

Selecting High-income Generating Activities for Micro-entrepreneurs: The Case Study of Amanah Ikhtiar Malaysia

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Abstract

Poverty eradication has been one of the most important concerns in developing countries. Many of the governments of these countries have initiated some forms poverty alleviation programs to reduce poverty level in their respective countries. Studies have shown that microfinance is proven to be an effective tool to fight poverty in many developing countries. This study looks at various income generating activities taken up by micro-entrepreneurs who obtained micro-credit from Amanah Ikhtiar Malaysia (AIM), the biggest microfinance institution in Malaysia, and identifies which activities result in high income. A survey was conducted to obtain primary data on economic activities assumed by AIM members and also income obtained from these activities. The results of the survey show that economic activities in the trading sector are found to be very lucrative and result in higher average income compared to activities in the production and service sectors. Among activities which result in high monthly incomes are rubber trading, sales of cooking gas, hawking in night markets, sales of cosmetics and body wear, paint products, jewellery, used cars, electronics, health products, and food.

Keywords: Economic development, Islamic microfinance, microfinance, poverty, Amanah Ikhtiar Malaysia.

1. Introduction

Although to a certain degree overlooked by conventional financial institutions, microfinance is at present demonstrating good potential, and funding microfinance project has become a main concern for international donors as well as for governments, private companies and philanthropic organizations (Ferro, 2005). There are several reasons why financial institutions may not be interested with microfinance, such as the real profitability of microfinance, the high risk posed by small and short-term lending operations and the widespread belief that the poor are often poor due to a lack of skills. Furthermore, it is extremely difficult for financial institutions, particularly in less developed countries, to overcome the social and cultural barriers in providing microfinance services (Ferro, 2005).

Nevertheless, the development of microfinance institutions still receives strong support from many parties. Twenty-eight members of the Consultative Group to Assist the Poor (CGAP) have defined a vision for the future of microfinance: a world in which poor people everywhere enjoy permanent access to a wide range of financial services, delivered by different types of institutions through a variety of convenient mechanisms (CGAP, 2004). Poverty has been one of the major problems faced by most of the developing countries. According to Rural Poverty Report 2001 in Peck (2005), there are 1.2 billion people who are extremely poor surviving on less than \$1 a day. Extremely poor people spend more than half of their income to obtain (or produce) staple foods. Most of these people suffer from nutritional deficiencies, and many suffer from hunger at certain times of the year.

Even, within this community, one child in five will not live to see his or her fifth birthday (Barr, 2005). Considering the importance of resolving poverty problem, United Nations (UN) has announced the Millennium Development Goals which one of its aims is to cut the proportion of the poor to half by 2015. Among the developing countries, Malaysia has a success story and a commendable record in reducing the poverty level in the country. In 1999, it was reported that 8.5% of the population was under the poverty line. However, after only five years, i.e., in 2004, Malaysia managed to reduce the population living below the poverty level to only 5.7%. Microfinance is one of the objectives of New Economic Policy (NEP) which was launched by the Malaysian government to reduce poverty and income disparities in Malaysia. Malaysia has several models on its microfinance program. This paper looks at various income generating activities taken up by micro-entrepreneurs who obtained micro-credit from Amanah Ikhtiar Malaysia (AIM), the biggest microfinance institution in Malaysia, and identifies which activities result in high income.

The study uses survey method to obtain primary data on economic activities assumed by AIM members and also income obtained from these activities. Section 2 of this paper presents an overview of microfinance in Malaysia, followed by a literature review on microfinance. Section 4 explains the methodology used in the study. Section 5 presents the findings of the study, and finally, Section 7 concludes.

2. Development of Microfinance in Malaysia

Micro-credit program in Malaysia started in 1987 with the establishment of Amanah Ikhtiar Malaysia (AIM). AIM was established, adopting the Grameen Bank model for rural micro-financing (Conroy, 2002). The objective of AIM is to help alleviate rural poverty through provision of micro-financing to the rural poor as a way to generate income. Currently, almost 99 per cent of the members are women and the loans available are generally on short-term basis (between 25 to 150 weeks payback time). Beside AIM, public institutions such as agriculture bank (formerly Bank Pertanian, recently has changed its name to Agrobank), as well as the Credit Guarantee Corporation (CGC) also provide lending to small and medium enterprises (SMEs). However, the loan sizes of these institutions are somewhat above the conventional microfinance. Initially the banking sector in Malaysia does not put much interest on microfinance. According to McGuire, Conroy and Thapa (1998) the central bank of Malaysia, Bank Negara Malaysia (BNM), restricted the spread between base and maximum lending rates in the commercial banking system to 4%, less than would be required to cover the extra costs associated with microfinance lending. In the case of some loans guaranteed by CGC the permissible spread was only 2%, reinforcing this effect.

Therefore, getting involved in microfinance activity is difficult for commercial bank as well as other institutions. However, AIM, as a government link institution has been successful to help government in alleviating poverty in Malaysia. Grant from the Malaysian government is one of the success factors that make AIM successful in assisting poor people in Malaysia. As of September 2006, AIM had 157,787 members and had disbursed a total of RM1.8 billion loans. AIM's activities have been directed almost entirely, but not exclusively to the alleviation of poverty among poor Malays. In 1994, AIM had some 6,100 Grameen like groups in operation with a total membership approaching 30,000 borrowers. All impact studies conducted on AIM in 1989 (Amanah Ikhtiar Malaysia, AIM), 1990-1991 (Social and Economic Research Unit, SERU), 1991-1993 and 1994-1995 (AIM) show that borrowers were able to increase their income after receiving loans from AIM. The latest impact study conducted by AIM in 2005 shows that borrowers would be out of poverty after four loan cycles with average loan of RM3,500 per loan. The study also reports that 31% of borrowers hire family members as workers and another 31% of borrowers hire non-family members as workers. Therefore, we can conclude that micro-credit is a powerful tool to alleviate poverty and generate employment.

3. Literature Review

Research on economic and social impacts of microfinance has been increasing in number and some studies have even analyzed the methodology of assessing the impact of micro credit program in a few countries. With regards to economic and social impacts of microfinance programs, previous studies on the impacts of the program are mixed. Some studies found positive economic/social impacts from the program but other found negative impacts. Afrane (2002), for example, studied the impact of two microfinance intervention in Ghana and South Africa which were Sinapi Alba Trust (SAT) in Ghana, and Semeto Microfinance Development Program (SOMED) in South Africa, in 1997 and in 1998. Ex ante and ex post analysis was adopted for the two case studies. This study used four broad impact indicators or domains which were: economic, access to life-enhancing facilities, social, spiritual and psychological domains. Using data collection from four main survey instruments, such as questionnaire-interviews, case studies, focus group discussions, and field observations, the results of this study showed that microfinance interventions have achieved significant improvements in terms of increased business incomes, improved access to life-enhancing facilities, and empowerment of people, particularly women.

On the other hand, results on the social and spiritual domains contained mixed positive and negative effects, as compared with the other two domains. The positive impacts included enhanced public respect and acceptance, self-esteem, participation in community activities, monetary contributions to social projects, and empowerment of women. On the other hand, the negative impacts of the micro credit program include, pressure of time resulting from increased business activities, worsening of family relations, poor church attendance and poor participation in church activities. As the microcredit program is aimed to fight the problem of poverty in underdeveloped and developing countries, some literatures are looking at the end results of the program by analyzing the impact of it in reducing poverty level. Chowdhury, Gosh and Wright (2005) pointed out two main findings from their study on Bangladesh. First, micro-credit is associated with both lower objective and subjective poverty and, second, the impact of micro-credit on poverty is particularly strong for about six years with some leveling off after that point.

Another study on Bangladesh conducted by Amin, Rai, and Topa (2003) found that while micro-credit is successful in reaching out the poor, it is less successful in reaching out the vulnerable. These results also suggest that micro-credit is unsuccessful in reaching out the group most prone to destitution, the vulnerable poor. Coleman (2006) conducted a study to investigate the impact of group lending program in Northeast Thailand, addressing the issue of self-selection and endogenous program placement, thus leading to biased estimation of impact in previous microfinance impact assessment studies. To overcome this problem, this study conducted quasi experimental impact study and collected detail data on household and village characteristics. The data was analyzed by using Tobit regression and the results show that the impact of group lending is insignificant on physical assets, savings, production, sales, productive expenses, labor time, and on most measures of expenditure on health care and education. The only variable on which impact is significant is the reduction on expenditure for men's health care. Perhaps, impact is significant and positive on women's high-interest debt because a number of members had fallen into a vicious circle of debt from moneylenders in order to repay their village bank loans. Impact is significant and positive on women's lending out with interest because some members engaged in arbitrage, borrowing from the village bank at a relatively low interest rate and then lending the money out at a mark-up rate. These results are consistent with those of Adams and von Pischke (1992) who noted that "debt is not an effective tool for helping most poor people to enhance their economic condition".

Kabeer and Noponen (2005) studied the social and economic impact of PRADAN, a Self Help Group (SHG) microfinance in Jarkhand, one of the poorest states in India. This study used interview as the tool for qualitative research and use descriptive statistics as the tool for quantitative research. The result of the study appeared that PRADAN's SHG-bank linkage model has had significant and positive impact in improving livelihood base, savings and debt position, and living and consumptions standards of participants. PRADAN participants have been able to secure their primary livelihood source through own agriculture supplemented by labor, livestock and non-farm enterprise activities in comparison to more marginally positioned non-members who must still rely on unskilled labor activities as their primary source of income. The access to financial services and the strengthening of participant's agricultural activities is associated with less vulnerability in terms of higher savings, less onerous debt and less crises related borrowing and more investment in productive activities and fewer months of seasonal migration. It is also associated with significant household welfare gains especially shelter, food security and education. Despite the positive results, this study also showed that empowerment is not an automatic outcome of targeting women for financial services. While gains in terms of women's knowledge, awareness and skills were clearly discernible, impact in terms of participation in decision-making within the home and in the public domain were far more modest.

With regards to the economic impact of micro-credit programs in Malaysia, a few studies had been undertaken to determine the effectiveness of AIM's micro-credit program on poverty reduction in Malaysia. The first was an impact assessment study conducted in 1988. The objective of the study is to evaluate the effectiveness of AIM in replicating the Grameen Bank micro-credit program in increasing household income of the poor who are involved in the pilot phase of the program. The study is based on a sample size of 283 members. The major finding of the study is that 70% of AIM members involved in the study experienced significant increase in their monthly household income from an average of RM142 per month to RM220 per month (Kasim, 2000). The second internal impact assessment study done by AIM resulted in similar major finding and concluded that access to micro-credit facilitates an increase in the household income of AIM members (Kasim, 2000).

In the middle of 1990, the Social and Economic Unit (SERU) of the Malaysia's Prime Minister's Department initiated an impact assessment study on AIM microcredit scheme. The objectives of the study among other things are to evaluate AIM's credit delivery mechanism to their members, AIM's achievement in poverty reduction, and the cost-effectiveness of AIM's micro-credit scheme in alleviating poverty. SERU had opted to take samples from the state of Kedah, which at the time was an underdeveloped and agricultural-based state whose population consists of the poor within the rubber and rice sectors. The study found that AIM, using their rigorous means testing, has ensured that only the poor are eligible to get access to their micro-credit scheme. In addition, the study also concluded that members household income has more than doubled from an average of RM198 before becoming AIM member to RM457 with access to micro-credit scheme. With regards to the cost-effectiveness, the study concludes that with the total operating cost of RM1,757,019, AIM was able to uplift 249 poor households from the clutches of poverty (SERU, 1991). The latest impact assessment study conducted internally by AIM was in 2005. The study found that AIM micro credit scheme was able to increase client household income from RM326 before joining the program to RM932 per month after getting loan from AIM, an increase of 186% (Amanah Ikhtiar Malaysia, 2008).

As a conclusion, even though the results of the previous studies on the economic and social impacts of microcredit or microfinance programs are mixed, studies that have analyze the impact of it in reducing poverty found that the micro-credit or microfinance schemes have been able to achieve its objective. Moreover, studies reviewed above have shown that not only micro-credit or microfinance programs are able to release poor families from poverty, it have also brought positive improvements in other aspects such children education, health, and empowerment of women in household decision making. However, there have been no studies conducted so far to identify what type of economic activities which actually contribute higher income to the poor.

4. Data and Methodology

This study conducts a survey on business activities of approximately 1800 members of Amanah Ikhtiar Malaysia (AIM), which is the largest microfinance institution in Malaysia. Respondents were chosen from two states in Malaysia, namely, Kelantan and Perak. These two states were selected because they have the largest number of members in the microcredit scheme. Two districts from each of the two states were chosen to represent the particular state's recipients of microcredit funding from AIM. These districts are:

- i. Kuala Kangsar and Teluk Intan in Perak.
- ii. Kota Bharu and Tumpat in Kelantan.

In each district, participants were selected randomly from different centres (one centre consists of approximately 50 members). In this study, the respondents' socio-economic backgrounds, the household monthly income, and their income-generating activities are asked. Responses are measured by 5 point Likert scales where: 5 = totally agree, 4 = agree, 3 = neutral, 2 = disagree, and 1 = totally disagree.

5. Findings of the Study

Survey participants consist of 97% female and 3% male. These male participants are not members of AIM, but they handle business projects for their spouses who are members of AIM. Regarding ethnicity, 96.1% of the respondents are Malay, 0.4% Chinese, 3.3% Indian, and 0.2% other ethnicities. In terms of education level, about 12% of the respondents have no formal education. Approximately 5% of the participants received primary and lower secondary education. Slightly more than 31% of the respondents have upper secondary education, and about 0.1% of the participants possess a bachelor's degree. Economic activities of AIM members selected for this study can be divided into production, trading, services. Detail economic activities under production, trading, and services are as follows:

A. Production Sector

1. Construction/building materials (concrete blocks)
2. Food (bakery, snack (nuts), fast food, traditional food: laksa, bahulu, nasi lemak, satay)/basic food ingredients/food production equipments
3. Agriculture (paddy, coconut, oil palm, vegetables, bananas, rubber, plant nursery, fruits, poultry (rearing and processing chicken and duck), Indian flowers)
4. Furniture
5. Jewellery
6. Handicrafts (batik)
7. Fishing (sea fishing and fresh water fish breeding) /fishing equipment
8. Cattle breeding (goat, cow)
9. Ceramic (traditional ceramic vase)
10. Manufacturing (trolley, grass cutter, wheat grinder, cooking oven, kitchen utensils, thombstone, glass)
11. Traditional medicine

B. Trading Sector

1. Cosmetics and body wear
2. Direct selling (dinnerware, mattresses, etc)
3. Food (fish crackers)
4. Jewellery (gold)
5. Electronics (oven)
6. Textiles and apparels
7. Grocery items
8. Cooking gas
9. Newspapers
10. Stationeries
11. Night market
12. Rubber
13. Scrap metal

14. Paint products
15. Cigarettes
16. Health products
17. Used cars

C. Services

1. Grass cutting
2. Lorry rental
3. Plumbing
4. Laundry
5. Car/motorcycle workshop
6. Welding
7. Sewing/tailoring
8. Café/food stall (burger)/drink stall (sugar cane, soy bean, roselle)
9. Wedding accessories rental
10. Barber/hair cut service
11. Traditional massage
12. Babysitting
13. Insurance agent
14. Cyber café
15. Food catering
16. House construction/ house fixing/ carpenting
17. Children nursery
18. Recycling products
19. Cobbler
20. Selling pre-paid card

Table 1 shows that for production sector in Perak, AIM members engaging in construction/ building materials and cattle breeding activities obtain the highest average income of RM1,500 per month. Economic activities which result in the second and third highest income are ceramic production and traditional medicine production, with an average income of RM1,213 and RM1,000, respectively. Average income from agricultural activities is RM889 per month, but income from this sector varies from RM50 – 4,500 per month depending on specific agricultural activity carried out by the AIM member. Among the highest income earning activities in agriculture are in coconut, oil palm, and fruit farming, plant nursery, and shrimp rearing. Food production can also give lucrative income depending on what type of food produced. In both Kelantan and Perak, AIM members producing traditional food and snack such as laksa, bahulu, nasi lemak, fish crackers earn around RM1,500-4,000 a month.

Table 1: Production Sector

Economic activities	Perak		Kelantan	
	Range of income (RM)	Average income (RM)	Range of income (RM)	Average income (RM)
1. Construction/building materials	1,500	1,500	300 – 2,000	918
2. Food/food production equipments	150 – 4,000	763	77 – 2,400	429
3. Agriculture	50 – 4,500	889	117 – 4,000	650
4. Fishing	200 – 2,000	771	72 – 2,200	671
5. Cattle breeding	1,500	1,500	167 - 250	209
6. Ceramic	200 – 3,600	1,213	-	-
7. Light manufacturing	600	600	1,050 –1,250	1,150
8. Traditional medicine	500 – 1,500	1,000	117 - 480	345
9. Handicrafts	-	-	400 – 1,500	689
10. Jewellery	300	300	625 - 800	708
11. Firewoods	400	400	183	183

In Kelantan, AIM members engaging in light manufacturing earn highest average income of RM1,150, followed by production of construction/building materials (RM918) and jewellery (RM708). Similar to food production in Perak, income earned from food production in Kelantan varies according to the type of food produced by AIM members. It is interesting to note that cattle breeding in Kelantan does not give lucrative income as it does in Perak. It is also found that firewood production does not give high income to members involving in this activity in both Perak and Kelantan with an average income of RM400 and RM183, respectively.

Table 2: Trading Sector

Economic activities	Perak		Kelantan	
	Range of income (RM)	Average income (RM)	Range of income (RM)	Average income (RM)
1. Cosmetics and body wear	1,780 - 1820	1,800	-	-
2. Direct selling	60 - 500	412	64 - 2,800	879
3. Food	250 - 780	515	800 - 2,500	1,367
4. Textiles and apparels	150 - 2,600	715	95 - 3,000	578
5. Grocery items	300 - 5,600	1,380	56 - 6,000	865
6. Cooking gas	240 - 9,600	4,920	-	-
7. Newspaper	1,500	1,500	-	-
8. Stationeries	300	300	-	-
9. Night market	840 - 7,000	2,963	140 - 2,400	881
10. Rubber	6,000	6,000		
11. Jewellery	-	-	2,400-6,000	3,733
12. Electronics	-	-	400 - 3,000	1,700
13. Scrap metals	-	-	500	500
14. Paint products	-	-	5,000	5,000
15. Cigarettes	-	-	166 - 780	366
16. Health products	-	-	1,700	1,700
17. Used cars	-	-	3,000	3,000

Table 2 displays the range and average income of AIM members engaging in trading sector. For members in Perak, the activity that gives high income in trading sector is rubber trading with an average income of RM6,000 a month, followed by selling cooking gas (RM4,920), selling goods at night market (RM2,963), cosmetics and body wear (RM1,800), newspaper (RM1,500), and grocery items (RM1,380). It is interesting to note that the highest income earned by a particular AIM member selling cooking gas is RM9,600. AIM members selling stationeries are found to have the lowest average income of RM300 a month in Perak. In Kelantan, the highest income earning activity in trading sector is selling paint products with an income of RM5,000 a month. Jewellery (RM3,733) and used car (RM3,000) business are found to also provide lucrative income to AIM members. Other high income earning activities are selling health products (RM1,700), electronics (RM1,700), and food (RM1,367). AIM members engaging in jewellery business are found to have higher range of income from RM2,400 – RM6,000 compared to other trading activities. Cigarette selling business is found to be the lowest income earning activity in the trading sector with an average income of RM366 a month.

Table 3: Service Sector

Economic activities	Perak		Kelantan	
	Range of income (RM)	Average income (RM)	Range of income (RM)	Average income (RM)
1. Grass cutting	200 - 400	300	-	-
2. Lorry rental	1,200	1,200	-	-
3. Car/motorcycle workshop	600 - 5,000	2,067	210 - 2,400	669
4. Welding	400 - 3,000	1,380	364	364
5. Sewing/tailoring	100 - 3,000	692	160 - 2,900	894
6. Café/food stall	200 - 3,800	1,070	89 - 3,840	783
7. Wedding accessories rental	1,325	1,325	-	-
8. Barber/hair cut	400 - 1,500	950	-	-
9. Traditional massage	200 - 500	350	-	-
10. Babysitting	200 - 350	238	-	-
11. Insurance agent	800	800	183 - 272	228
12. Cyber cafe	520 - 1,500	1,010		
13. Food catering	1,000	1,000	159 - 1,800	722
14. House construction	50 - 8,800	3,617	250 - 367	309
15. Plumbing	-	-	250	250
16. Laundry	-	-	500	500
17. Children nursery	-	-	1,100	1,100
18. Recycling products	-	-	300	300
19. Cobbler	-	-	237	237
20. Selling pre-paid card	-	-	397 - 1,400	899

Table 3 shows the results of the survey in the service sector. In Perak, AIM members engaging in house construction and related activities are found to earn the highest average income of RM3,617 a month. The highest income reported in this activity is RM8,800 a month. The second highest income earning activity in the service sector is car/motorcycle workshop with an average income of RM2,067 per month,

followed by activities in welding (RM1,380), wedding accessories rental (RM1,325), lorry rental (RM1,200), café/food stall (RM1,070), cyber café (RM1,010), and food catering (RM1,000). Babysitting, grass cutting and traditional massage are found to provide lowest returns in the service sector.

AIM members engaging in service sector in Kelantan are found to earn relatively lower income compared to their counterparts in Perak. The highest income generating activity in the service sector in Kelantan is children nursery with an income of RM1,100 a month. The second highest income generating activity is selling mobile phone pre-paid card (RM899), followed by sewing/tailoring (RM894), café/food stall (RM783), food catering (RM722), and car/motorcycle workshop (RM669). The lowest income generating activities in the service sector are selling insurance (RM228), cobbling (RM237), and plumbing (RM250).

6. Conclusion

This research looks at various income generating activities taken up by AIM members and identify which activities resulting in high income. The study uses survey method to obtain primary data on economic activities assumed by AIM members and also income obtained from these activities. The economic activities are divided into three categories, namely, production, trading, and service sectors. The results of the survey show that in both Perak and Kelantan, activities in the trading sector are found to be very lucrative and result in higher average income compared to activities in the production and service sectors. Activities which result in high monthly incomes in Perak are rubber trading, sales of cooking gas, hawking in night markets, sales of cosmetics and body wear, newspaper and grocery items. In Kelantan, however, activities which provide high income are selling paint products, jewellery, used cars, electronics, health products, and food. The study found that in the production sector, construction, cattle breeding, ceramic production and traditional medicine are activities which offer high income in Perak, whereas light manufacturing and construction grant high monthly income for AIM members engaging in these activities in Kelantan.

In the service sector in Perak, AIM micro-entrepreneurs engaging in house construction, car/motorcycle workshop, welding, wedding accessories rental, lorry rental, café/food stall, cyber café, and food catering are found to earn higher income compared to their counterparts involving in grass cutting, sewing/tailoring, traditional massage, and babysitting. In Kelantan, only one activity in the service sector is found to give high income, i.e., children nursery. The results have important implications for microfinance institutions in Malaysia especially for Amanah Ikhtiar Malaysia. In addition to providing micro-credit to the poor, it is crucial that AIM provide relevant training to its members to impart proper skills and knowledge necessary to be involved in high-income generating micro-enterprises. AIM management should disseminate and inform its members the activities which have been identified to provide higher earnings and encourage these micro-credit borrowers to venture into these profitable activities. AIM should also discourage its members from undertaking the activities which have been found not to be profitable and result in low income. Finally, it is hoped that by providing trainings to acquire appropriate skills in the high-income activities, AIM could further accelerate the process of alleviating poverty among its members.

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