Does Microcredit Benefit Microbusinesses? Lessons from Microcredit Agencies in Malaysia

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Abstract: - Microbusinesses are popular and profitable activities that help economic development and growth. However, most microbusinesses are not sustainable due to borrowers' main challenges such as limited loan size, insufficient government support, lack of training, and high-interest loan rates. Limited studies have been conducted on the business performance of microcredit borrowers in Kelantan. Therefore, this study investigated the impacts of microcredit elements, namely loan size, management fees, tenure, mode of payment, and help and support toward the microbusiness performance in Kota Bharu, Kelantan. This study employed a quantitative research methodology by distributing a survey questionnaire to 300 borrowers from Amanah Ikhtiar Malaysia and Tabung Ekonomi Kumpulan Usaha Niaga in Kota Bharu. Finally, 131 clean datasets were used to run the correlation and regression analyses to identify relationships and significant impacts in the datasets. The results revealed that the mode of payment has the least significant relationship with and did not impact microbusiness performance. Loan size, management fees, and help and support positively and significantly impact microbusiness performance. Conversely, tenure negatively but significantly affects microbusiness performance. All the microcredit elements in this study explained 83.4% of microbusiness performance.

Key-Words: - Microcredit; microbusiness performance; loan size; tenure; management fees; mode of payment; help and support

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1 Introduction

The growth of microfinance (or microcredit) institutions (MFIs) is encouraging in the 21st century, especially in third-world countries. Various studies have shown that microfinance successfully creates healthier lives and helps people become financially literate [1]. [2] commented that the idea to develop MFIs was to provide financing access facilities to Small and Medium Enterprises (SMEs), particularly for those who do not have access to commercial bank loans. Thus, microentrepreneurs requiring capital to run and grow larger businesses that are not eligible to receive loans from banks can apply for MFIs. [3] reported that microcredit is a money-lending program for low-income families to be used as a business capital to generate income and earnings to support self and family needs. It involves offering small loans (microloans) to poor borrowers who usually do not have collateral, permanent employment, and verifiable credit history. [4] indicate that microcredit covers low-income individuals' loans, savings, insurance, transfer services, and various financial products. This concept was established in Bangladesh in 1983 by the founder of Grameen Bank, Muhammad Yunus. He developed the Grameen Bank to provide microfinancing to the poor, who were primarily women. The concept was widely recognized and adopted by many countries [4]. The credit offered improved the women's economic status and changed their lives. Since then, many organizations have developed microbusiness programs, which greatly help communities in developing countries.

[5] opined that microcredit provides microloans to the poor to engage in various income-generating activities and help overcome poverty. Microcredit has been a tool used for society's socioeconomic development and poverty eradication [6]. Extensive provision of financial services is believed to accelerate economic growth by providing adequate capital access and opening employment opportunities to the poor [6]. According to [7], the lack of access to financing is viewed as a common problem that hinders microbusinesss' growth. Thus, microcredit improves low-income families' current living status and social development.

Microfinance was introduced in Malaysia in 1987 to provide financial access to the poorest in the community and reduce income inequality [8]. Poverty and inequality in Malaysia are characterized by income differences between rural and urban

populations, gender and ethnic and state groups. Since 2006, in collaboration with Bank Negara, the Malaysian government has encouraged more financial institutions to provide microcredit products to the public due to the importance of microbusinesses in the country's economic growth [9]. Three important MFIs in Malaysia are AIM, Yayasan Usaha Maju (YUM) and TEKUN [10]. All three MFIs receive financial support from the Malaysian government, but they differ in the year of establishment, type of organization, loan scheme, service area coverage, and borrowing targets [8], [11].

The Ikhtiar Financing Scheme implemented by AIM aims to reduce Malaysia's poverty rate by providing financing support to enable low-income households to participate in viable economic activities to enhance their economic status. This scheme includes i-Mesra, i-Srikandi, and i-Wibawa. In 2018, AIM provided financing worth RM 2.3 billion to 359,474 beneficiaries [12]. Since the establishment of AIM, borrowers, also known as "Sahabat," were assisted through the existing financing scheme, which amounted to 943,562 people. From January to April 2020, the total financing for 29,586 people was RM 606.46 million [13]. Furthermore, TEKUN Nasional, formerly known as the TEKUN National Foundation, is an agency under the Ministry of Entrepreneur Development and Cooperatives established on the 9th of November, 1998. The establishment of TEKUN aimed to easily and quickly provide microcredit to native people (Bumiputera) to start and further develop their businesses.

Microfinance has proven to be a useful instrument to address the widespread poverty issues in urban and rural areas [14]. It has been considered a primary strategy in economic development nationwide for the last decade. A study by [11] on AIM, TEKUN, and YUM participants found that microfinancial loan services can enhance the participants' economy as it helps them earn a higher income and creates employment opportunities. Moreover, microcredit is socially beneficial when solving debt problems, improving household wellbeing, and raising living standards. Consequently, microcredit loan borrowers' quality of life could be improved.

However, the borrowers' main challenges are the limited loan size, lack of training, and high-interest loan rates. In addition, the loan size provided by Malaysian microinstitutions has also influenced the performance of microbusinesses. This study aligns with [15], who agree that a positive and significant relationship exists between the achievement of SME goals and total loans.

According to [16], insufficient capital prevents businesses from growing. Microbusiness operators need to cover capital equipment, raw materials, and marketing costs. Therefore, the loan size is crucial in expanding the size of the business market [17]. Few studies have been conducted to develop a framework comprising microcredit elements and microbusiness performance concerning the above issues. Therefore, this study focused on the main microcredit elements. This research specifically aimed to investigate the impact of microcredit elements on loan size, management fees, tenure, mode of payment, and help and support toward the microbusiness performance among the borrowers from the AIM and TEKUN institutions in Kelantan, Malaysia. In other words, the central aspect investigated here is whether microcredit benefits the borrowers. Indirectly, the study findings will show how effective is the microcredit provided by those institutions.

2 Literature Review and Hypothesis Development

Microcredit has become a popular method of involving low-income earners in financial markets worldwide, enabling them to start small businesses. With the introduction of microcredit, loans are more easily obtained due to the exemption of conditions for any guarantees or guarantors. Most SMEs in Malaysia are microbusinesses, comprising 76.5% of the total SMEs in Malaysia, while the remaining are small (21.2%) and medium SMEs (2.3%). Microbusinesses include hawkers, carpenters, plumbers, machine shop operators, mechanics, shoemakers and small farmers. Furthermore, personal tailors, bakery owners and caterers can also be categorized as microbusinesses [18]. Undeniably, microbusinesses are gaining attention among key players such as the World Bank, The United Nations Capital Development Fund, governments, nongovernmental organizations (NGOs), and private entities [15].

2.1 Microbusiness Performance and Microcredit Elements

Performance is a popular topic in business and management because performance measurement is essential for achieving organizational goals or objectives [19]. Business performance is one of the microbusiness goals to maximize profit and the owner's wealth [20]. Besides, business performance

indicates the organization's ability to use the available resources efficiently and effectively to obtain optimal results [21]. In general, SMEs' performance can be reflected in the financial aspects of the business, such as costs, expenses, income, revenue, profits, the value of assets held, and savings. Previous literature divided performance measures into financial and nonfinancial [22]. Several past studies were interested in microcredit and business performance [17], [23], [24], [25]. [14] showed that many microfinancial women entrepreneurs successfully increased income, savings, and asset ownership and protected themselves and their families from financial problems. Microcredit elements, such as repayment methods and term loans, can also influence a company's performance [26]. Financial measures, including cash flow, net income, working capital, and account receivable and payable aging were included in this study to measure microbusiness performance. Several perspectives from the literature on potential factors (microcredit elements) affecting microbusiness performance are discussed below.

2.2 Loan Size

Loans to micro and small businesses enable entrepreneurs to grow their businesses and improve their living standards by creating employment opportunities to overcome income poverty [27]. The flexible and appropriate loan amount provided to microbusinesses can help them start a business correctly and on time [17]. In line with [28]'s findings, loan volume influences the positive relationship between financing methods and SME performance. [29] defended that loan amounts can affect borrowers' income. [30] also showed that women entrepreneurs who successfully obtain higher loans provide better education for their children compared with women entrepreneurs with smaller loans. [31] found that AIM credit has contributed to economic growth among poor female borrowers in Malaysia. The TEKUN Financing Scheme provides small-business capital financing of up to RM 100,000, while AIM provides up to RM 30,000. The present research aimed to explore how the loan size affects microbusiness performance among microcredit borrowers.

2.3 Management Fees

Setting interest rates and service charges is a significant problem in designing microfinance programs. Effective financial services pricing can determine MFIs' short and long-term success [32]. As interest rates rise, banks charge higher for business loans. Thus, borrowers use more income to pay off loan interest, which in turn reduces profits. Higher interest rates increase the likelihood of loan repayment failing. The borrower may decide to halt a project or stop expanding the company at a high-interest rate.

In contrast, low-interest loans can boost business growth and increase profits [33]. [34] stated that higher interest rates of MFIs may be caused by increasing poverty or unexpected inflation growth. Furthermore, company returns and profits can be increased due to lower debt costs [35]. Malaysian MFIs provide interest-free financing but charge the borrower a service or management fee (ujrah). Service or management fees are charged to cover the process from loan application until full loan settlement. AIM and TEKUN are interest-free but practice management fees in their financing. [36] supports this statement by highlighting that an AIM loan is a free benefit based on Islamic principles. AIM uses the concept of Qard Hassan (principal amount) and ujrah (service fee) as management fees. Entrepreneurs who borrow from TEKUN must pay an annual management fee costing 4% of the loan value during the loan period [37]. The borrower is also encouraged to save 5% of the loan value each year [26]. According to [38], the determination of the total management charge by AIM is based on a charge rate of 10% per annum on the amount of financing applied for all financing schemes.

2.4 Tenure

The loan period is when the microbusiness must repay MFIs [39]. Microbusinesses that have microfinancing facilities with longer loan terms increase the entrepreneurs' business income. Longer payment terms allow borrowers to pay lower repayment amounts. Smaller repayment amounts in turn help borrowers better manage cash flow, earning more business income [39]. The loan period provided is a crucial growth performance determinant of microbusinesses. For example, increasing the loan size is necessary to expand the microbusinesses size. Adequate loan amounts and financing information are provided to microbusinesses to help them adequately start a business [17]. According to [40], small businesses get shorter loan periods than large companies because large companies have an excellent track record. Approximately 50% to 70% of new start-up companies in the United Kingdom face failure, a situation preventing lenders from considering long-term loans [41]. According to [42] and [43], more than 60% of Malaysian SMEs fail within five years of operation. Consequently, it is essential to identify

the extent to which the loan period, whether short- or long-term, affects the performance of microbusinesses, particularly in Malaysia.

2.5 Mode of Payment

Microfinance plays a vital role as a practical approach to reducing global poverty [44]. Loan repayment is critical for microbusinesses and microfinance institutions' development [45]. Borrowers, particularly microbusinesses, that receive financing from microcredit institutions are expected to repay the loan in a fixed period, as stated in the financing agreement after the microcredit makes funds payment. Technically, microcredit repayments are usually made periodically, including management fees or interest rates. [46] found that increasing income and sales volume improve borrowers' repayment performance. This is because the borrower has enough funds to finance the business by earning more profit.

Furthermore, [47] pointed out that payment schedules provide borrowers guidance in their repayment process. Each microfinance institution has a different payment schedule. According to [47], Ghana's microfinancial loan repayment schedule is 14 months. However, the payment schedule in Malaysia is 6 months to 10 years for TEKUN, whereas repayments are on a weekly, monthly, and semiannual basis [48]. Conversely, AIM offers six financing schemes, and the loans are to be repaid weekly. For example, the financing value for the i-Wibawa Scheme ranges from RM 5,000 to RM 15,000 with a 12- and 25-week repayment period [49]. [50] argued that the borrower fails to repay their loan when their business does not have enough returns to cover the scheduled payment on the day of payment. [51] and [52] agreed that loan flexibility is critical in driving borrowers to benefit and reduce financial stress. Thus, the effect of the microcredit loan payment mode on microbusiness performance is also examined in this study.

2.6 Help and Support

Most entrepreneurs face the main challenge when starting a microbusiness, particularly access to financial resources, especially for the poor. Most microbusinesses obtain microloans for financial assistance to support their business growth and compete with larger businesses. [17] pointed out that the expansion of microbusiness schemes in Malaysia requires strong support from all agencies, especially the government and MFIs, to ensure the microbusinesses' success. [53] stated that government support comes in various forms: financial and technical assistance, training programs, expansion and consultation, information resources and others. Entrepreneurs are expected to be equipped with the knowledge and skills needed to manage their business effectively to achieve success through training programs. Practically, MFIs in Malaysia, such as AIM and TEKUN, are instrumental in providing financial assistance to microbusinesses. Moreover, government agencies' help and support, such as MFIs, provide microcredit to microbusinesses to start and expand businesses. In addition, some MFIs offer advisory services, business location visits, guide business success such as lectures, conduct workshops, and offer courses to microbusinesses [54]. [55] found that most microcredit borrowers do not have the technical skills associated with their business. Due to the limited knowledge and exposure, they are less aware of the importance of continued business growth. Therefore, AIM and TEKUN must critically instill knowledge and education among microentrepreneurs. In addition, microentrepreneurs can also manage their loans better, including their business and personal expenses, through knowledge and education.

Table 1 shows the summary of microcredit or financial elements to evaluate microbusiness performance based on previous research. The effectiveness of microcredit programs must be evaluated by analyzing the effects of the loans on the borrowers. Based on Table 1, the previous studies made in the field of business performance have been conducted in different study or scope contexts.

Table 1. Summary of microcredit elements based on previous studies

	Loan size	**Management fees**	**Tenure**	**Mode of payment**	**Help and support**
1.[17]		*	*	*	
2.[2]	*	*	*	*	*
3.[25]	*				
4.[27]	*	*			
5.[28]	*				*
6.[30]	*				*
7.[37]	*	*	*	*	*
8.[39]			*		*
9[55]				*	*

[17] conducted a study in Malaysia to examine how financial parameters (such as tenure, interest rates, collateral, and manner of payment) affect microbusinesses performance and determine if these factors have a substantial impact on the return on investment. However, their study focused only on microfranchisees, and the findings on the impact

between four financial terms and microbusiness performance were not discussed extensively. [2] evaluated the business performance among micro- and small enterprises (MSEs). MSEs under AIM and TEKUN programs in the contexts of loan size, cost of borrowing, mode of payment and self-development program and advisory service. According to their research, AIM had much higher mean values for microcredit items (such as loan disbursement amount, method of loan repayment, monitoring of loan use, advisory services, monitoring, and assessment of the business project, staff cooperation, and the program's overall impact on small entrepreneurship) than TEKUN. In their study, [2] also observed that TEKUN and AIM have offered a variety of training programs, courses as well as corporate and personal development initiatives. The high degree of respondents' satisfaction with the different program elements included in this survey should not discourage microcredit providers from making future changes to their programs. However, their study did not discuss in depth the impact of business performance in the context of microcredit terms among MSEs.

A conceptual framework regarding the impact of Malaysian MFIs' welfare on their beneficiaries was put forth by [37]. In their study, the term "wellbeing" refers to the client's home, the performance of MSEs, and client empowerment, whereas microfinance servers are defined as nonfinancial, financial, and social services. To expand the market and the growth of MSEs, for instance, expanding the size of the granted loan is crucial. The adaptability of loan disbursement, which includes the conveniences of quick access to services, timeliness, and offering sufficient information regarding the terms of service, are crucial factors in enhancing customers' wellbeing. Additionally, it is important to consider the flexibility of the loan repayment policy, which includes the loan grace period, loan repayment duration, and interest rate, when assessing the impact of microfinance services on clients' wellbeing. However, the empirical evidence from that study did not allow to measure the relationship between the microfinance servers and wellbeing.

The impact of microfinance institutions on Malaysian SMEs was examined by [39]. In their study, the independent variables were the total loan amount, client's educational level, loan duration, and business course, while the dependent variable included the business income. According to the regression analysis results, microfinancing significantly affects the earnings of SMEs. According to [39], additional microfinance institutions will help provide numerous microfinance facilities to SMEs. However, the impact of microfinance on SMEs regarding management costs was not covered in this study.

In conclusion, microcredit or financial terms mostly related to business performance are loan size, management fees, tenure, mode of payment, and help and support. Many studies have investigated the impact of microcredit terms on business performance between MFIs and business owners, particularly AIM, TEKUN and YUM. However, research examining the impact of all microcredit elements, as listed in Table 1, is lacking. For example, [28] only measured loan size and help and support; [27] investigated the loan size and management fees; and [55] evaluated the mode of payment and help and support. Therefore, the studies conducted on microcredit and business performance have overemphasized the effect of microcredit alone and ignored other aspects. This study differs significantly from other reports, where the researchers investigated small-business performance, in several respects. First, this paper examines the impact of financial elements (loan size, tenure, management fees, mode of payment, and nonfinancial element [help and support], as noted in Table 1) in the context of microbusiness performance. This multifaceted microcredit measure was chosen because it was thought that the program's overall structure would make it easier for participants to boost their businesses' performance. Second, the target population of this study is microbusinesses located in Kelantan, who are the borrowers of microcredit loans from AIM and TEKUN institutions. [56] estimated that Kelantan had the lowest GDP per capita in Malaysia in 2020, at RM 14,096. This study will support the MFIs program and small entrepreneurs to improve their standard of living toward contributing to GDP growth. Third, there are still gaps in the research on how well businesses operate after loan approval, particularly in Malaysia's Kelantan. Based on the literature above, the following hypotheses are suggested:

H1: The size of microcredit loans positively and significantly affects the performance of microbusinesses;

H2: Management fees charged by MFIs positively and significantly affect the performance of microbusinesses;

H3: Tenure of microcredit loans positively and significantly affect microbusiness performance;

H4: Microcredit repayment modes positively and significantly affect microbusiness performance;

H5: Help and support provided by microcredit institutions positively and significantly affect microbusiness performance.

3 Research Design

A quantitative analysis was used to investigate the impact of microcredit elements among the borrowers from AIM and TEKUN institutions in Kelantan, Malaysia. Primary data were collected through a survey using a closed-ended questionnaire. Thus, a set of structured questionnaires was distributed to the respondents comprising AIM and TEKUN borrowers. These questionnaires enabled the researchers to obtain reliable and accurate information from a primary data source.

The questionnaire involved three sections. The content of Section A is about the demographic profile of the respondent, i.e., gender, race, age, type of business, level of education, number of business years and microcredit characteristics; Section B concerns the independent variables, i.e., size of the loan, interest rate, mode of payment, tenure and help and support; and the last section, Section C, related to the dependent variable in this questionnaire, i.e., microbusiness performance. The measurement used in this study was adapted from various established sources (see [17], [28], [29], [30], [40], [45]). Measurements of all items representing independent and dependent variables were performed using a 5-point Likert scale: 1 = "Strongly disagree," 2 = "Disagree," 3 = "Neutral," 4 = "Agree," to 5 = "Strongly agree." The items examined how strongly the respondents agreed or disagreed with the listed statements [57]. Self-administered questionnaires were distributed and collected by the researcher to record the respondents' responses. The owners of the microbusinesses were visited by the researcher to complete the questionnaires. The respondents were informed that they could complete the questionnaires and return them within one week. One hundred and thirty-one respondents provided their answers.

3.1 Population, Sample Size, Sampling Technique and Data Analysis

The target population of this study is microbusinesses located in Kelantan who applied for microcredit from AIM and TEKUN institutions. The AIM's borrowers, known as "Sahabat," are about 42,232. According to the AIM website, AIM branches in Kelantan can be categorized into three major districts known as Kelantan Utara, Kelantan Tengah, and Kelantan Selatan. There are 15 AIM branches in this state, with five in each district. The TEKUN borrowers, 938 in total, are known as "Teman." Therefore, the total population of AIM and TEKUN borrowers in Kelantan is about 43,170.

This study chose the sample from AIM and TEKUN borrowers in the Kota Bharu branch of Kelantan Tengah. The AIM and TEKUN borrowers in Kota Bharu were 2,930 and 32, respectively. A large gap separates the numbers of borrowers between AIM and TEKUN. AIM offers microcredit for all types of microbusinesses. Conversely, TEKUN offers microcredit only for microagricultural activities. The study sample included 300 borrowers, 268 from AIM and 32 from TEKUN. Probability sampling was employed in this study, i.e., basic random sampling technique. Thus, the borrowers were selected by random selection or random sampling. [58] states that with random selection or sampling, individuals have an equal probability of selection from the population, thus guaranteeing a sample that represents the population. Statistical Package for Social Science (IBM SPSS) version 25 was employed to analyse the primary data for this study. The statistical technique included frequency analysis (Section A) and reliability analysis and multiple regression analysis (Sections B and C). Finally, 131 clean data were used to run the correlation and regression analyses to identify relationships and significant impacts in the dataset.

4 Findings

Pilot tests were conducted to improve the survey instruments. Existing problems can be identified, corrected, or modified before the actual survey is conducted by carrying out a pilot study [59]. Therefore, undertaking a pilot study is crucial to ensure the content validity of an instrument and advance questions, format, and scales [58]. [60] stated that a pilot study seeks to evade problems that arise from a research questionnaire caused by contributors' confusion over questions that may accumulate through real research survey implementation. It is created to identify uncertainty in questions or whether the questions are prejudiced. For pretesting, a small sample is used to guarantee that replies are obtained in a similar fashion when employing a larger scale sample [61]. In this study, questionnaires were distributed randomly to five microreaders. These traders were subsequently removed from the study.

4.1 Descriptive Analysis

The borrowers' characteristics are shown in Table 2. The study included a total of 150 respondents, including 118 from AIM and 32 from TEKUN. However, 19 questionnaires were not valid due to incomplete and/or insufficient data for analysis. Thus, only 131 responses were analyzed, comprising 99 respondents from AIM (75.6%) and 32 from TEKUN (24.4%).

AIM offers a microcredit scheme for women-owned businesses only, while TEKUN is for both men and women. A strong reason could be the imbalance between the number of men (7.6%) and women (92.4%) borrowers. Most respondents were 50 years old and above (33.5%), followed by younger respondents of 29–39 years (29.8%). Young people below the age of 28 were the least (13%) involved in microcredit. Regarding race, Malays represented most (93.1%) borrowers because the study was conducted in Kelantan, where Malays make up 93.8% of the overall population. On the other hand, the Chinese population in Kelantan is only 3%. Thus, the Chinese microborrowers represented only 6.9%.

Table 2. Characteristics of the respondents

	N	%		N	%
Gender			**Race**		
Male	10	7.6	Malay	122	93.1
Female	121	92.4	Chinese	9	6.9
Total	**131**	**100**	**Total**	**131**	**100**
Age			**Type of Business**		
18 - 28	17	13.0	Product	81	61.8
29 - 39	39	29.8	Services	40	30.5
40 – 50	31	23.7	Agro	10	7.7
50 and above	44	33.5			
Total	**131**	**100**	**Total**	**131**	**100**
Level of Education			**No. of year in business**		
Primary school	10	7.6	< 1 year	5	3.8
SRP/PMR (Secondary school – Level 1)	28	21.4	1- <3 years	26	19.8
SPM (Secondary school – Level 2)	74	56.5	3 - <5 years	32	24.5
Matriculation/STPM/Diploma	14	10.7	5 - <10 years	21	16.0
Bachelor degree	5	3.8	> 10 years	47	35.9
Total	**131**	**100**	**Total**	**131**	**100**

Most respondents involved in AIM and TEKUN institutions completed their secondary school (Level 2) (56.5%), about 21.4% completed secondary school (Level 1), and 14.5% have a diploma or higher qualifications. A minority of the respondents (7.6%) finished only primary school at 12. Most respondents operated product-type businesses (61.8%), followed by services (30.5%) and agriculture (7.6%). TEKUN offers microcredit for agriculture, whereas AIM only provides microcredits for product and service types.

Lastly, Table 2 shows that most respondents have been in the business for more than 10 years (35.9%). This information indicates the operated business's maturity, and the business owners have sufficient experience regarding the business they run. Conversely, those who just started a business (less than a year) accounted for only 3.8% of the study respondents. Table 3 shows that most respondents borrowed an average microcredit amount worth RM 1,000–10,000 (70.2%). Conversely, only one respondent (0.8%) obtained a microcredit loan worth RM 30,000. This substantial amount is difficult to obtain due to the strict screening and evaluation conducted by these microinstitutions. Lastly, most AIM borrowers are likely to have a loan tenure of around 50 weeks or one year (78.79% of the AIM respondents or 59.5% of the overall respondents).

According to AIM borrowers, one-year loan tenure is a reasonable timeframe. i.e., it is not too long nor too short for them to pay the weekly repayment amount; it is within their capabilities. However, the TEKUN borrowers mostly choose longer credit tenures of between one to five years (84.38% of the TEKUN borrowers or 20.6% of the overall respondents). Longer tenures are favored as most of them take a more significant amount of loans and are involved in the agriculture sector, which needs a more extended period to generate revenue from the crops.

Table 3. Characteristics of microcredit

Amount of Credit	N	%	Tenure of Credit	N	%
RM 1,000 - RM 10,000	92	70.2	25 weeks/6 months (AIM)	3	2.3
RM 10,001- RM 30,000	38	29.0	35 weeks/9 months (AIM)	2	1.5
RM 30,001- RM 50,000	1	0.8	50 weeks/<1 year (AIM)	78	59.5
Total	131	100	1-5 years (AIM)	15	11.5
			5-10 years (AIM)	1	0.8
			25 weeks/6 months (TEKUN)	1	0.8
			35 weeks/9 months (TEKUN)	4	3.1
			1-5 years (TEKUN)	27	20.6
			Total	131	100

4.1.1 Test of Relationships

A correlation coefficient (r) analysis was used to define the strength and direction of the relationship between the variables. Table 4 shows that all independent variables have positive and statistically significant correlations with the microbusiness performance dependent variable. Management fees showed the highest result at 0.889, while the mode of payment has the lowest correlation at 0.335. Analyzing the correlation between each independent variable is important because the value of the relationship should not be more than 0.70 [62]. The highest value is between tenure and loan size (0.669). Thus, all the variables were retained.

The test of reliability and validity Cronbach's alpha coefficient (α) was used to measure internal consistency or the scale's reliability for data collection. Table 5 shows that Cronbach's alpha values are above 0.70, indicating strong internal consistency reliability for the scale used in this study.

Table 4. Correlation coefficient (r)

	Micro Business Performance	Loan Size	Management Fees	Mode of Payment	Tenure	Help and Support
Micro Business Performance	1	.519**	.889**	.335**	.426**	.393**
Loan Size	.519**	1	.426**	.478**	.669**	.489**
Management Fees	.889**	.426**	1	.271**	.411**	.318**
Mode of Payment	.335**	.478**	.271**	1	.479**	.415**
Tenure	.426**	.669**	.411**	.479**	1	.613**
Help and Support	.393**	.489**	.318**	.415**	.613**	1

Table 5. Cronbach's Alpha

Variables	No. of Items	Cronbach's Alpha
Micro Business Performance	7	0.835
Loan Size	5	0.882
Management Fees	5	0.769
Tenure	5	0.905
Mode of Payment	5	0.815
Help and Support	5	0.848

4.1.2 Hypotheses Testing

This study used multiple regressions to measure the impact of microcredit elements on microbusiness performance. Figure 1 presents the study results.

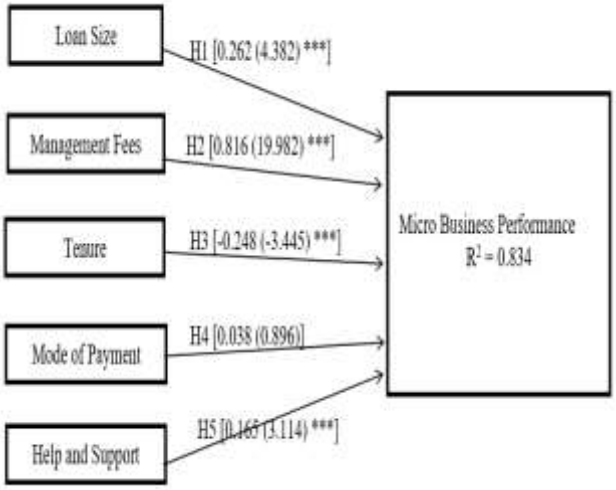

Fig. 1: Results of the hypotheses testing
***Significant at p-value < 0.01; **significant at p-value < 0.05;*Significant at p-value < 0.10

Beta path coefficients originating from loan size (H1), management fees (H2) and help and support (H5) to business performance shows positive and statistically significant (p = 0.01; H1: β = 0.262; t = 4.382; H2: β = 0.816; t = 19.982; H5: β = 0.165; t = 3.114). The coefficient between tenure (H3) and business performance has a negative but statistically significant correlation (p = 0.01). In terms of mode of payment (H4), the construct's coefficient with business performance is positive but nonsignificant (β = 0.038; t = 0.896). Overall, three constructs (H1, H2, and H5) have positive and statistically significant correlations. One construct (H3) revealed a negative but statistically significant result. Conversely, another construct (H4) has a positive but nonsignificant association with impacting the dependent variable of microbusiness performance. In this study, all five constructs elucidated 83.4% of the microbusiness performance, the nonfinancial measure of business performance.

5 Discussion

This study ran a survey among microbusinesses in Kelantan, Malaysia, to discover the microcredit elements that may impact their business performance. The following five elements were chosen based on previous studies: loan size, management fees, tenure, mode of payment, and help and support. The first element, loan size, strongly relates to the dependent variable. It also shows a positive and significant impact on business performance. Microtraders need credit assistance from microfinance institutions, including AIM and TEKUN, to help them obtain funds for business purposes, such as cash flow, increasing capital, buying business assets, and others.

AIM and TEKUN place certain limits according to the borrower's repayment ability. They perceive the loan size as essential and significant to their business performance. By obtaining the required loan amount according to their needs, the business can operate smoothly without financial hurdles. This finding is in line with previous studies [17], [28], [29], [30], [31]. The findings of this study show that almost 52% of the respondents run a microbusiness for more than 5 years. They remain in microbusiness for a long period of time. They cannot increase their business category from micro to small. The amount of loans requested by the respondents (Table 3) tells the size of their business when more than 70% only need microcredit of less than RM 10,000.

Management fees show the strongest correlation with and the most significant impact on business performance. AIM and TEKUN do not charge loan interest, as opposed to commercial banks. Conversely, AIM and TEKUN charge management fees. High management fees burden the borrowers as they only run a microbusiness. These management fees have to be paid using business profits. Microtraders need to maximize profits to remain in the market or grow their business. However, microbusiness performance will face obstacles if these agencies (e.g., AIM and TEKUN) charge high and onerous management fees. Therefore, the borrowers presume these management fees are significant to their business performance. Previous studies acknowledge the significance of management fees or loan interest on business performance [33], [34].

Tenure, which is the loan period for repayment of a loan, positively correlates with medium strength in business performance. However, tenure has a negative but significant impact on business performance. The details about the tenure in Table 3 show that TEKUN and AIM provided up to 5–10 years of tenure, respectively. Most borrowers chose to have a 50-week tenure for AIM and 1–5 years for TEKUN. The tenure of credit shows their ability to repay, with almost 60% needing up to a year to clear microcredit. With a limited daily income, a longer payment period gives more room to use cash for working capital, business expenses, personal expenses, and microcredit repayments. With a negative impact on business performance, microcredit tenure indicates the burden borne by the borrower. However, they need money from the loan. Therefore, their tenure becomes a burden that negatively impacts their business.

The mode of payment, the fourth element, has a positive correlation and medium strength with business performance. It also has a positive but nonsignificant impact on business performance. AIM and TEKUN borrowers must repay the loan weekly according to the predetermined amount. The repayment includes the loan amount and management fees. The weekly payment burdens the borrowers because the money earned from the business cannot be used for working capital but is instead used to repay the loan. A monthly method of payment should be given to enable the borrowers to use the loan money to increase sales and business performance. Monthly payments are more practical than weekly payments. According to the information shared by the borrowers, they prioritize savings to repay the loan. Once the amount is sufficient, they are more at peace of mind and heart to spend money for business or personal use. Their weekly priority is to find money to repay the loan. This situation is quite burdensome for borrowers when they start a business using microcredit money. They have to make immediate payments without enough time and opportunity to roll the money from the loan and income from sales. This situation was also discussed by [50]. Thus, in this study, the mode of payment is not significant to impact business performance.

The last element, help and support, only has a medium but positive relationship with business performance. In this study, microcredit is financial loan assistance from government agencies (AIM and TEKUN), which is important for starting and expanding microbusinesses. In addition to financial aid, microbusinesses also need ongoing help and support from the government and relevant agencies or institutions to ensure survival in the market. Most respondents finished school at a young age, i.e., 8% primary school (12 years), 21% secondary school–level 1 (15 years), and 57% secondary school–level 2 (17 years). At that young age, they do not have sufficient and effective business and management

knowledge. Therefore, continuous support from the government and related agencies is necessary to improve the knowledge of respondents.

This study showed that help and support, such as entrepreneurship training (including marketing, financial management, social media for business, practical packaging, customer service or effective communication techniques), ongoing business consultation and business location visits positively and significantly impact microbusinesses. Overall, in this current study, the microcredit elements explain 83.4% of microbusiness performance.

6 Conclusions and Recommendations

This study tested the impact of five microcredit elements on microbusiness performance. Three factors, namely loan size, management fees, and help and support, positively and significantly influence microbusiness performance. Conversely, the study found tenure to have a negative and significant influence on business performance. Finally, the mode of payment influences positively, but non significantly, business performance. Microcredit institutions, such as AIM and TEKUN, can use this study's findings to improve the microcredit elements to ensure that the loan benefits borrowers in business performance or sustainability. According to the findings of the current study, attention should be given to two factors, tenure and mode of payment.

This study has limitations. First, it included respondents from microcredit agencies AIM and TEKUN only. A wider study that includes respondents from other microcredit institutions, such as MARA, SME Corp, etc., should be considered to obtain better results. Second, the respondents of this study were only from AIM and TEKUN Kota Bharu, Kelantan. There are AIM and TEKUN branches in other parts of Kelantan and throughout Malaysia that can be included in future studies. Third, this study also only examines five elements of microcredit. Future studies might uncover other elements in more detail. Finally, this study uses simple regression. Future studies should apply other statistical methods to conduct in-depth empirical analyses.

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