

THE MEDIATING INFLUENCE OF ENTREPRENEURIAL EMPOWERMENT ON
THE LINKAGE BETWEEN ISLAMIC MICROFINANCE SERVICES AND
CLIENTS' WELL-BEING IN MALAYSIA: PERCEIVED ASSESMENT OF
SERVICE PROVIDER

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DEDICATION

I dedicate this thesis to the members of my family:

Aishatu Adamu Usman

Jamila Abdulhamid

Muhammad Kabiru Salihu

Sulaiman Musa Kabo

Abdurrahman Abubakar Usman

Muhammad Abubakar Usman

Maryam Abubakar Usman

This is in recognition of their myriad perseverance during my long absence. I love you all and my Allah bless our lives.



PTTA UTHM
PERPUSTAKAAN TUNKU TUN AMINAH

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ABSTRACT

Understanding clients' well-being from the perspective of service provider is important in Islamic microfinance services. The objective of the study was to examine the relationship between Islamic microfinance services with entrepreneurial empowerment and clients' well-being. Three research questions and seven hypotheses were formulated to guide the study. The study covered within peninsular Malaysia. The sample was chosen from east coast states of Malaysia (Pahang, Terengganu and Kelantan states) because these states attracted more than 50% of funds disbursement by Amanah Ikhtiar Malaysia (AIM). The study population was 400, defined as a group of employees of Amanah Ikhtiar Malaysia (AIM) who are directly involved in the delivery of Islamic microfinance services. This comprised of branch manager and nine (9) members of staff from operations department in each of the 40 branches in the region. The sample for the study was 291 survey respondents from these staff of Amanah Ikhtiar Malaysia (AIM). A structured questionnaire consisting of closed-ended multiple choice questions was presented to the respondents, selected by a stratified and simple random sampling. Exploratory factor analysis (EFA), confirmatory factor analysis (CFA) and Analysis of Moment Structures (AMOS) were used to test the validity and reliability of the conceptual research model. The survey results supported four hypotheses, confirming that Islamic microfinance services have positive relationship with entrepreneurial empowerment. The results rejected three hypotheses on the relationship between Islamic microfinance services and clients' well-being. The unique finding of the study is that, it has espoused the importance of entrepreneurial empowerment as a full mediator towards achieving clients' well-being. The researcher concludes that Islamic microfinance services can improve clients' empowerment and well-being by emphasising human, physical and social capital development.

ABSTRAK

Memahami kesejahteraan pelanggan daripada perspektif pembekal perkhidmatan adalah penting dalam menyampaikan pembiayaan mikro Islam. Objektif kajian ini adalah untuk menilai hubungan di antara perkhidmatan pembiayaan mikro Islam dengan pemeraksanaan keusahawanan dan kesejahteraan pengguna. Tiga persoalan kajian dan tujuh hipotesis telah dirangka bagi membantu kajian. Kajian ini merangkumi Semenanjung Malaysia. Sampel ini telah dipilih daripada negeri-negeri Pantai Timur Malaysia (Pahang, Terengganu dan Kelantan) kerana negeri-negeri ini telah menarik lebih daripada 50% dana pembiayaan oleh Amanah Ikhtiar Malaysia (AIM). Populasi kajian ini adalah 400, terdiri daripada kumpulan kakitangan Amanah Ikhtiar Malaysia (AIM) yang terlibat secara langsung dalam penyampaian perkhidmatan pembiayaan mikro Islam. Ia terdiri daripada pengurus cawangan dan sembilan (9) kakitangan daripada jabatan operasi dalam setiap satu jabatan daripada 40 cawangan di rantau ini. Sampel kajian ini adalah 291 responden kajian yang terdiri daripada kakitangan Amanah Ikhtiar Malaysia (AIM). Satu soal selidik berstruktur yang terdiri daripada beberapa soalan bersama beberapa pilihan jawapan (closed-ended multiple choice questions) telah diberikan kepada responden di mana persampelan dipilih secara rawak. Analisis Faktor Penerokaan (Exploratory Factor Analysis), Analisis Faktor Pengesahan (Confirmatory Factor Analysis) dan Analisis Kepentingan Struktur (Analysis of Moment Structures) telah digunakan untuk menguji kesahihan dan kebolehpercayaan model konsep bagi penyelidikan ini. Hasil dapatan kaji selidik ini telah menyokong empat (4) hipotesis membuktikan bahawa hubungan antara pembiayaan mikro Islam dan pemeraksanaan keusahawanan menunjukkan kesan positif. Hasil kajian mendapati bahawa tiga (3) hipotesis hubungan antara perkhidmatan pembiayaan mikro Islam dan kesejahteraan pelanggan tidak diterima. Hasil penemuan yang unik telah diperolehi melalui kajian ini iaitu memperakui kepentingan memperkasakan keusahawanan ke arah mencapai kesejahteraan pelanggan. Pengkaji merumuskan bahawa perkhidmatan pembiayaan mikro Islam boleh meningkatkan pemeraksanaan pelanggan dan kesejahteraan dengan menekankan aspek manusia, fizikal dan pembangunan modal sosial.

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LIST OF ABBREVIATIONS

AIM	- Amanah Ikhtiar Malaysia
AMOS	- Analysis of Moment Structures
CFA	- Confirmatory Factor Analysis
EFA	- Exploratory Factor Analysis
GDP	- Gross Domestic product
GFDR	- Global Financial Development Report
GIFR	- Global Islamic Finance Report
FSBP	- Financial Sector Blue Print
MDGs	- Millennium Development Goals
MDGR	- Millennium Development Goals Report
NDP	- New Development Policy
NEM	- New Economic Model
NEP	- New Economic Policy
OECD	- Organization for Economic Cooperation and Development
OIC	- Organization for Islamic Conference
PCA	- Principal Component Analysis (PCA)
SDGs	- sustainable Development Goals
SEM	- Structural Equation Modelling
SPSS	- Statistical Package for Social Sciences
UNDP	- United nation Development Program

CHAPTER 1

INTRODUCTION

1.1 Background

There are glad tidings in the Millennium Development Goals Report (MDGR) in 2015 on the successes recorded in the fight against poverty. According to the MDGR (2015), the number of people living in extreme poverty has declined from 1.9 billion in 1990 to 836 million in 2015. Similarly, the number of people in the working middle class (living on more than \$4 a day) has almost tripled between 1991 and 2015. This implies that as the basic sustenance is achieved, more focus will be needed towards wider dimensions of well-being. This is essential because yet still, a sizeable portion of humanity are still languishing in poverty most especially the less privileged by virtue of physical disability, gender and ethnic groups (Raimi *et al.*, 2013). There are genuine concerns that this vulnerable group lacks opportunities necessary to live a valuable live. This has stimulated diverse interests from governments, donor agencies, private investments and the academia to find a solution to this menace. With about a quarter of world population and much of which lives in extreme economic conditions, Muslim countries have a major task on achieving acceptable well-being (Rahman, 2013; Mohieldin *et al.*, 2011). Some of the difficult challenges facing these countries are how to improve productivity and quality of life of its citizens.

Malaysia is a multi-ethnic country that comprises the Bumiputera (Malays and other minority indigenous ethnic groups), Chinese and Indians. Successive governments have embarked on a range of national development policies such as the New Economic Policy (NEP) 1970-2000, the New Development Policy (NDP) 1991-2000 and the New Economic Model (NEM) 2010. The policies aimed at increasing income and productivity, with sustained rapid growth to attain the status of a fully

developed nation by 2020. Table 1.1 below presents the statistical results on the incidence of poverty over a period of four (4) decades.

Table 1.1 Incidence of Poverty (% of pop): Malaysia 1970-2012
(Henderson *et al.*, 2002 (1970-2000); Department of Statistics
Malaysia, 2013 (2004-2012))

	1970	1980	1990	1995	2004	2009	2012
Incidence (%)	49.3	29.2	17.1	8.9	5.7	3.8	1.7

Table 1.1 represents poverty incidences in terms of percentage of the Malaysian population. The steady economic growth enjoyed in the last four decades resulted in a continuous decline trend in the incidence of poverty from 49.3% in 1970 to 1.7% in 2012.

The growing urgency for sustainable development globally has led to the idea for inclusive strategies gaining ground. This suggest that, to promote a balanced and equitable growth, the poorer section of the society has to partake meaningfully in the economy (Mohieldin *et al.*, 2011). Microfinance models are used in different countries to achieve entrepreneurial empowerment of the poor people and improve their lives. The Grameen bank founded by Muhammad Yunus is the famous model replicated in many countries, including Malaysia. According to Global Islamic Finance Report (GIFR) (2012), the providers of microfinance services in Malaysia are Microfinance institutions, Cooperative societies, Development financial institutions and Commercial banks with microfinance schemes. Among all the service providers, Amanah Ikhtiar Malaysia (AIM) is seen as the most successful replication of the Grameen model (Al Mamun, Adaikalam & Abdul Wahab, 2012; Omar, Noor & Dahalan, 2012). Amanah Ikhtiar Malaysia (AIM) offers micro-credit, micro-saving and welfare fund, and it has earned 99.2% loan repayment rate (Al-Shami *et al.*, 2014). The objective of microfinance intervention is to compliment government efforts in empowering the poor people to take advantage of the opportunities in the society.

Several studies such as Noreen (2011); Nurzaman (2011); Md Saad (2010) have indicated the role played by microfinance in enhancing entrepreneurial capacity of its clients. Entrepreneurial empowerment is the development of assets and capabilities of individuals and groups to engage, influence and participate in decision

making that shapes their lives (Bennett 2002). Narayan-Parker (2002) added that this empowerment entails self-strength, self-power, self-reliance and life of dignity. The aim of Islami microfinance services (micro-credit, micro-saving and charity and welfare fund) is to enable its clients to have such assets and capabilities so as to develop their micro enterprises. Putnam (2000) argued that for a proper development, empowerment must have human, physical and social dimensions. This is necessary to meet the requirement for entrepreneurial empowerment. Human capital refers to the properties that an individual has (education, skills and knowledge), physical capital entails ownership of physical or environmental resources (physical assets) and social capital means social support and integration (networks and connections). Furthermore, these components of entrepreneurial empowerment are similar to the three dimensions of development in Islam. According to Mohieldin *et al.* (2011), individual self-development, physical development, and development of the humans toward full integration and unity are the scope of the Islamic concept of development.

Assets empowers people to withstand shocks and expand their choices, while capabilities enables them to use their assets in different ways. Islamic microfinance services are designed to offer opportunities to the clients in terms of training, financial literacy, assets acquisition and mutual cooperation. This suggest that, entrepreneurial empowerment and clients' well-being are important ends because entrepreneurial empowerment is necessary in building the clients' capability, which is crucial for them to achieve a worthwhile life.

Emerging trend in microfinance in Malaysia focuses on offering more services to improve both financial and non-financial well-being of the clients. This concept on wider dimension of well-being is in line with developmental objectives of nations and was also adopted by the United Nations' Sustainable Development Goals (SDGs) (Sachs, 2012). The Capability Approach espoused the importance of functionings to live a valuable life. This idea suggests that, the poorer sections of the society must be helped to enhance their capabilities so that they can join mainstream society and have a decent life (Mohieldin *et al.*, 2011; Nair, 2010). This is essential because human efforts, skills, talents, as well as need for income generation, asset acquisition and protection against risk are necessary for promoting and sustaining economic growth (Anand & Sen, 2000). In order for the vulnerable people to attain their full potentialities, their conditions have to be improved towards freedom and independence. According to Rath & Harter (2010) and McCarthy (2010), a thriving

life could be distinguished from one spent suffering based on career, social, financial, physical, community dimensions. The Organisation for Economic Co-operation and Development (OECD) has also proclaimed that, how people think about and experience their lives is an important component of society's progress.

There are indications from the literature review that, to understand the real contribution of microfinance, evaluations must embrace range of services on a wider well-being scale. To determine how microfinance can be used as a strategy for a critical contribution to emerging challenges in Malaysia, it will require a careful research and articulation. It is noteworthy that the impact of economic growth is essential in creating opportunities and raising the standard of living and in fact one of many conditions for poverty reduction (Ravallion & Chen, 2009; Foster & Székely, 2001; Ravallion & Datt, 1999). However, the approach in this study does not believe that the gains from increased growth automatically trickles down to the poorest. Rather, economic policy instrument may be needed to distribute the growth to the benefit of people at all societal levels. This means that there is need to prove that microfinance intervention results in improvement of well-being in terms of career growth, financial and social growth for its clients (Michaelson, 2012; Rath & Harter, 2010). According to Anand & Sen (2000); Nussbaum & Sen (1993), welfare improvement is one of the objectives of economic development and necessary for a balanced economic development. This research seeks to study what phenomena maintains the gap, and what tools should be used to close the gap.

Appraising such intervention is important to justify the huge investments in them and also to assess whether they meet the requirements of the targeted beneficiaries. Determining the impact of such interventions will answer the question of whether microfinance has a role in its clients' well-being in spite of the general economic growth in Malaysia. This may help Malaysia to achieve a high income nation by the year 2020.

1.2 Statement of research problem

The need for this study arises from the Malaysia Well-being Report (MWR) 2013 which analyses the effectiveness of the government's various socio-economic development policies in improving the well-being of the people. The MWR 2013

acknowledged the remarkable achievements in terms of economic growth, it has also highlighted on the less impressive record in income distribution in rural-urban and across ethnic groups. Table 1.2 presents the incidence of rural and urban poverty statistics.

Table 1.2: Incidence of Rural and Urban Poverty (% of Pop): Malaysia 1970-2012 (Henderson *et al.*, 2002 (1970-1999); Department of statistics Malaysia, 2013 (2004-2012))

	1970	1984	1995	1999	2004	2009	2012
Rural	58.7	24.7	15.6	13.2	11.9	8.4	3.4
Urban	21.9	8.2	4.1	3.8	2.5	1.7	1.0
Disparity	2.68	3.01	3.8	3.47	4.76	4.9	3.4

According to the results in Table 1.2, while incidence of poverty has drastically declined from 58.7% in 1970 to 3.4% in 2012 for rural, and from 21.9% in 1970 to 1% in 2012 for urban. However, disparity in terms of rural - urban has worsened. The disparity between rural-urban was 2.68 in 1970 but increased to 3.4 in 2012. In other words, the steady economic growth over the last four decades has the following implications:

- Decline in the incidence of poverty.
- Galloping trend over a period of four decades.
- Disparity in rural-urban economic development.
- Depict poverty as a rural phenomenon.

This means that although high economic growth has been recorded in the last four decades, it indicates an unbalanced proportion in rural-urban economic development and has made the gap of inequality in incomes a reality. Similarly, besides the rural-urban disparity, there is also an ethnic dimension of income inequality. Figure 1.1 presents distribution of household income across ethnic and strata lines.

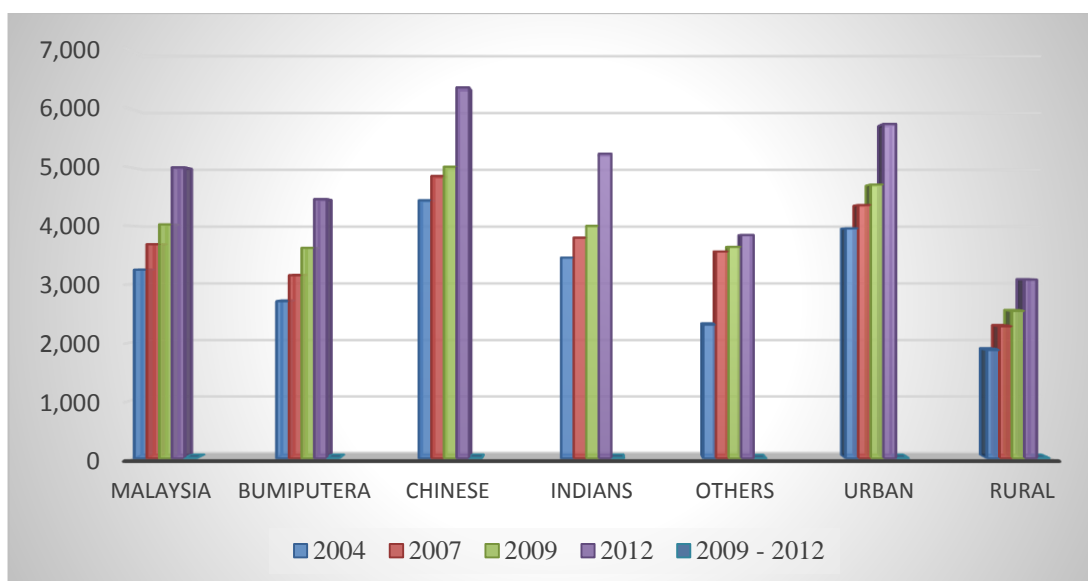


Figure 1.1: Distribution of Household Income by Ethnic group/Strata 2004-2012
(Department of statistics Malaysia, 2013)

From Figure 1.1, the income distribution is shown for each segment of the population from 2004 – 2012. It indicates that Bumiputera who are the largest ethnic group has the lowest average household income at 4,454 in 2012, compared with Chinese and Indians who have average household income of 6366 and nearly 5,533 in 2012 respectively. Similarly in 2012, the rural dwellers (3,080) have a half average household income when compared with urban citizens who have 5,742. It is noteworthy that extreme poverty has been reduced to 1.7% in 2012 (based on Table 1.1), yet the disparity in incomes between urban-rural and among the ethnic strata persists. In 1999, Malaysia has had the highest income disparity in the Asia Pacific region with an income disparity ratio of 11.7% between the richest 20% and the poorest 20% of the population (Nair, 2010).

According to Henderson *et al.* (2002), this disparity is attributed to the fact that the Bumiputera has the majority population that lives in the rural areas and lacks capacity-building. Another reason for this disparity may be the policies that supports the development of infrastructure, mobility and communication for urban growth (Suri *et al.*, 2011; Ang, 2010; Fleisher, Li & Zhao, 2010; Shahbaz, 2010). Such policies isolates rural areas and hinders their integration with urban society, established markets and access to capital, and this could impede human progress and development (Raimi *et al.*, 2013; Foster & Székely, 2001; Gallup, Radelet & Warner, 1998).

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