

## THE ROLE OF ISLAMIC MICRO-FINANCE IN ENHANCING THE WELLBEING OF THE CLIENTS: EXPLORATORY FACTOR ANALYSIS

*O Papel da Microfinança Islâmica no aprimoramento do Bem-Estar dos Clientes: Um  
Análise Factorial Exploratória*

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**Abstract:** This pilot study seek to explore the structural characteristics of Islamic Micro-finance and statistically group them in to Products (Independent), Empowerment (Mediator) and Clients' wellbeing (dependent) constructs. This is to conceptualize an Islamic Micro-finance model towards the Clients wellbeing. Empirical data was collected from the staff of eight (8) branches of Amanah Ikhtiar Malaysia (AIM) in the Johor state, Malaysia. The data collected was analyzed by means of an Exploratory Factor Analysis using IBM SPSS Statistics 21, which resulted to the extraction of five (5) factors which upon grouping, defined the variables for this study. The results indicated an acceptable factor loadings and effective grouping according to the conceptualized framework. The Cronbach's alpha of  $\geq 0.7$  is an indication of acceptable internal consistency and reliability of the five Islamic Micro-finance constructs. This study is part of on-going Ph.D. to proof the capacity of Islamic Micro-finance towards Clients' wellbeing.

**Key words:** Islamic Micro-finance; Clients' wellbeing; Malaysia

**Resumo:** Este estudo piloto procura explorar as características estruturais das microfinanças islâmicas e agrupá-las estatisticamente em relação Produtos (Independente), Empoderamento (Mediador) e Bem-Estar dos clientes (dependente). Isto é conceituar um modelo Islâmico de Microfinanças para o Bem-Estar dos clientes. Dados empíricos foram coletados da equipe de oito (8) filiais de Amanah Ikhtiar Malaysia (AIM) no estado de Johor, na Malásia. Os dados coletados foram analisados por meio de uma Análise Fatorial Exploratória utilizando o IBM SPSS Statistics 21, que resultou na extração de cinco (5) fatores que, após o agrupamento, definiram as variáveis para este estudo. Os resultados indicaram os pesos dos fatores aceitáveis e agrupamento adequado de acordo com a estrutura conceituada. O alfa de Cronbach de  $\geq 0,7$  é uma indicação de consistência e confiabilidade internas aceitáveis dos cinco factores de microfinanças islâmicas. Este estudo é parte do Ph.D. para comprovar a capacidade da microfinança islâmica em promover o Bem-Estar dos clientes

**Palavras-chave:** Microfinança Islâmica; Bem-Estar dos clientes; Malásia

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## INTRODUCTION

Over the last four decades, Malaysia has made remarkable achievements in terms of its economic growth as well as its socio-economic development (MWR, 2013). Poverty reduction through increased productivity and income occupies an integral part of all national plans of Malaysia (Hatta and Ali, 2013). While 49.3% of Malaysian households lived below the poverty line in 1970, the poverty rate has reduced significantly to 1.7% in 2012 (Department of statistics Malaysia, 2013). The reduction in poverty rate can be attributed to the rapid economic growth in Malaysia which generated opportunities for employment as well as micro and small-scale businesses (Hatta and Ali, 2013; Henderson, 2002; Al Mamun et al., 2011). Although economic growth has brought significant improvements in the standard of living, there are still individuals living in poverty. Well-being is a positive outcome that is meaningful for people pursuant to good living conditions e.g., housing, employment, family, mental and physical health, and hence of course, there is nothing more seriously important as happiness and wellbeing (Blurton, 2012). There is no consensus on the definition of well-being, but there is general agreement that at minimum, it includes the presence of positive emotions and satisfaction with life, fulfilment and positive functioning. In simple terms, well-being can be described as judging life positively and feeling good in terms of Physical, Economic and Social life (Blurton, 2012). There is no sole determinant of individual well-being, however, it is dependent upon good health, positive social relationships, and availability and access to basic resources e.g., shelter, income (Michaelson, 2012). In general, life satisfaction is dependent more closely on the availability of basic needs being met as well as access to modern conveniences. Pleasant emotions are more closely associated with having supportive relationships which is one of the strongest predictors of well-being, having a notably positive effect (HRQOL, 2016). Countries differ substantially in their levels of well-being but societies with higher well-being are those that are more economically developed. The growing urgency for sustainable development for the entire world has led the idea of targeted efforts gaining ground in order to reach the most vulnerable people (MDGR, 2015). There is the need to achieve a combination of economic development, environmental sustainability, and social inclusion. This typified the triple bottom line approach to human wellbeing, which is in line with the developmental objectives of nations (Sachs, 2012). This new approach seek to offer opportunities to the less privileged in the society toward social, environmental and financial performance. While the benefits from empowerment packages addresses their diverse vulnerabilities, it also help in creating sustainable environment and foster social cohesion. By focusing on this comprehensive perspective, Micro-finance has become an important tool for improving the lots of the vulnerable poor in the society (Hatta and Ali, 2013; GIFR, 2012). In Muslim countries, Micro-finance is shaped by Islamic principles that seek to achieve prosperity for humanity through opportunities for economic and human capital development. This is perceived as crucial in achieving progress towards greater wellbeing by means of an inclusive growth (Che Rasuli et al., 2016; Al Mamun, Adaikalam and Abdul Wahab, 2012; Mohieldin et al., 2011; Nair, 2010).

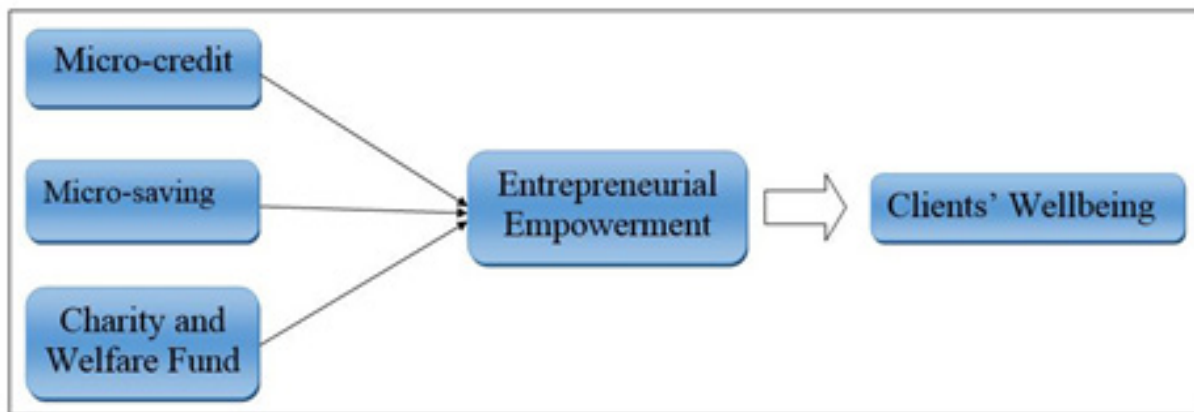
The New Economic Model (NEM) in Malaysia promotes a new approach to development, which it defines as inclusive growth, to raise productivity and incomes of the poor and enable them contribute meaningfully to national development (Hatta and Ali, 2013; Xavier and Ahmad, 2012). Another strategy, the Financial Sector Blueprint 2011–2020, was formulated to increase productivity, diversify sources of income and improve the quality of life of the poor. This is a strategic plan that charts the future direction of the financial system as Malaysia transitions towards becoming a high value-added, high-income economy. One of the agenda for this 10-year blueprint is to pursue a financial inclusion that will enable all citizens undertake financial transactions, generate income, accumulate assets and protect themselves financially against unexpected adverse events (FSBP, 2011). This opportunity is expected to contribute to a balanced and sustainable economic growth and development that best serves the Malaysian economy.

Amanah Ikhtiar Malaysia (AIM) is a development program established in 1987 as an NGO with the aim of eradicating extreme poverty. The objective was to offer an interest-free Micro-credit to low-income households to finance income generating activities in order to improve their socio-economic condition. AIM is a replication of the re-known Grameen Bank model established in Bangladesh in the late 1970s by Dr Mohammed Yunus in order to extend Micro-credit to the financially excluded poor. Basically, AIM offers three (3) services to its members/companions. (1) Interest-free Micro-credit with stipulated repayment periods. (2) Saving, which takes the form of compulsory and voluntary saving. (3) Welfare Charity Fund. This is a fund contributed by members to enhance cooperation and improve welfare based on the principles of donation (*tabarru'*) and mutual cooperation (*ta'awun*) to help members of the group when in trouble. This mutual assistance covers areas such as destruction of home and/or project due to accidental fires and natural disasters, accidents, funerals, and all diseases. By far the most popular of the three services is the Interest-free Micro-credit. This is the basic service which is referred to as the Initial Financial Scheme. The Micro-credit is extended to members using the group-lending method as in the Grameen bank model, where five persons of the same gender who are not close relatives are grouped together and provided a small amount of credit without any collateral (Al-Shami et al., 2014; Dusuki, 2006; Navajas et al., 2000). According to AIM (2015), almost 99% of the members are women and the loans tenure ranges between 25 to 150 weeks. After about 30 years of operation, AIM had established 151 branches and provided financial services to more than 80% of the poor households (AIM, 2015). As at February 2015, there are a 356,485 members/companions and RM12, 153,111,093 total disbursements. Therefore the objective of this paper is to explore the conceptual framework on the internal characteristics, structure and relationship between the products of Islamic Micro-finance and the Clients Wellbeing in the perspective of Amanah Ikhtiar Malaysia.

## THE RESEARCH FRAME AND STRUCTURAL MODEL

The conceptual model is depicted to show the relationship between the products of Islamic micro-finance (Islamic Micro-credit/Qardhul-hasan, Micro-saving/Wadi'a, Micro-insurance/Takaful) and the clients' wellbeing. Financial exclusion of the poor and their inability to secure employment owing to low literacy level are the major factors that have denied the poor from making a meaningful contribution to national development (Rahman, 2013; GIFR, 2012). To promote a balanced and equitable growth there is the need to have the poorer section of the society to participate meaningfully in the economy (Mohieldin et al., 2011). The conceptual framework consists of five major components: the Micro-credit services, Micro-saving services, Micro-insurance services, Entrepreneurial Empowerment and the Clients' wellbeing.

**Figure 1 Research Framework and Structural Model**



### Micro-credit

This is the initial product offered by Micro-finance institutions. It refers to the small amounts of credit given to the poor people as economic empowerment to enable them generate income through self-employment (Omar et al., 2012). The main objective is to provide low-income people with access to safe, affordable credit to help make them more financially included. Unfortunately, the majority of the programs are unable to cover their financial costs and unable to attain a wider coverage to explore different environments and reach the right people (Rahman & Dean, 2013). Product diversification and the terms of this micro loan are important determinants in meeting the clients' needs (Saad, 2012; Md Saad & Duasa, 2010; Laila, 2010; Praveen, 2009; Rahman & Rahim, 2007). For example, convenient access to a range of Micro-credit products through innovative delivery channels determines that the loan gets to the right people. Flexible Micro-financing terms provides options to the poor. Increasing the size of the loan is important to expand market as well as the size of the micro enterprises. Flexible loan disbursement and repayment facilitates services delivery, time responsiveness and providing adequate information. Moreover, competitive cost and efficiency by the Micro-credit providers all are critical factors for determining the role of Micro-finance services on clients' wellbeing (Kazemian et al., 2014; Nawai and Bashir, 2009). It is important to note that, Micro-credit is the initial offering of the poor which enables them to generate income and entrepreneurial expertise.

### **Micro-saving**

This is a product that enables the client to enjoy a bigger loan for business expansion and asset accumulation. It takes the form of mandatory and voluntary savings. The low committed periodical savings enable low-income households to inculcate the savings habit towards achieving long term goals such as starting a business, home ownership, education and to have a secure retirement (FSBP, 2011). This is important because capital accumulation is a necessary and sufficient condition for growth and development (Kalu and Nenbee, 2013; Cabraal, 2010). Micro-saving is prelude towards asset accumulation and is a relevant instrument towards future wellbeing (Fiorillo et al., 2014). It is also important for enhancing the capability of the poor to cope with uncertainty shocks, reduce the cost of lending and enhance future growth (Al Shami et al., 2014; Grayson et al., 2013; Tavanti, 2013). More importantly, it provide the saver with the opportunity for enhanced loan repayment and enables easy access to a large size of loan for sustainable growth motives (Rahman, AlSmady and Kazemian, 2015; Fiorillo et al., 2014; Ang, 2010). For sustainability reasons, the poor needs to be encourage towards building future capabilities.

### **Micro-insurance/Takaful/Welfare fund**

In Micro-insurance offering, concepts such as Tabarru and Ta'awun are important in dealing with unforeseen future uncertainties. The vulnerabilities of the poor people are on how to deal with the deprivations of today and the fears of the unseen tomorrow. Accidents, disasters, diseases are some of the challenges of the poor despite the challenge to break the cycle of poverty (Htay, Sadzali and Amin, 2015; Haryadi, 2006). The Charity and Welfare Fund concepts in the form of Tabarru and Ta'awun that encourages mutual donations are set to address these shocks so as to minimise the tendency of going back to the initial cycle of poverty. This product give protection to the Clients in cases of unexpected emergencies and asset damage or loss (Cabraal, 2010).

However, this emergency coverage needs to be efficient and effective to compliment poverty reduction. Social mission of reaching the poorest poor is still a big challenge for most Micro-finance institutions, and those reached requires more than Micro-credit to solve their problems (Delgado et al., 2015; Prabhakar et al., 2015, Tavanti, 2013). Cooperation among members will go a long way in subsidising other members and as well serve the social cohesion role in the society (Sharif and Bao, 2013). Some service providers offer Micro-insurance to their clients to achieve this goal. Amanah Ikhtiar Malaysia termed this product as Charity and Welfare Fund, which is contributed voluntarily by clients with religious requirement.

### **Entrepreneurial empowerment**

Empowerment is increasing the capacity of individuals or groups to make purposeful and effective choices for a better life that brings benefits in terms of greater overall well-being in a society (Smulovitz, Walton and Petesch, 2003). It is the improvement of assets and capabilities of diverse individuals and groups to engage, influence and hold accountable the institutions which affect them (Bennett, 2002; Alsop, Bertelsen and Holland, 2006; Malhotra, Schuler and Boender, 2002). It makes people better equipped to work together, organize themselves, and mobilize resources to solve problems of common interest. Education and training, skills, assets, self-reliance and communal services have been identified to have effect on the clients' performance and improvement in their micro and small businesses (Webster University, 2015; Bartle, 2012).

As outlined in both the New Economic Model and the 10th Malaysia plan, one of the strategies to achieve empowerment is by improving education and providing skills capable of meeting the economic challenges. Eichengreen et al., (2013) have found a positive correlation between economic growth and educational level of the nation. According to Guan et al., (2011), to assure higher productivity and economic growth, there is need to have a critical mass of skilled and knowledge-based workers. It is the key towards a developed country because at its instance, innovation and creative manpower is obtained (Usman and Tasmin, 2015; Othman et al., 2012; Guan et al., 2011). It has been found to be the most significant contributor to poverty alleviation because it reduces the probability of household being poor, regardless of the poverty line being used (Janjua and Kamal, 2001).

The vulnerabilities of the poor people have affected their self-reliance making them with no confidence to contribute towards communal services. This inclusive strategy through Islamic Micro-finance empowerment offer them the ability to reinvent their worth and benefit from increased national growth and as well contribute meaningfully towards national development (Hatta and Ali, 2013). Assets are the stock of wealth that represent the long-term effects of income flows and expenditures, a necessary and sufficient condition for growth and development (Kalu and Nenbee, 2013). They are the foundation of future consumption and wealth, and considered as important indicator of empowerment (Al-Mamun et al., 2012). Quality of life of a household depends on the ownership and quality of household assets. Ownership of asset is an important achievement towards economic viability and self-reliance (Salma, 2004). The more any individual, community or organization has of each of the above elements, the stronger it is, the more capacity it has, and the more empowered it is (Bartle, 2012). Therefore this indicate how successful are initial products offered by Micro-finance in addressing the deficiencies of the poor.

### **Clients' wellbeing**

There are several varied methods through which Islamic Micro-finance is perceived to have relevance on the client's wellbeing. Rath and Harter (2010) and McCarthy (2010) have outlined that, Career growth, Economic and Social development are key elements in achieving wellbeing. For instance, Islamic Micro-finance Empowerment has been regarded as an important tool for reducing poverty and improving the household's quality of life in terms of better and bigger houses and healthy conditions (Al Mamun et al., 2012). It also plays a vital role in the empowerment of the poor people especially women towards developing their micro enterprises (Omar et al., 2012]. The vulnerability of the poor is reduced and their socioeconomic status improved with better health condition and the education level of their children (Bhuiyan et al., 2011; Md Saad, 2010).

Similarly, it enhances career growth with the significant increase in firm performance especially entrepreneurial values and management practices (Mahmood & Mohd Rosli, 2013; Shirazi, 2012). Therefore, measuring the linkage between Islamic Micro-finance and clients' wellbeing is dependent on both economic and noneconomic dimensions. The empowerment enables the clients to manage the business and make decisions independently and participate in the community with enhanced self-esteem. This status enables them to manage their economic life effectively, reduce stress and increase security (McCarthy, 2010). Therefore, measuring the linkage between Islamic Micro-finance and Clients' Wellbeing is dependent on both economic and noneconomic dimensions. The empowerment enables the clients to manage the business and make decisions independently and participate in the community with enhanced self-esteem.

## METHODOLOGY

In this pilot study, a total number of 32 questionnaires were administered at eight (8) branches of Amanah Ikhtiar Malaysia (AIM) in Johor state, Malaysia. This represent a 10% of the sample population to be used for the field study. A total of 31 responses were retrieved and used for the analysis below, representing about 97% return rate. The descriptors used in the questionnaire for responses were: Strongly disagree, Disagree, Moderate, Agree, and Strongly agree. The pilot data was subjected to three analyses to ensure its normality, reliability and its ability to determine the underline structural pattern of the variables according to the constructs. A descriptive analysis was carried out to examine the normality of the data. The results showed that the data achieved the acceptable normal distribution with skewness and kurtosis within the ranges of  $\pm 2$  as recommended in George and Mallery (2010). Exploratory Factor Analysis (EFA) was carried out to determine the unidimensionality of the constructs. The unidimensionality was measured by ensuring that all measuring items have acceptable factor loadings. It was also used to identify the underlying data pattern in each construct because there is an inadequacy of research in the area (Gerbing and Anderson, 1988). EFA was also necessary to identify the factors that influence empowerment towards Clients' wellbeing, and also determine the features that "go together" as components (Ishiyaku et al., 2016; Yong and Pearce, 2013). Based on the nature of this study, PCA was used and the extract was based on Kaiser's criteria, which is the SPSS default retention method of eigenvalue greater than 1.0.

## THE RESULTS

Reliability test was carried out to provide a reliable measure of internal consistency of the constructs. This is necessary to identify the variables that need to be deleted to improve the alpha value and ensure that the constructs achieve reliable alpha.

**Table 1 Reliability Results**

<b>Reliability Statistics</b>		
<b>Constructs</b>	<b>Cronbach's Alpha</b>	<b>N of Items</b>
Wfund	.904	7
Empower	.861	8
Mcredit	.896	8
Msave	.810	6
Cwellbeing	.745	4

The Cronbach's alpha of 0.6 or higher for a component indicates an acceptable internal consistency of items (Awang, 2012). The results in Table 1 indicated that a reliable Cronbach's alpha of more than 0.8 was achieved in all the constructs except Cwellbeing (.745), which is still above the acceptable mark.

**Table 2 Exploratory Factor Analysis Results**

Rotated Component Matrix										
Components										
	1		2		3		4		5	
Mcredit2	.834		Msave2	.821	Wfund2	.843	Empower1	.840	Cwellbeing2	.784
Mcredit1	.818		Msave5	.770	Wfund5	.792	Empower5	.722	Cwellbeing3	.741
Mcredit4	.756		Msave1	.714	Wfund4	.753	Empower3	.694	Cwellbeing1	.691
Mcredit5	.719		Msave6	.699	Wfund3	.735	Empower6	.680	Cwellbeing4	.620
Mcredit11	.608		Msave4	.635	Wfund1	.714	Empower4	.662		-
Mcredit9	.593		Msave7	.606	Wfund8	.689	Empower7	.653	-	-
Mcredit8	.566		-	-	Wfund7	.570	Empower2	.652	-	-
Mcredit7	.561		-	-	-	-	Empower8	.636		-

The EFA results in Table 2 indicated good pattern distribution among the variables which showed that five (5) constructs loaded effectively. Therefore, the results indicated that the variables can be grouped effectively into the five (5) constructs based on their characteristics Micro-credit, Micro-saving, Welfare fund, Empowerment and Clients' wellbeing.

## DISCUSSIONS

Validity and Reliability defined the adequacy of a data collection instrument. Validity is divided into three (3) namely: content, construct and criterion-related, but at this stages of the study will only cover 'content' and 'construct' validity. The Cronbach's alpha of  $\geq 0.7$  (Table 1) is an indication of acceptable internal consistency and reliability of the five Islamic Micro-finance constructs. The extracted factors for the five constructs (Mcredit, Msave, Wfund, EEmpowerment and CWellbeing) revealed the important features that determine Clients' Wellbeing in AIM, which may differ in other studies. The general result revealed that, items which possess similar characteristic are group together, and have satisfied the internal reliability and the construct validity criteria. The analysis of EFA carried out revealed that all the identified factors are relevant and in line with the structural model. The factor loadings of  $\geq 0.5$  in table 2 is an indication of the accepted variables moving together. It further revealed that the variables have significance in their respective constructs. Therefore, the measurement models that will be developed later in this study will rely on the validation of the Islamic Micro-finance factors using components, Micro-credit, Micro-saving, Charity and welfare fund, Entrepreneurial Empowerment and Clients' Wellbeing as latent constructs. Hence, it can be used to develop a causal effect model or structural equation model with the Clients' Wellbeing construct as the dependent variable. This invariably means under normal circumstances, there is positive relationship between these Islamic Micro-finance products and the Clients' Wellbeing. It is essential for financial managers, the desirability of these group of offering to address diverse needs of the clients. The high loadings in all the factors is a manifest endorsement by the respondents, who are providers of Islamic Micro-finance.



## **CONCLUSIONS**

The EFA results revealed the extraction of factors for the five (5) conceptualized constructs of Islamic Micro-finance products (Micro-credit, Micro-saving, Charity and Welfare Fund, Entrepreneurial Empowerment and Clients' Wellbeing). The results indicated the factorability of the variables in line with the conceptual model and hence their correlation structure. This pilot survey result has achieved the objectives of EFA. It has recorded an acceptable internal consistency of the instrument, acceptable factor loadings and has established a good relationships among variables. The study is an attempt to proof the capacity of Islamic Micro-finance and propose how to enhance the contribution of the study variables towards Clients' wellbeing for further validation.

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