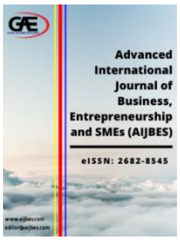
Advanced International Journal of Business, Entrepreneurship and SME's
AIJBES
EISSN: 2682-8545

Volume 7 Issue 24 (June 2025) PP. 449-464
DOI 10.35631/AIJBES.724030



ADVANCED INTERNATIONAL JOURNAL OF BUSINESS, ENTREPRENEURSHIP AND SMES (AIJBES)
www.aijbes.com

GLOBAL ACADEMIC EXCELLENCE

REDUCING POVERTY AND EMPOWERING WOMEN THROUGH MICROCREDIT: A MALAYSIAN PERSPECTIVE

Cheong Jia Qi[1], Noor Syafinas Muda[2*]

[1] Department of Business and Management, Universiti Teknologi MARA Perak
Email: jiaqi@uitm.edu.my
[2] Department of Business and Management, Universiti Teknologi MARA Perak
Email: noorsyafinas@uitm.edu.my
[*] Corresponding Author

Article Info:

Article history:
Received date: 17.04.2025
Revised date: 02.05.2025
Accepted date: 11.06.2025
Published date: 30.06.2025

To cite this document:

Cheong, J. Q., & Muda, N. S. (2025). Reducing Poverty And Empowering Women Through Microcredit: A Malaysian Perspective. *Advanced International Journal of Business Entrepreneurship and SMEs, 7* (24), 449-464.

DOI: 10.35631/AIJBES.724030

Abstract:

Microcredit was introduced to provide small loan to the poor, especially women, to become self-employed by engaging in micro-entrepreneurship. This small loan allows the poor to create income-generating activities that help them achieve economic independence. However, despite the widely claimed positive impact of microcredit on poverty reduction and women's empowerment, some studies have discovered a negative impact of microcredit on the beneficiaries. In view of this, this paper is intended to review whether the literature supports the role of microcredit in achieving such goals of poverty reduction and women's empowerment in Malaysia. The literature was generated from three electronic databases, which are Scopus, Science Direct, and SpringerLink, by using the following key search terms: microcredit impact, microcredit on poverty reduction, and microcredit on women's empowerment. All papers reviewed were from 2010 to 2024, and only studies that have been carried out in Malaysia were selected. We identified 68 articles; however, only 15 articles were selected to be reviewed based on the inclusion criteria. We found that microcredit has successfully delivered a positive impact on poverty reduction and women's empowerment. However, the review highlighted the importance of implementing a rigorous approach to measure the impact of microcredit on income increment. Meanwhile, the measurement of women's empowerment should integrate all dimensions of empowerment to avoid bias in the outcomes.

Keywords:

Income, Microcredit, Poverty, Women Empowerment.

Advanced International Journal of Business, Entrepreneurship and SME's
AIJBES
EISSN: 2682-8545
Volume 7 Issue 24 (June 2025) PP. 449-464
DOI 10.35631/AIJBES.724030

Introduction

Poverty remains a persistent and multifaceted issue, particularly in developing countries like Malaysia, where marginalized groups, often face systemic barriers in accessing financial resources (Bradshaw, 2007). Economic exclusion, lack of formal collateral, and structural discrimination in banking systems have historically excluded women from conventional financial services, exacerbating cycles of poverty (Aziz, Sheikh, & Shah, 2022). According to Malaysia's Department of Statistics, 5.6% of the population lived below the poverty line in 2022, with rural and female-headed households most affected (DOSM, 2023). To address this issue, a microcredit initiative introduced by Professor Muhammad Yunus in the late 1970s and early 1980s holds the potential to break down barriers. Microcredit was first established in Bangladesh with the founding of the Grameen Bank, marking a significant development in financial inclusion and support for low-income individuals, especially women. It provided credit facilities specially designed to help poor women by providing small loans based on trust that did not require any collateral, guarantor, and no legal action was imposed on those who were unable to repay the loan (Gibbon & Kasim, 1990). This innovation dismantled institutional barriers, providing the poor, especially women, with access to entrepreneurial opportunities and financial autonomy.

Malaysia replicated the microcredit programme in the mid-1980s by establishing the first microfinance institution called Amanah Ikhtiar Malaysia (AIM), aimed at alleviating poverty. It started as a pioneer project in an extreme poverty area in Northwest Selangor, commencing in 1986 to 1988. The project achieved remarkable success in poverty alleviation, whereby 70% of the participants had increased their income after joining the microcredit scheme. The project also achieved another surprising result, which showed that women performed better than men. At the end of the project, 84% of the women had increased their income by an average of RM136 monthly, while 65% of men earned an average of RM65 monthly. Women also exhibited stronger repayment performance (90% vs. lower male rates), prompting AIM to exclusively target women for future loans (Gibbons & Kasim, 1990). Since then, microcredit has been one of the important government programmes aimed at poverty reduction among women and AIM has been the leading institution in providing the service to date. Up to 2023, AIM has disbursed RM2.57 billion to all 322766 borrowers with a 99.91% repayment rate (Awani, 2024). These statistics reflect not only the success of AIM's program but also the transformative role of women in economic development.

Microcredit is commonly linked to a significant involvement of women, both in Malaysia and worldwide. According to D'Espallier, Guérin, and Mersland (2011), women tend to exhibit higher repayment rates than men and are widely regarded as more creditworthy. Another reason is that giving financial access to women is more likely to benefit the children and family more compared to men, as women spend a higher level of expenditure on their families (Pitt, Khandker, & Cartwright, 2006). Pitt and Khandker (1998) concluded that communities benefited more when loans were disbursed to women than to men. For these reasons, women always become the target group of government and non-government organisations in implementing microcredit programme as a strategy to combat poverty among poor women and further empower them. In the context of Malaysia, recent studies reaffirm this trend. Islam, Jaafar, and Karim (2023) observed that community-level microcredit initiatives significantly improve women's income and decision-making roles. Similarly, Hamdan and Kassim (2022) emphasized that Islamic microfinancing, paired with ICT and human capital development, boosted women's entrepreneurial performance in rural areas. Khursheed (2023) emphasized the transformative role of microfinance in shaping women's entrepreneurial identities.

Advanced International Journal of Business, Entrepreneurship and SME's
AIJBES
EISSN: 2682-8545
Volume 7 Issue 24 (June 2025) PP. 449-464
DOI 10.35631/AIJBES.724030

Despite these promising outcomes, challenges remain. Recent research highlights concerns such as debt dependency, unsustainable business models, and the risk of financial stress from over-borrowing (Choong, Ahmad, & Fadzil, 2023). Moreover, not all microfinance models are equally effective. Cooke and Amuakwa-Mensah (2021) argued that the impact of microfinance on poverty and empowerment varies widely depending on institutional quality and monitoring practices. Therefore, while the potential for women's empowerment through microcredit is substantial, the effectiveness of such programs is context-dependent and must be continuously evaluated and refined.

Apart from AIM, other agencies that offer microcredit schemes in Malaysia are The Economic Fund for National Entrepreneurs Group (TEKUN), Yayasan Usaha Maju Sabah (YUM), Malaysia's development financial institutions, commercial banks and non-governmental organisation such as Women of Will (WoW), each offering different models to serve poor women entrepreneurs (Central Bank of Malaysia, 2019; Lee, Koh, & Charwat, 2024). Organisations like AIM and innovative initiatives such WoW offer small, frequently interest-free loans to women, facilitating the creation of microenterprises. These programs seek to augment home income, encourage financial autonomy, and cultivate empowerment through the enhancement of decision-making roles and community engagement (Jaafar & Alwazni, 2019; Lee et. al, 2024; Mamun et al., 2014). It also enhances economic engagement, establishing a pathway to financial stability and social growth (Idris et al., 2021; Islam et al., 2023). The microcredit scheme also encompasses extensive support via skills training, business mentoring, and community empowerment, promoting sustainable transformation beyond monetary aid (Lee et al., 2024). As Jiang and Yuan (2022) note, effective financial empowerment must be accompanied by institutional support and prudent regulation to ensure sustainable outcomes.

In light of these developments, this study investigates the evolving role of microcredit in poverty alleviation and women's empowerment in Malaysia. Specifically, it examines the effectiveness of microcredit in enhancing women's socio-economic well-being, with a focus on institutions like AIM and WoW. The study contributes to the growing body of literature by integrating recent empirical findings (2021–2025) and offers a contextualized understanding of how targeted financial interventions can serve as a catalyst for inclusive development.

Literature Review

Theoretical Background

Microcredit theory of change is pivotal to depict the mechanism through which credit is expected to reduce poverty and increase well-being by linking inputs to impacts on several welfare outcomes (Maitrot & Nino-Zarazua, 2017). The fundamental argument of the microcredit theory of change states that lack of access to credit is one of the crucial factors that hinders the development of the socioeconomic status of the poor. Therefore, providing small business loans, also known as microcredit, will spur the poor to start or expand a microenterprise that generates enough return to repay the loan while also increasing income and raising the person's standard of living (Bateman, 2019). Moreover, according to Mayoux (2000), facilitating women with access to microcredit will stimulate economic activities and commence a virtuous upward spiral of economic, social and political empowerment; a phenomenon referred to as 'virtuous upward spiral empowerment'. According to the virtuous upward spiral empowerment theory, providing women with access to microcredit enhances

Advanced International Journal of Business, Entrepreneurship and SME's
EISSN: 2682-8545
AIJBES
Volume 7 Issue 24 (June 2025) PP. 449-464
DOI 10.35631/AIJBES.724030
their economic role in making decisions about business finances and household consumption. This, in turn, strengthens their position within both the family and society.

The Impact of Microcredit

Despite Malaysia's economic growth, poverty remains a significant issue, attributable to barriers including limited access to credit, low educational attainment, and prevailing societal norms. Numerous women encounter obstacles in entrepreneurship and household decision-making due to financial dependence. An efficient financial system should include financial accessibility to the poor, which is important for economic growth and poverty reduction. Microfinance institutions play a crucial role in providing tailored financial services aimed at helping low-income individuals achieve financial independence and stability.

AIM, WoW and analogous programs seek to tackle these challenges by offering microfinance solutions specifically designed for underserved women, thereby facilitating their escape from poverty and promoting self-reliance (Idris et al., 2021; Islam et al., 2023; & Lee et al., 2024). Microcredit is a powerful financial tool designed to provide small loans to impoverished people. It empowers individuals to generate income by engaging in various economic activities, primarily through launching their own small businesses. The impact of microcredit has been studied extensively and has received widespread attention, especially its impact on poverty reduction. Aina-David, Adejonwo, and Makinde (2019) studied the extent to which microcredit reduced poverty in Ogun state, Nigeria, and the study found that there was a significant relationship between microcredit and poverty alleviation. A study by Sandhya and Sri Ranjini (2018) in Mysuru district, India, found that the majority of microcredit beneficiaries, who are women, have used their loans to set up micro-enterprises. This activity has successfully raised their income and changed their economic status. They were also able to possess modern household utilities and gadgets, which reduced the impact of poverty on the families.

Despite broad agreement in the literature about the poverty-reducing effects of microcredit, some studies have argued that it did not reach the poorest, which means it only benefited the better-off borrowers, who had better financial income before joining the microcredit programme (Hulme, 2000). This was supported by Tambe et al. (2017) who had extended the study on the impact of microcredit on poverty reduction in Madhya Pradesh, India. The study found that the microcredit scheme benefited the poor, while it had a very low impact on the poorest among them. The poorest had difficulty fulfilling their basic needs, such as food and related basic necessities, such as clothing, housing, and debt repayment. They were also plagued with debt, whereby they spent 69% of what they were to use for consumption in terms of their basic needs to repay the microcredit debt. Seng (2018) supported the same result, whereby the study observed that in Cambodia, microcredit worsened the conditions of the poor in terms of household food consumption per capita. Given that many previous studies concentrated on micro evaluations from different countries, mixed results may occur due to the differences in economics, culture, environment, and the operational setup of the microcredit institutions. Therefore, Lacalle-Calderon, Perez-Trujillo, and Neira (2018) studied the impact of microcredit among the poorest in 57 developing countries by using a macroeconomic approach. The study revealed that microcredit significantly reduced poverty and benefited even the poorest of the population. Their study also revealed that in countries where the incidence of poverty and depth of poverty were the highest, they found a higher impact of microcredit on poverty reduction compared to others.

Advanced International Journal of Business, Entrepreneurship and SME's
EISSN: 2682-8545
AIJBES
Volume 7 Issue 24 (June 2025) PP. 449-464
DOI 10.35631/AIJBES.724030

However, microcredit is much more than just an income-generating tool for poverty alleviation. Apart from the effectiveness of microcredit in increasing income among its beneficiaries, it was also found that participation in microcredit increased women's bargaining power, which is related to women's empowerment (Khandker, 1998). Microcredit has been seen to be a very useful tool in empowering women (Rahman, Khanam, & Nghiem, 2017). Microcredit can reduce poverty in the short run and also stimulate empowerment amongst the poor, which is the drive required for the subsequent fight against poverty (Allen & Thomas, 2000). Mayoux (1999) asserted that women's access to microcredit will stimulate economic activity, further leading to economic, social, and political empowerment.

Mezgebo, Ymesel and Tegegne (2017) studied the impact of micro and small businesses on empowering women economically in Ethiopia and the result revealed that microcredit profoundly affected the economic empowerment of women and availed them of the use and control of resources in their business and household, and also opened access for their participation in social networks and community development. Rahman et al. (2017) extended the analysis of women's empowerment among microfinance borrowers in Bangladesh and the study concluded that microcredit delivered a positive impact on women's empowerment in that they were able to make a decision on their child's education, the decision on buying personal items, the decision on visiting relatives, the decision on medical treatment, the decision on buying household items, the decision on contraceptives control on income and feeling secure and strong in the family after participating in microcredit programme. However, some studies have argued the potential of microcredit by stating that microcredit will disempower women, not empower them. In Ghana, it was seen that some women had little control over their loans, and consequently, they were unable to repay their loans on time. they were also harassed to repay their loans, which worsened their lives (Ganle, Afriyie, & Segbefia, 2015). A study in Bolivia, South America, attained similar results when the women who participated in microcredit did not become more empowered in the home or community after joining the microcredit programme (Gibb, 2018).

Based on the above discussion, poverty reduction and empowerment have been identified as two important outcomes of microcredit and the outcomes delivered mixed results. However, despite some critics, the majority of scholars agreed that microcredit has significantly contributed to women's empowerment (Loro, 2013). Calvès (2009) also urged that the notion of empowerment should become inseparable from poverty reduction programmes that focused specifically on women. However, microfinance institutions do not consider empowerment as one of the objectives of microcredit; they just embrace it as an indirect effect of the microcredit programme. In light of two significant social issues, which are poverty and women's empowerment, this paper seeks to evaluate the impact of microcredit on these outcomes within the context of Malaysia.

Methodology

This study was carried out to review the existing literature on the impact of microcredit in reducing poverty and empowering women in Malaysia. This systematic review was conducted in accordance with the PRISMA guidelines (Preferred Reporting Items for Systematic Reviews and Meta-Analyses). The process consists of four key stages: identification, screening, eligibility, and inclusion (Gillath & Karantzas, 2019), as illustrated in Figure 1.

Volume 7 Issue 24 (June 2025) PP. 449-464
DOI 10.35631/AIJBES.724030

The initial stage, called the identification stage, involves identifying related articles based on keywords. The literature was generated through three electronic databases: Scopus, Science Direct and SpringerLink. The study used the following keywords as search terms, which comprise: TITLE-ABS-KEY (microcredit AND impact) AND (microcredit AND poverty) AND (microcredit AND women AND empowerment). This search generated 68 publications.

The next step is screening, where several criteria were imposed before further assessment was made. The criteria selected to be reviewed at this stage are journal articles that were published between 2010 and 2024, and journal articles that focused on the influence of microcredit on poverty reduction and women's empowerment only. At this stage, the study included only journal articles and excluded review articles, book series, conference papers, articles in press and short surveys. Based on these inclusion and exclusion criteria, 48 articles were excluded and only 20 articles were assessed for eligibility.

Therefore, the remaining articles, which consist of 20 articles, were evaluated by reading through the abstract and the full articles to identify whether they met the inclusion criteria in the eligibility stage. As a result, 5 articles were excluded due to not focusing on microcredit impact assessment and the research was not conducted in Malaysia. Subsequently, only 15 articles conformed to the criteria and were included to be reviewed and analysed.

This approach allows us to gain a deeper understanding of how microcredit initiatives can effectively support important social issues, such as poverty reduction and women's empowerment, within the Malaysian context. The thematic analysis was used in this study to examine the impact of microcredit on poverty and women's empowerment in Malaysia. Figure 1 illustrates the methodology for identifying and selecting articles to be reviewed.

Advanced International Journal of Business, Entrepreneurship and SME's
AIJBES
EISSN: 2682-8545
Volume 7 Issue 24 (June 2025) PP. 449-464
DOI 10.35631/AIJBES.724030

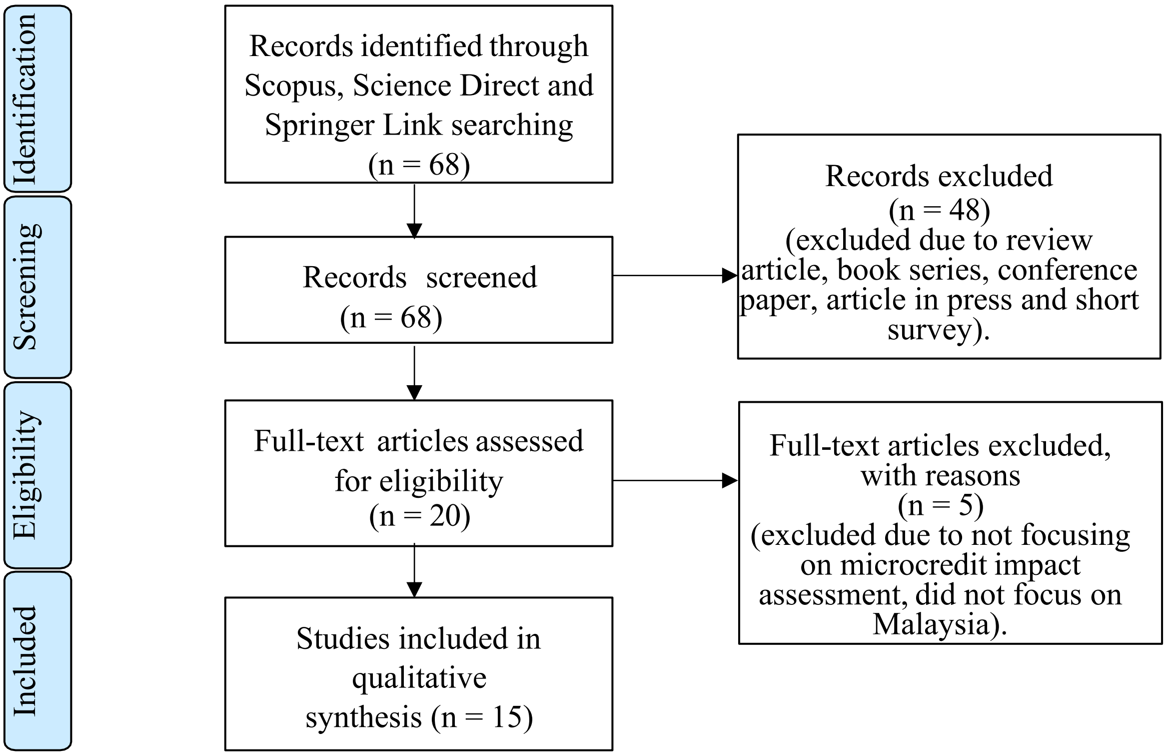


Figure 1: PRISMA Flow Diagram: Systematic Literature Review Reducing Poverty and Empowering Women Through Microcredit: A Malaysian Perspective

Findings
The analysis revealed two compelling themes regarding the impact of microcredit: the significance of poverty alleviation and the empowerment of women.

Microcredit as a Tool for Poverty Reduction
Microcredit serves as a tool for poverty alleviation, particularly for women, and provides them with financial services that enable them to engage in self-employment activities. This, in turn, helps generate income and reduces poverty levels. The assessment of poverty reduction is often associated with the level of income, which becomes the most popular variable to assess the effectiveness of the microcredit programme (Hulme, 2000). Based on our review of the literature, we found that income assessment has dominated the impact studies of the microcredit scheme in Malaysia. In Malaysia, the microcredit scheme has been shown to have a positive impact on poverty reduction and income increment for its beneficiaries.

Programs such as AIM and WoW facilitate women's ability to generate consistent income via microenterprises, with more than 80% of participants indicating enhanced earnings attributable to new or expanded business ventures (Mamun et al., 2014; Jaafar & Alwazni, 2019). Participants cultivate savings habits and financial security, essential for managing emergencies. This shows that microcredit serves as a powerful catalyst for the growth of microenterprises, empowering women to actively participate in thriving activities such as vending, sewing, and digital marketing (Jaafar & Alwazni, 2019; Lee et al., 2024). Microcredit facilitates small-scale

Advanced International Journal of Business, Entrepreneurship and SME's
AIJBES
EISSN: 2682-8545
Volume 7 Issue 24 (June 2025) PP. 449-464
DOI 10.35631/AIJBES.724030
entrepreneurs in acquiring tools, resources, or inventory, thereby enhancing productivity and profitability (Idris et al., 2021; Islam et al., 2023). The programs diminish dependence on high-interest informal lending, promoting a more sustainable financial ecosystem (Idris et al., 2021). Access to microcredit diminishes dependence on informal loans and improves the capacity to fulfil daily requirements. Approximately 50% of participants demonstrated an increased ability to manage financial emergencies, indicating improved social capital and resource access (Lee et al., 2024; Mamun et al., 2014).

Fatin, Zainal Abidin and Rika (2018) examined the impact of microcredit on income among poor people who received the microcredit scheme. The study's respondents stated they gained positive income changes after participating in the scheme. This finding is in line with Wahab, Bunyau Islam (2018), who reported that the income of the respondents became more stable after joining microcredit, which fulfilled their basic needs, such as living expenses, children's education, health care, and daily food intake. This finding is also consistent with Saad and Duasa (2011), who stated that participation in microcredit increased income, spending, and asset acquisition among the borrowers after joining the microcredit scheme. Koh et al. (2021) supported the positive impact of microcredit. The study found that most of the services the microfinance institution provides, including microcredit, microinsurance and training, significantly affect socio-economic welfare.

Al-Mamun, Wahab and Sade (2015) also studied the impact of microcredit on poverty reduction by concentrating only on the hardcore poor. The study revealed that involvement in microcredit increased the number of people who were gainfully employed per household and also increased the ability of participants to own productive assets. This shows that even the hardcore poor households were able to increase their household income. While many studies focused on the effectiveness of microcredit on poverty at the micro level, Selvaraj, Karim, Abdul-Rahman, and Chamhuri (2018) explored the impact of microcredit on the macro level, consisting of 16 states and federal territories in Malaysia. The finding implied that microcredit has successfully reduced the number of lower-income group headcounts. The study further revealed that microcredit not just benefits the poor, but also the poorest. Besides, Samer et al. (2015) studied the impact of microcredit on income by comparing between old borrowers (treatment group) and new borrowers (control group). The study found that microcredit had a beneficial effect on the family income of poor people in the treatment group. Furthermore, the study also showed that old microcredit participants received a greater positive impact on their income from the programme compared to the new members.

Based on the empirical review above, it can be shown that microcredit had a profound impact on income increment that fits the microcredit theory of change. The theory explicates the impact of providing loans to the poor to set-up or expand a microenterprise that could increase their income and uplift their standard of living (Jackson, 2013). However, Yang and Stanley (2012) revealed that publication selection bias occurred in reporting the positive income impact among microcredit borrowers. This might occur due to the poor evaluation of the impact assessment or the income impact is too small, or there were no effects after receiving the microcredit. A study by Zainudin and Kamarudin (2015) supported this view, finding that even when the individual income increased, the participants claimed that there was no effect on the business's profit. Additionally, individuals may see an increase in their income from multiple sources, as those in financially challenging situations often take on side jobs to meet their needs. According to Al-Mamun, Malarvizhi, Wahab, and Mazumder (2011), microcredit borrowers typically have more than one source of income. In addition, the income of the poor

Advanced International Journal of Business, Entrepreneurship and SME's
AIJBES
EISSN: 2682-8545
Volume 7 Issue 24 (June 2025) PP. 449-464
DOI 10.35631/AIJBES.724030
could also originate from transfer payments provided by the government, non-governmental institutions, zakat institutions, or waqaf institutions (Alam, Hassan, & Said, 2015), which could contribute to the income increment. An increment in income could also occur due to the contribution from other household members since some studies evaluate the impact from the household level (Al-Mamun, Mazumder, & Malarvizhi, 2014; Al-Mamun & Mazumder, 2015; Al-Shami et al., 2017). Within this, we found a lack of empirical support to advocate the causal explanation of income increment related to receiving microcredit. This is due to the lack of studies that concentrate on income related to micro-enterprise activities in a more rigorous approach. More studies should focus on income from micro-enterprise activities, emphasizing the contribution of microcredit received rather than just evaluating total monthly income, which may come from various sources.

Microcredit as a Tool for Women's Empowerment
Economic security is fundamental to women's empowerment (Malik & Luqman, 2005). It is, therefore, important to stimulate economic activities that can generate more income for the poor. The expansion of microcredit programmes for poor women has the potential to stimulate economic activities, which contributes to increased income and further leads to women's empowerment (Mayoux, 1999). There was rich literature establishing a relationship between microcredit and women's empowerment in the global context, especially in developing countries. However, we found few studies in Malaysia that attempted to examine the relationship between microcredit and the empowerment of women.

Based on our review, women’s participation in microcredit empowered them to make input and participate in daily household expenditure, health expenditure and spending on children’s school. Additionally, they also had control over the loans from microcredit and movements in and out of the household (Al-Shami, Razali, & Rashid, 2018). Another study on the impact of microcredit on women’s empowerment was carried out by Al-Shami et al. (2017), and the study found a beneficial effect on empowering women, which further enabled these women to take part in their families and business. However, the study revealed that there was no significant evidence showing that women had control over minor finances. A similar finding was seen in a study by Al-Shami et al. (2016), which indicated that microcredit gave women some sense of power and allowed gender equality. Women’s involvement in microcredit has empowered them economically, which has increased their role in decision-making related to daily household expenditure and major household purchases. The microcredit programme has also benefited the participants in terms of social-familial empowerment. The participants achieved the capacity and confidence that enabled them to participate in their homes' decision-making process and movement to and from their homes. Furthermore, they also enjoyed having more power in family planning decisions related to pregnancy and the number of children they wanted. In terms of participation in the community, a study by Al-Shami et al. (2014) found that women who became participants in microcredit programme were always and often engaged in community events. They were also asked by the community to give their opinion. Moreover, they were likely to participate in purchasing the household assets and acquiring the household valuables. The study also found that women’s participation in microcredit scheme was of their own volition.

Lee et al. (2024) stated that the assistance from WoW fostered the development of participants' microenterprises, improved their business acumen, and increased their household income. Women in WoW had enhanced financial capacity, well-being, and stability relative to the control group. The advantageous benefits are also apparent in their personal and familial lives.

Advanced International Journal of Business, Entrepreneurship and SME's
AIJBES
EISSN: 2682-8545
Volume 7 Issue 24 (June 2025) PP. 449-464
DOI 10.35631/AIJBES.724030

Participants in WoW expressed that they could allocate additional time to their children. This later had advantageous effects on their children's education. Likewise, their augmented empowerment, overall confidence, and self-efficacy in entrepreneurship are evident. Participants demonstrated improved capacity for innovation, forecasting customer needs, and building networks. They also cultivated digital capabilities, allowing them to overcome the challenges of the COVID-19 pandemic. Hameed et al. (2019) highlighted the positive influence of government-backed microcredit programs on empowering women, particularly in enhancing their self-sustainability. This illustrates the potential of such initiatives to foster economic independence among women.

Apart from financial aid, training and mentoring programs enhance women's confidence in business management and financial decision-making. Training sessions incorporating loans enhance business acumen, financial literacy, and confidence in entrepreneurial endeavours (Idris et al., 2021). Participants become more knowledgeable about their rights and financial opportunities, promoting increased independence (Idris et al., 2021; Islam et al., 2023). Numerous participants report an increased ability to participate in community activities, spearhead initiatives, and expand their social networks (Jaafar & Alwazni, 2019). Certain programs promote women's mentorship, facilitating knowledge sharing and empowerment within their communities (Lee at al., 2024).

Based on the findings above, it is evident that the impact of microcredit aligns with the theory of virtuous upward spiral of empowerment. The theory claims that the provision of microcredit will in itself increase income under women's control and lead to poverty reduction, which further widens the social, economic, and political empowerment (Mayoux, 2000). However, Mahmud (2003) pointed out that the relationship between the provision of microcredit and women's empowerment lacks adequate causal explanations and sufficient empirical support. The relationship between the microcredit provision and women's empowerment is based on the assumption that an increase in income will automatically improve women's decision-making power without providing any positive relationship. Furthermore, we also found that the existing literature that measured the relationship between microcredit and women empowerment in Malaysia defined empowerment only in the context of relational empowerment, which refers to personal beliefs and actions in relation to others, while neglecting other spectrums of empowerment.

Huis, Hansen, Otten and Lensink (2017) stressed that the assessment of the microcredit impact on women's empowerment should integrate between personal empowerment, relational empowerment and societal empowerment, which is called the three-dimensional model of empowerment. Personal empowerment refers to personal beliefs and actions, while societal empowerment is related to the societal context of empowerment. Furthermore, the term empowerment is a vague term in that the concept is latent, which makes the measurement of women's empowerment difficult (Addae, 2015). The concept of empowerment seems problematic to define, and the debate on the definition is still ongoing; in relation to the multifactorial phenomenon of measuring empowerment, different scholars use empowerment to mean different things (Mosedale, 2005). Therefore, there is a need to measure empowerment across all dimensions to have a clear understanding of the impact of microcredit on women's empowerment.

Advanced International Journal of Business, Entrepreneurship and SME's
EISSN: 2682-8545
AIJBES
Volume 7 Issue 24 (June 2025) PP. 449-464
DOI 10.35631/AIJBES.724030

Figure 2 shows the summary of the microcredit impact. The findings clearly demonstrate that microcredit significantly and positively impacts income growth and business expansion, and further contributes to poverty reduction and the empowerment of women.

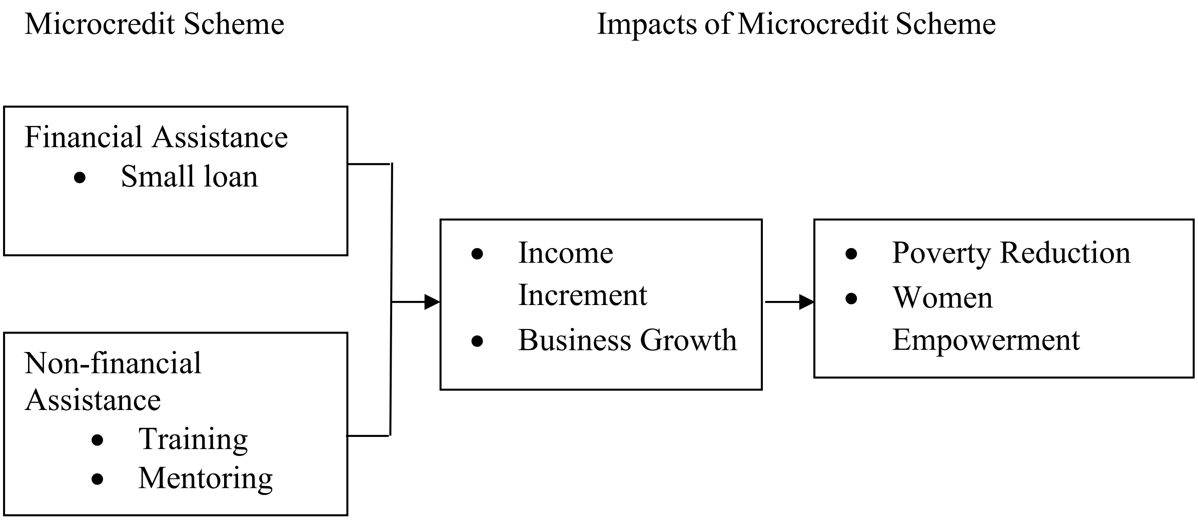


Figure 2: Summary of the Impact of Microcredit

Conclusion

This study set out to examine the impact of microcredit on poverty alleviation and women's empowerment in the Malaysian context. Through a critical review of existing literature, the objectives of the study have been substantially achieved. The analysis indicates that microcredit, particularly through programs such as Amanah Ikhtiar Malaysia (AIM) and Women of Will (WoW), has played a significant role in facilitating income-generating activities for low-income individuals, thereby contributing to poverty reduction. These programs showcase how financial inclusion, when coupled with capacity-building elements like mentorship and training, can offer marginalized communities a pathway to socio-economic mobility.

In terms of women's empowerment, the findings suggest that microcredit schemes have contributed positively by enhancing women's economic independence, decision-making capabilities, and social status. However, the review also reveals a crucial gap: most empirical studies have focused predominantly on relational empowerment, neglecting other critical dimensions such as psychological, economic, and political empowerment. This limited scope restricts a comprehensive understanding of how microcredit transforms women's lives beyond household dynamics.

The contribution of this study lies in its identification of key strengths and gaps within the body of Malaysian microcredit research. By highlighting the multi-dimensional nature of empowerment and calling for more rigorous impact assessments, this study provides a framework for future empirical inquiries that are more inclusive and methodologically robust. Additionally, it draws attention to the need to decouple income growth from microcredit causality, as the literature indicates that income improvements may arise from unrelated factors.

The implications of the current findings are significant for policymakers, development practitioners, and microfinance institutions. Firstly, the integration of empowerment as a primary, rather than incidental, goal of microcredit programs is essential. Empowerment metrics should be explicitly incorporated into program evaluation frameworks. Secondly, to optimize the effectiveness of microcredit, there is a need for complementary support services such as entrepreneurial training, digital literacy, and market access facilitation. These strategies would ensure that financial access translates into sustainable economic outcomes.

Nevertheless, this study is not without limitations. A major challenge encountered is the scarcity of longitudinal and mixed-methods research in the Malaysian context, which restricts our ability to draw causal inferences. Furthermore, the literature often lacks disaggregated data by gender, region, and type of microenterprise, which could mask nuanced effects. There is also a methodological concern regarding potential selection bias in many impact evaluations, where successful cases are overrepresented.

In conclusion, while microcredit has shown promising potential in reducing poverty and empowering women in Malaysia, its full impact remains inadequately understood due to methodological and conceptual limitations in the existing research. Future studies must adopt more rigorous and multidimensional approaches to assess both income changes and various forms of empowerment. To fulfil its transformative potential, microfinance must prioritize empowerment, particularly for women, as a key goal in program design, policy formulation, and implementation, rather than considering it a mere secondary result of financial access.

Acknowledgements
The researchers sincerely thank the Faculty of Business and Management, Universiti Teknologi MARA Perak, for their ongoing support of this research.

References
Awani (2024). AIM Catat Pencapaian Membanggakan, Wajar Dicontohi Agensi KUSKOP. Retrieved from https://www.astroawani.com/berita-malaysia/aim-catat-pencapaian-membanggakan-wajar-dicontohi-agensi-kuskop-456039
Addae, J. A. (2015). Impact of Microfinance on Female Empowerment: A Review of the Empirical Literature. *Journal of Arts and Social Sciences*, 13(8), 1–15. https://doi.org/10.4018/978-1-4666-8611-3.ch003
Aina-David, O. A., Adejonwo, A. Q., & Makinde, H. O. (2019). The Impact of Micro Credit Finance on Poverty Alleviation in Ogun State. *International Journal of Development Strategies in Humanities, Management and Social Sciences*, 9(1), 231–249.
Al-Mamun, A., Malarvizhi, C. A., Wahab, S. A., & Mazumder, M. N. H. (2011). Investigating the Effect of the Utilization of Microcredit on Hardcore Poor Clients Household Income and Assets. *Asian Social Science*, 7(7), 141–152. https://doi.org/10.5539/ass.v7n7p141
Al-Mamun, A., & Mazumder, M. N. H. (2015). Impact of Microcredit on Income, Poverty, and Economic Vulnerability in Peninsular Malaysia. *Development in Practice*, 25(3), 333–346. https://doi.org/10.1080/09614524.2015.1019339
Al-Mamun, A., Mazumder, M. N. H., & Malarvizhi, C. A. (2014). Measuring the Effect of Amanah Ikhtiar Malaysia's Microcredit Programme on Economic Vulnerability Among

Volume 7 Issue 24 (June 2025) PP. 449-464
DOI 10.35631/AIJBES.724030
Hardcore Poor Households. *Progress in Development Studies*, 14(1), 49–59. https://doi.org/10.1177/1464993413504351

Al-Mamun, A., Wahab,S.A., Mazumder, M. N.H., Su. Z. (2014). Empirical Investigation on the Impact of Mirocredit on Women Empowerment in Urban Peninsular Malaysia. *The Journal of Development Areas*, 48(2), pp. 287-306.

Al-Mamun, A., Wahab, S. A., & Sade, A. B. (2015). Investigating the Effect of Microcredit on Hardcore Poor Household Income in Peninsular Malaysia. *Kasertsart Journal of Social Sciences*, (36), 544–553. https://doi.org/10.2139/ssrn.1946093.

Al-Shami, S. S. A., Majid, I., Mohamad, M. R., & Rashid, N. (2017). Household Welfare and Women Empowerment Through Microcredit Financing: Evidence From Malaysia Microcredit. *Journal of Human Behavior in the Social Environment,* 27(8), 1–17. https://doi.org/10.1080/10911359.2017.1345341

Al-Shami, S. S. A., Majid, I., Rizal, S., Mohmed, R., & Rashid, N. (2014). The Role of Malaysian Microfinance (AIM) on the Women Households and Empowerment. *World Applied Sciences Journal*, 32(7), 1404–1417. https://doi.org/10.5829/idosi.wasj.2014.32.07.835

Al-Shami, S. S. A., Razali, M. M., Majid, I., Rozelan, A., & Rashid, N. (2016). The Effect of Microfinance on Women's Empowerment: Evidence From Malaysia. *Asian Journal of Women's Studies*, 22(3), 318–337. https://doi.org/10.1080/12259276.2016.1205378

Al-Shami, S. S. A., Razali, R. M., & Rashid, N. (2018). The Effect of Microcredit on Women Empowerment in Welfare and Decisions Making in Malaysia. *Social Indicators Research*, 137(3), 1073–1090. https://doi.org/10.1007/s11205-017-1632-2

Al-Shami, S. S. A., Majid, I., Rizal, S., Mohmed, R., Rashid, N.& Adil, H. (2019). Women Micro and Small Business Sustainability in Malaysia Through Microcredit. *International Journal of Recent Technology and Engineering,* 8 (1S5), 2277-3878.

Alam, M. M., Hassan, S., & Said, J. (2015). Performance of Islamic Microcredit in Perspective of Maqasid Al-Shariah: A Case Study on Amanah Ikhtiar Malaysia. *Humanomics*, 31(4), 374–384. https://doi.org/10.1108/H-12-2014-0072

Allen, T., & Thomas, A. (2000*). Poverty and Development Into the 21st Century*. Oxford University Press.

Amanah Ikhtiar Malaysia. (2018). Ringkasan Maklumat AIM. Retrieved from http://www.aim.gov.my/informasi/status/ringkasan-maklumat-aim

Aziz, F., Sheikh, S. M., & Shah, I. H. (2022). Financial Inclusion for Women Empowerment in South Asian Countries. *Journal of Financial Regulation and Compliance, 30*(4), 489–502. https://doi.org/10.1108/JFRC-11-2021-0092

Baskaran, A., Dong, T., & Selvarajan, S. K. (2022). Microfinance and Women's Empowerment in Myanmar. *Institutions and Economies,* 14(2), 59–90. https://doi.org/10.22452/IJIE.vol14no2.3

Bateman. M. (2019*). Impacts of the Microcredit Model: Does Theory Reflect Actual Practice?* In Bateman, M., Blankenburg, S. and Kozul-Wright, R. (Eds.), The Rise and the Fall of Global Microcredit: Development, Debt and Disillusion (pp.42-68). Publisher: Routledge.

Bradshaw, T. K. (2007). Theories of Poverty and Anti-Poverty Programs in Community Development. *Community Development*, 38(1), 7–25. https://doi.org/10.1080/15575330709490182

Calvès, A.-E. (2009). Empowerment: The History of a Key Concept in Contemporary Development Discourse. *Revue Tiers Monde*, (4), 735–749. https://doi.org/10.3917/rtm.200.0735

Central Bank of Malaysia. (2019). Pembiayaan Mikro. Retrieved from http://www.bnm.gov.my/documents/sme/20140320FAQ_on_Pembiayaan_Mikro_English_FINAL.pdf

Choong, Y. V., Ahmad, R., & Fadzil, F. H. (2023). Debt Cycle Risks in Malaysian Microfinance. *Asian Journal of Accounting and Governance,* 20, 54–63.

Cooke, E. F. A., & Amuakwa-Mensah, F. (2021). Microfinance Loans, Women's Economic Empowerment, and Poverty: A Case Study of Baobab Microfinance Company. *Journal of Development Effectiveness,* 13(3), 1–19. https://doi.org/10.1080/19439342.2021.1953568

D'Espallier, B., Guérin, I., & Mersland, R. (2011). Women and Repayment in Microfinance: A Global Analysis. *World Development*, 39(5), 758–772. https://doi.org/10.1016/j.worlddev.2010.10.008

Fatin, N. M. T., Zainalabidin, M., & Rika, T. (2018). Effectiveness of the Microcredit Program in Enhancing Micro-Enterprise Entrepreneurs' Income in Selangor. *Asian Social Science*, 14(1), 71–78. https://doi.org/10.5539/ass.v14n1p71

Ganle, J. K., Afriyie, K., & Segbefia, A. Y. (2015). Microcredit: Empowerment and Disempowerment of Rural Women in Ghana. *World Development*, 66, 335–345. https://doi.org/10.1016/j.worlddev.2014.08.027

Gibb, S. (2018). Microfinance's Impact on Education, Poverty, and Empowerment: A Case Study From the Bolivian Altiplano. *Development Research Working Paper Series* 04/2008.

Gibbons, D. S., & Kasim, S. (1990). *Keluarga Termiskin Dipercayai di Semenanjung Malaysia. Laporan Akhir Projek Ikhtiar: Dikaji semula serta dikemaskini*. Penerbit Universiti Sains Malaysia.

Huis, M. A., Hansen, N., Otten, S., & Lensink, R. (2017). A three-dimensional model of women's empowerment: Implications in the field of microfinance and future directions. *Frontiers in Psychology*, 8, 1–14. https://doi.org/10.3389/fpsyg.2017.01678

Hamdan, N. H. B., & Kassim, S. H. (2022). The Effects of Islamic Microfinancing, Human Capital and ICT Usage on Women Micro-Entrepreneurs' Performance in Malaysia. *Bulletin of Monetary Economics and Banking,* 8(Special I), 125–152.

Hameed, W. U., Imran. A., Ślusarczyk, B., Ul Haque. A. (2019). The Moderating Role of Malaysian Government in Microcredit Organization and Quality of Women Self-Sustainability. *Quality-Access to Success,* 20 (S1), (481-486).

Hulme, D. (2000). Impact Assessment Methodologies for Microfinance : Theory , Experience and Better Practice. *World Development*, 28(1), 79–98. https://doi.org/10.1016/S0305-750X(99)00119-9

Haque, T. Siwar, C. Ghazali, R. Said, J. Bhuiyan, A.B. (2021). The Contribution of Non-Conventional Microfinancing on Economic, Social and Household Empowerment of Women Borrowers in Malaysia. *Journal of Asian Finance, Economics and Business,* 8 (2), 643–655.

Islam. R., Rafiqul Islam, R. M.,Rahman, M.K. Noor Raihani Zainol, N. R and Mohd Salahudin. R. Shamsudin (2023). Toward Faith-Based Financing for Poverty Alleviation: The Influence of Religiosity on Entrepreneurship. *Springer Nature Switzerland*.

N. Mansour, L. M. Bujosa Vadell (eds.), Finance, Accounting and Law in the Digital Age, Contributions to Management Science, https://doi.org/10.1007/978-3-031-27296-7_13

Idris, M.M.A ,Bashir, M.S, Bakar, .Y.S.A ,Baharuddin, A.S. (2021*)*. The Role of Microfinance in Helping the Poor: Amanah Ikhtiar Malaysia As A Model. *Dirasat, Human and Social Sciences*, 48 (2).

Advanced International Journal of Business, Entrepreneurship and SME's
EISSN: 2682-8545
AIJBES
Volume 7 Issue 24 (June 2025) PP. 449-464
DOI 10.35631/AIJBES.724030

Jiang, H., & Yuan, C. (2022). Monetary Policy, Capital Regulation and Bank Risk-Taking: Evidence From China. *Journal of Asian Economics, 82*, 101512. https://doi.org/10.1016/j.asieco.2022.101512

Jaafar, J. N, Jaafar, S.M. A (2019). Social Networks and Future Orientation of Females Entrepreneurs in Malaysia: The Mediate Effect of Innovation and the Moderate Effect of Access to Loan. *Opcion, Año 35, Nº Especial*, 19 (2019):2899-2921.

Jackson, E. T. (2013). Interrogating the Theory of Change: Evaluating Impact Investing Where it Matters Most. *Journal of Sustainable Finance and Investment*, 3(2), 95–110. https://doi.org/10.1080/20430795.2013.776257

Khandker, S. R. (1998). Fighting Poverty with Microcredit: Experience in Bangladesh. Oxford University Press. https://doi.org/http://documents.worldbank.org/curated/en/549951468768619206/pdf/multi-page.pdf

Khursheed, A. (2023). Exploring the Role of Microfinance in Women's Empowerment and Entrepreneurial Development: A Qualitative Study. *Future Business Journal.*

Koh. H. L., Solarin. S. A., Yuen. Y. Y., Ramasamy. S., & Goh. G. G. (2021). The Impact of Microfinance Services on the Socio-Economic Welfare of Urban Vulnerable Households in Malaysia. *International Journal of Business and Society, 22 (2), 696-712.*

Lacalle-Calderon, M., Perez-Trujillo, M., & Neira, I. (2018). Does Microfinance Reduce Poverty Among the Poorest? A Macro Quantile Regression Approach. *The Developing Economies*, 56(1), 51–65. https://doi.org/10.1111/deve.12159

Lee, H. Y., Koh, G. M., Chen, V. & Charwat, N. (2024). Alleviating Poverty Through 'Women of Will' Interest-Free Microcredit and Mentoring Model in Malaysia. *The International Journal of Community and Social Development*, 6(3) 263–28. 10.1177/25166026241272315

Liew, X. T., & Yusoff, M. E. B. (2023). The Role of Islamic Microfinance Institution in Women Microentrepreneurs Sustainability During Covid-19 in Johor. *Open Journal of Business and Management*, 11, 2321-2342. https://doi.org/10.4236/ojbm.2023.115128

Loro, L. (2013). Women's Empowerment as a Result of Microcredit Loans in Bangladesh? Development Research working paper series (BDRWPS) BDRWPS No. 18. https://doi.org/10.2139/ssrn.2322785

Mahmud, S. (2003). Actually How Empowering is Microcredit? *Development and Change*, 34(4), 577–605. https://doi.org/10.1111/1467-7660.00320

Maîtrot. M & Niño-Zarazúa. M. (2017). Poverty and Wellbeing Impacts of Microfinance: What Do We Know?," WIDER Working Paper Series wp-2017-190, World Institute for Development Economic Research (UNU-WIDER).

Malik, N. H., & Luqman, M. (2005). Impact of Micro Credit on Women Empowerment: A Review Paper. *Pakistan Journal of Agriculture Sciences*, 42, 3–4. Retrieved from https://pakjas.com.pk/papers/446.pdf

Mayoux, L. (1999). Questioning Virtuous Spirals: Microfinance and Women Empowerment in Africa. *Journal of International Development*, 11, 957–984.

Mayoux, L. (2000). Micro-Finance and the Empowerment of Women: A Review of the Key Issues. ILO Working Papers 993441343402676.

Mezgebo, G. K., Ymesel, T., & Tegegne, G. (2017). Do Micro and Small Business Enterprises Economically Empower Women in Developing Countries? Evidences From Mekelle City, Tigray, Ethiopia. *Journal of Organizational Change Management*, 30(5), 767–778. https://doi.org/10.1108/JOCM-12-2016-0257

Advanced International Journal of Business, Entrepreneurship and SME's
AIJBES
EISSN: 2682-8545
Volume 7 Issue 24 (June 2025) PP. 449-464
DOI 10.35631/AIJBES.724030

Mosedale, S. (2005). Assessing Women's Empowerment: Towards a Conceptual Framework. *Journal of International Development*, 17(2), 243–257. https://doi.org/10.1002/jid.1212

Pitt, M., Khandker, S., & Cartwright, J. (2006). Empowering Women with Microfinance: Evidence from Bangladesh. *Economic Development and Cultural Change*, 54(4), 791–831.

Pitt, M. M., & Khandker, S. R. (1998). The Impact of Group-Based Credit Programs on Poor Households in Bangladesh: Does The Gender or Participants Matter? *Journal of Political Economy*, 106(5), 958–996.

Rahman, M. M., Khanam, R., & Nghiem, S. (2017). The Effects of Microfinance on Women's Empowerment: New Evidence from Bangladesh. *International Journal of Social Economics*, 44(12), 1745–1757. https://doi.org/10.1108/IJSE-02-2016-0070

Saad, N. M., & Duasa, J. (2011). An Economic Impact Assessment of a Microcredit Program in Malaysia: The Case of Amanah Ikhtiar Malaysia (AIM). *International Journal of Business and Society*, 12(1), 1–14. Retrieved from https://www.researchgate.net/publication/288543165

Samer, S., Majid, I., Rizal, S., Muhamad, M. R., Sarah-Halim, & Rashid, N. (2015). The Impact of Microfinance on Poverty Reduction: Empirical Evidence from Malaysian Perspective. *Procedia - Social and Behavioral Sciences*, 195, 721–728. https://doi.org/10.1016/j.sbspro.2015.06.343

Sandhya, P. S., & Sri Ranjini, S. (2018). The Impact of Microfinance Through Self-Help Groups (SHG): A Study on the Economic Status of Urban Women Working in Production and Manufacturing Industries in Mysuru District. *International Journal of Mechanical Engineering and Technology*, 9(1), 472–481.

Selvaraj, T., Karim, Z. A., Abdul-Rahman, A., & Chamhuri, N. (2018). The Effects of Microcredit Access and Macroeconomic Conditions on Lower Income Group. *International Journal of Economics and Management*, 12(1), 285–304.

Seng, K. (2018). Revisiting Microcredit's Poverty-Reducing Promise: Evidence from Cambodia. *Journal of International Development*, 30, 615–642. https://doi.org/10.1002/jid

Tambe, S., Patnaik, S., Bisaria, J., Pandey, A., Sarma, U. K., & Vadivelu, G. A. (2017). How Does Government Microfinance Impact the Rural Poor? Evidence from Madhya Pradesh. *Economic and Political Weekly*, 52(52), 81–87.

Wahab, H. A., Bunyau, W., & Islam, M. R. (2018). Microcredit for Rural Poverty Alleviation and Social Well-Being: A Study of Sabah , Malaysia. *Asian Social Work and Policy Review*, 12, 4–16. https://doi.org/10.1111/aswp.12133

Yang, M., & Stanley, T. D. (2012). Micro-Credit and income : A Literature Review and Meta-Analysis. *Bulletin of Economic and Meta-Analysis.*

Zainudin, M. Z., & Kamarudin, M. F. (2015). Impacts on the Implementation of Social Policy: Comparative Study in Malaysia and Indonesia. *Asian Social Science*, 11(17), 48–56. https://doi.org/10.5539/ass.v11n17p48