Information Management and Business Review (ISSN 2220-3796)
Vol. 16, No. 1, pp. 274-278, March 2024

Microcredit Clients' Financial Literacy Towards Financial Inclusion and Sustainability

Azlina Rahim, Vani Tanggamani*, Hamidah Bani & Nor Ashikin Alias
Faculty of Accountancy, Universiti Teknologi MARA, Cawangan Melaka, Kampus Alor Gajah, Alor Gajah, Melaka, Malaysia
*vani@uitm.edu.my

Abstract: According to the recent Malaysian MADANI Budget 2023 which has been declared by Prime Minister Datuk Seri Anwar Ibrahim, it is notable that 7 billion was allocated to help micro-entrepreneurs, women and youth. Therefore, it is crucial to ensure that the clients have appropriate financial literacy to ensure that the loans can be repaid accordingly. For microcredit clients to have this ability, they should have sound financial literacy to be able to manage their money, make wise decisions, and maintain vigorous spending. Thus, to promote sustainable financial sustainability, the objective of this study is to assess the level of microcredit financial literacy of microcredit clients in enhancing their knowledge, skills and transparency that can lead to financial sustainability. Further, it will also test empirically whether microcredit financial literacy can integrate the cognitive comprehension of financial knowledge, skills and responsibility with respect to financial sustainability. This study will use an exploratory sequential mixed-method research design that combines quantitative (questionnaires) and qualitative (interviews) data. The data-gathering method then continues with concentrated group interviews on selected microcredit clients. This covers clients from TEKUN Nasional Melaka to deliberate on related problems. Data analysis in qualitative research focuses on the systematic search and arrangement of interview transcripts. Interviews are necessary to gain a thorough understanding of issues with financial knowledge and skills among clients. It is expected that the study will benefit the policy maker, microcredit clients and the government in enhancing financial inclusion and sustainability. Thus, the government's slogan "Developing Malaysia MADANI" can be achieved.

Keywords: *Microcredit Clients, Financial Literacy, Financial Inclusion, Sustainability, TEKUN.*

1. Introduction

Microcredit has been defined as the provision of a small amount of loans to those living below the poverty line in developing countries (Sayankar & Mali, 2022). According to the Microfinance Barometer 2018, microfinance institutions worldwide serve 139 million consumers or borrowers. This shows that around 7 percent of the entire population is still living in poverty. Thus, microcredit is widely recognized as an important development strategy for poverty reduction, household welfare improvement, and women's empowerment, with the primary beneficiaries being poor households who are unable to obtain a loan from banks due to a lack of physical collateral credit. According to the recent budget 2023 which has been declared by Prime Minister Datuk Seri Anwar Ibrahim, it is notable that 7 billion was allocated to help micro-entrepreneurs, women and youth. Therefore, it is crucial to ensure that the recipients have appropriate financial literacy to ensure that the loans can be repaid accordingly. A study conducted by the Credit Counselling and Debt Management Agency (AKPK) indicated that one out of every three Malaysians consider themselves to have a low level of confidence in financial management. This is because low levels of financial literacy will result in poor financial investment and bad decisions. Thus, it is essential to accelerate personal financial literacy in Malaysia.

Based on the National Strategy for Financial Literacy 2019-2023, one of the key objectives of Malaysia's Strategic Priorities and Action Plans is to advise, educate, and support Malaysians in practicing healthy financial management, with an emphasis on disadvantaged groups of society. This comprises of developing healthy money management approaches through community-based financial education and instilling positive behaviors toward financial resilience and sustainability. The low level of financial literacy, particularly among microcredit clients, has undoubtedly led to some types of poor financial investing and decision-making due to their incapability to clearly identify and select an investing option that meets their risk tolerance. As a result, it will have a substantial impact on both personal finances and the overall financial system. As a result, both developed and developing countries should prioritize increasing personal financial knowledge and orientation. Therefore, financial literacy has become one of the significant elements in the twenty-first century. To have this ability microcredit clients should have sound financial literacy to be capable of managing their finances, making wise decisions, and maintaining a healthy spending pattern. Thus, to promote sustainable financial stability, microcredit financial literacy is important as a vital indicator to enhance and promote financial awareness, particularly among microcredit clients in Malaysia.

Research Questions

(i) Why microcredit financial literacy is vital for microcredit clients?
(ii) How can microcredit financial literacy help microcredit clients for sustainability?

Objective (s) of the Research

(i) To assess the level of microcredit financial literacy of microcredit clients in enhancing their knowledge, skills and transparency that can lead towards financial sustainability.
(ii) To test empirically whether microcredit financial literacy can integrate the cognitive comprehension of financial knowledge, skills and responsibility with respect to financial sustainability.

2. Literature Review

Development of Microcredit in Malaysia: Over the last four decades, Bangladesh's Muhammad Yunus conducted an experiment to assist underprivileged women by providing them with a small loan to expand their bamboo business, which resulted in the establishment of Grameen Bank (Ahmad Nazrie and Kumar, 2019). The effort caused millions of disadvantaged people to seek financial aid, resulting in a higher quality of living and poverty reduction (Ledgerwood, Earne, & Nelson, 2013). Many poor nations have emulated Grameen Bank's strategy, resulting in the formation of microfinance organizations. One of the countries that adopted this model is Malaysia. In Malaysia, microfinance is defined as small business loans of up to RM 50,000 with a maximum loan tenure of seven years (Shu-Teng, Mohd Ashhari, Suraya Hanim, and Nassir, 2015). Malaysia has three major microfinance institutions including Amanah Ikhtiar Malaysia (AIM), National Entrepreneur Group Economic Fund (TEKUN) and Yayasan Usaha Maju (Yamamoto, Ota, Akiya, & Shintani, 2017). The third microfinance institution, TEKUN which has been established with the major goal is to give rapid and easy loan service to Bumiputra and Indian entrepreneurs. Microfinance is the provision of financial services to low-income persons who are often overlooked by traditional financial institutions. Microfinance is internationally recognized and accredited for its role in poverty alleviation, as proven by the many countries that adopt it.

Microfinance is the practice of providing financial services to people with low or no income, such as loans and savings, on a micro or tiny scale. A microfinance loan goes through several stages or events from the time it is granted until it is repaid. The National Microfinance Policy 2017 would establish an enabling environment for the creation of appropriate and creative microfinance products and services to fulfill the real demands of the low-income population while boosting economic growth and speeding up poverty reduction. Microfinancing refers to small business loans of up to RM50,000 for microenterprises and self-employed persons. Microfinance is intended solely for business funding, such as working capital and capital expenditure. This is not a personal loan. According to the research, microenterprise growth is determined by a variety of factors. In many situations, micro and small businesses were founded in response to the owners' needs and preferences, and as a result, many of these businesses are less organized, less structured, and more individualized. Aside from that, the majority of these microentrepreneurs are at a disadvantage because they lack sufficient education and experience (Mokhtar & Ashhari, 2015). As a result, the effect of microfinance institutions on financial literacy in Malaysia has not been fully researched. The gap must be filled by looking at how the microfinance institutions' operations affect and promote financial literacy, especially among microcredit clients.

Definition and Characteristics of Financial Literacy: Financial literacy refers to the understanding, information, competence, attitude, and behavior needed to make sound financial decisions and, ultimately, attain individual financial well-being (Organization for Economic Cooperation and Development). Another definition provided by the President's Advisory Council on Financial Literacy is the capacity to employ knowledge and skills to effectively manage financial resources over one's lifetime (Pailella, 2016). Financial literacy is a term widely used to describe financial education and knowledge. It is a wide concept that necessitates the translation of ideas and knowledge for wealth development through efficient savings and investment. Ajibola, Saheed, and Adedoyin (2020) define financial literacy as knowledge and skills. More specifically, the concept of financial literacy today necessitates individual financial behavior, preferences, and self-control to make better financial investment decisions. According to the Organisation for Economic

Cooperation and Development (OECD), financial literacy encompasses not only knowledge and understanding of financial concepts and risks, but also the skills, motivation, and confidence to apply such knowledge and understanding to make effective decisions in a variety of financial contexts, improve individuals' and society's financial well-being, and enable participation in economic life. Thus, financial literacy refers to both knowledge and financial behavior.

In light of the quick changes and constant advancements in the financial sector and the larger economy, it is critical to assess if people are prepared to successfully direct the confusion of financial decisions that they encounter daily. There is strong evidence that financial literacy affects people's financial decisions and behaviors. Financial literacy, for example, has been linked to changes in saving and investment practices, as well as debt management and borrowing patterns. Empirically, financially intelligent people are more likely to accumulate money (Lusardi and Mitchell, 2014). There are various arguments for why increased financial literacy leads to greater wealth. Financial literacy has also been associated with higher investment returns and investing in more complex assets, such as stocks, which frequently provide higher returns. Ultimately, financial literacy influences everything from daily to long-term financial conclusions, with ramifications for both individuals and society. Low levels of financial literacy across countries are associated with successful spending and financial planning, as well as costly borrowing and debt management (Lusardi, 2019). It has also been noticed that financial literacy can help people make more informed decisions, which leads to healthy financial behavior. As a result, one might argue that increased financial knowledge promotes prudent economic behavior.

Financial Inclusion and Sustainability: Financial inclusion is one of the most crucial issues for inclusive growth and economic development in the current environment. The term "financial inclusion" initially appeared in British parlance when it was revealed that approximately 7.5 million people lacked a bank account. An inclusive financial system is essential for strong and resilient households, communities, and economies. In this context, financial inclusion policies must support meaningful access and effective use of low-cost financial products and services, allowing consumers to save, invest, protect against risks, and develop financial buffers for current and future needs. To accomplish this, having the skills and information for making sound financial decisions is critical. This will establish the groundwork for individuals and businesses to enhance their financial health and resilience while stimulating the economy and promoting socioeconomic growth. (The Financial Inclusion Framework, 2023). As a result, future financial inclusion efforts will need to account for these new realities to produce meaningful outcomes that will improve people's financial well-being in this country. According to Sayankar and Mali (2022), apart from their socio-economic status, other reasons keep them away from the formal banking system. Among the reasons for financial inclusion are sufficient resources of economic facilities in rural areas, more involvement of informal sources like moneylenders, high operating cost of servicing to poor people which has to be borne by these financial institutions, no assets to be pledged for raising finance, low level of literacy especially financial literacy and lack of technology knowledge. Financial sustainability is a hotly debated topic, particularly between the two methods, namely the welfare and institutionalist views.

The Welfarist theory asserts that the number of impoverished individuals helped by microfinance institutions is a measure of their performance. This hypothesis is based on the premise that setting up microfinance institutions reduces poverty by empowering the poorest among the economically active poor (Marwa & Aziakpono, 2015). Contrary, according to Institutionalist ideology, microfinance institutions must establish long-term intermediation. MFIs must be sustainable to provide better financial services and help eliminate poverty (Mitra, 2017). Another study in the area of sustainability was conducted by Maeenuddin et al. (2023) where they studied the predictors of microfinance sustainability. The findings indicate that loan size, number of borrowers, percentage of female borrowers, and inflation all have a favorable impact on FSI. Organizational structure, liquidity, leverage, cost per borrower, and GDP have a major negative impact on the financial sustainability of the microfinance business in Bangladesh. Out of all the abovementioned reasons, the most critical reason is the lack of financial literacy amongst the economically active poor class of society. This becomes a huge barrier to achieving full financial inclusion. The second most critical issue is the lack of knowledge of technology. To achieve financial inclusion, there should be enough amount of financial literacy. Therefore, microcredit plays a very vital role to achieve financial inclusion. Financial inclusion and financial literacy are vital for achieving financial sustainability (Rastogi and Kumar, 2021; Singh and Tandon, 2012). A solid foundation of financial literacy can contribute to sustainability by supporting diverse life goals such as saving for school or retirement, managing debt responsibly, and running a business.

3. Research Methodology

This study focuses on Microcredit clients in Melaka. This sample is selected because TEKUN National which is an agency under the Ministry of Entrepreneurial and Cooperative Development provides business capital financing for micro-entrepreneurs. Therefore, it is crucial to ensure that the clients have appropriate financial literacy to ensure that the loans can be repaid accordingly. The main objective of this study is to assess the level of financial literacy among microcredit clients by emphasizing the following variables or elements: (i) demographic traits, (ii) financial knowledge and comprehension, (iii) financial skills and competence, and (iv) financial responsibility. These four characteristics are predicted to influence microcredit consumers' financial literacy. Demographic factors include age, gender, and background. Tertiary and higher-level education, as well as related experience, can all contribute to financial knowledge and awareness. Attendance at relevant training and workshops contributes to financial competence. Financial responsibility includes attitudes, social influence, emotions, and financial obstacles.

Furthermore, each of these characteristics will be used to improve client responsibility and transparency. This study will use an experimental sequential mixed-method research design with both qualitative (interviews) and quantitative (questionnaires) data. Data analysis in qualitative research focuses on the systematic search and arrangement of interview transcripts. Interviews are vital for gaining a thorough grasp of clients' financial knowledge and skills. The interviews will be recorded and transcribed using theme analysis to determine what is now practiced against what is expected. Following completion of this process, the research activities will resume with data analysis. The supplied data will be evaluated with SEM AMOS. The data acquired can be utilized to establish if microcredit financial literacy can integrate a cognitive understanding of financial knowledge, skills, and responsibility in relation to financial sustainability. The results will then be examined and their consequences, as well as suggestions for improvement. Finally, this study concluded and made recommendations for microcredit financial literacy based on research findings.

4. Contribution of the Study

This study will make theoretical and practical contributions to the topic of financial literacy in Malaysia. Firstly, the proposed microcredit financial literacy model can enhance the people's skills and abilities which can lead towards financial inclusion and sustainability. This study will emphasize theoretical contribution to increase financial knowledge, skills, and responsibility for meeting current and ongoing financial commitments to make sound financial decisions. Secondly, the proposed model of microcredit financial literacy will help the government include appropriate initiatives for increasing growth through financial initiatives that focus on financial policies and programs. Finally, the industry also plays an important role since the proposed model of microcredit financial literacy will help to deliver suggestions and action plans that would boost Malaysia's long-term competitiveness.

5. Conclusion

This study focuses on the microcredit financial literacy of microcredit clients in enhancing their knowledge, skills and transparency that can lead towards financial sustainability. The knowledge and skills are very important since individuals with financial literacy can handle their finances more effectively. This involves budgeting, savings, investing, and debt management. Individuals who lack these skills may suffer from financial stability, including debt accumulation, insufficient savings, and trouble accomplishing financial goals. Apart from that, by having good financial literacy, microcredit clients will be able to make sound financial decisions. Overall, financial literacy is important because it allows people to take control of their finances, make educated decisions, avoid financial traps, plan for the future, contribute to economic stability, and fight to reduce wealth disparity. As a result, financial literacy has emerged as a critical component of the twenty-first-century economy. Microcredit clients must have strong financial literacy to manage their resources, make sensible decisions, and maintain healthy spending habits. Thus, to maintain long-term financial stability, microcredit financial literacy is critical as a key indicator for raising and promoting financial awareness, particularly among microcredit consumers in Malaysia.

Acknowledgments: The authors would like to express their appreciation to Universiti Teknologi MARA Cawangan Melaka for the financial support provided in accomplishing this research under the TEJA Internal Grant Scheme 2023 (GDT2023/1-5).

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