

CONSIDERATIONS OF MALAYSIAN BANKING INSTITUTIONS IN ACCESSING CAPITAL MARKET FUNDING FOR MICROFINANCE

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ABSTRACT

Microfinance refers to the provision of a wide range of financial services, such as deposit, loan, insurance and payment services to the poor or low-income groups who are not eligible to obtain financial aid from the formal banking sectors. In Malaysia, poverty alleviation through the microfinance program has been taken into account since year 1957. To date, there are two types of microfinance institutions in Malaysia provide microfinance program, namely Formal Microfinance Institutions and Informal Microfinance Institutions.

Nevertheless, it has found that there is a gap in terms of the numbers of formal and semi-formal microfinance institutions in Malaysia. To date, there are only 20% commercial banks, 6% Islamic banks and 33% of Development Financial Institutions (DFIs) in Malaysia that provide the microfinance program. In contrast, the three main representatives of semi-formal microfinance institutions, which namely AIM, YUM and TN had 86, 20, and 194 branches respectively in 2009.

Therefore, it is important to increase the exposure of more formal microfinance institutions to step into the Malaysian microfinance industry, especially the banking institutions. It is because banking institutions are having large funding and network of branches, where it is critical to ensure the wide outreach of microfinance. Additionally, in Malaysia, microfinance institutions are relied heavily on government grants and subsidies; and thus it would stagnate the growth and lending capability of microfinance institutions.

As a result, the purpose of this study is used to explore the considerations/ issues faced by Malaysian Banking Institutions in penetrating to the mode of capital market funding for microfinance purpose. Besides, at the end of this study, the researcher will also recommend the appropriate capital market instrument that could be offered by the Malaysian Banking Institutions in accessing capital market funding for microfinance.