |
| | No | 56 | 66.30 | | | |

Table 7. Benefits of PTSR

| Benefits of PTSR | Mean | Std. Deviation |
|--------------------------------|------|----------------|
| Increase in Income | 4.31 | .615 |
| Expand the Business | 4.29 | .606 |
| Lift Out of Poverty | 4.22 | .694 |
| Improve the Quality of Health | 3.70 | .784 |
| Increase Deposits and Property | 3.70 | .865 |
| Ability to Own House and Land | 3.57 | .854 |

Increase in income

To reinforce the respondents' opinion regarding the main role of PTSR in increasing their income, the researcher conducted an analysis to examine the household income of the respondents in term of "before" and "after" they joined PTSR. Based on the results in Table 8, overall, the respondents have increased their income from RM3241.99 to RM3848.40 which is equivalent to an increase of RM606.41 or 18.7 %. Specifically, based on the six categories of income, most of the respondents have moved from very low income to much higher income level such as low middle income, middle income, high income and highest income. The results for each category is as follows:

1. Respondents in VLI category have reduced from 14 (9.3%) to 9 (6%) which is equivalent to 3.3% decrease;
2. Respondents in LI category have reduced from 51 (34%) to 37 (24.7%) which is equivalent to 9.3% decrease;
3. Respondents in LMI category have increased from 32 (21.3%) to 42 (28%) which is equivalent to 6.7 increase;
4. Respondents in top three income level (MI, HI, and HIG) have increased from 53 (35.3%) to 62 (41.3%) which is equivalent to 6% increase.

Table 8 Distribution of household income per month: “Before” – “After”

| Income (RM) | Before | | After | |
|----------------------|----------|-------|----------|-------|
| | N | % | N | % |
| 1000 and below (VLI) | 14 | 9.3 | 9 | 6.0 |
| 1001 – 2000 (LI) | 51 | 34.0 | 37 | 24.7 |
| 2001 – 3000 (LMI) | 32 | 21.3 | 42 | 28.0 |
| 3001 – 4000 (MI) | 18 | 12.0 | 22 | 14.7 |
| 4001 – 5000 (HI) | 9 | 6.0 | 11 | 7.3 |
| 5001 and above (HIG) | 26 | 17.3 | 29 | 19.3 |
| Total (N) | 150 | 100.0 | 150 | 100.0 |
| Mean Income | 3241.99 | | 3848.40 | |
| Median Income | 2381.00 | | 2888.50 | |
| Mode Income | 1010 | | 2392 | |
| Standard Deviation | 3231.298 | | 3352.596 | |

Note: VLI = very low income, LI = low income, LMI = low middle income, MI = middle income, HI = high income, HIG = highest income

CONCLUSION

Preliminary result of the PTSR program shows that the traders enjoyed significant benefits from the PTSR as this program was able to increase their income, expand their business, lift them out of poverty, improve their ability to increase the amount of deposits and their property, improve the quality of their health and improve their ability to own a house and land. Thus PTSR which is an urban based microfinance program had convincingly proven that this scheme is workable.

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