

Evaluation of Micro Credit Program for Poverty Alleviation: A case of Amanah Ikhtiar Malaysia (AIM)

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Abstract

This paper is to analyze the role of Amanah Iktiar Malaysia (AIM), the largest Malaysian microcredit program, in eradication poverty. This paper is a contribution to the ongoing debate on the effectiveness of poverty eradication programs and their impact on the poor. This paper analyzes the role played by AIM in poverty eradication and evaluates the AIM micro credit programs in selected rural areas in Malaysia. Empirical investigation has been based on survey question covered selected rural areas in Malaysia. The effectiveness of AIM program's performance is influenced largely by three main groups of factors namely are outreach, financial sustainability and the impact on the client. The paper tries to see whether AIM small loans on reasonable terms provided to poor households for financing additional income-generating activities could be an effective way of reducing extreme rural poverty. Moreover, by providing working capital to small sized project households how much that credit could bring about a significant increase in project size and hence absorbing surplus labor in small projects leading to the increase in household income and consequently reducing extreme rural poverty. The study provides strong evidence that microfinance is indeed an effective tool for poverty eradication. The study will highlight a number of policy implications to improve the overall AIM performance.

Keywords: microcredit program, poverty eradication, microfinance effectiveness

Introduction

Malaysian economy is often been regarded as a showcase of successful economic development. Malaysia as a multiracial country was managed to reduce the incidence of poverty and lessen income inequality while achieving rapid economic growth and maintaining racial harmony. Malaysia formulated a range of policies and plans to guide the management of national development during 1970 – 2000. They consisted of: core national policies; long-term, medium-term, annual, and special development plans; and sectoral and industry-specific master plans. The core policies were the most important where their main components formed the benchmark for all other policies and plans. They consisted of the New Economic Policy (NEP), 1971-1990, and the National Development Policy (NDP), 1991-2000. Complementing these policies was Vision 2020, which was formulated in 1991. The two core national policies were based on a philosophy of growth with equitable distribution. The policies saw national unity as the goal of development and the two-pronged strategy to achieve it are the eradication of poverty and the restructuring of Malaysian society. One result of British colonial rule in Malaysia is a division of labour along ethnic lines, with Chinese and Indians concentrated in the rubber and tin industries and in modern commerce and Malays in subsistence farming, mainly in rice cultivation and fishing. So, the NEP encouraged a greater participation of Malays in modern economic life. Government believed that rapid economic progress would improve the economic position of Malays without reducing that of others and reduced the incidence of poverty. The NEP was a highly successful initiative that reduced poverty where the incidence of poverty in Peninsular Malaysia has fallen from 49.3 per cent in 1970 to about 15 per cent in 1990 (Malaysia, 1991a). In Sabah and Sarawak, the incidence of poverty has also declined from 58.3 per cent and 56.5 per cent in 1976 to 34.3 per cent and 21.0 per cent, respectively in 1990 (Malaysia, 1991, p.46). The incidence of poverty for Malaysia decreased from 42.4 per cent in 1976 to 17.1 per cent in 1990 and 9.6 per cent in 1995 (Malaysia, 1991a and 1996).

One of the government strategies to eradicate the poverty is through micro financing programmes. The meaning of micro finance is to giving tiny loans to hard core poor at subsidized interest rate (Grameen Bank, donation seeking non-profit organization). Micro finance was offered by different kind of institutions, informal and traditional systems, local and international NGOs funded by donors, cooperatives and credit unions, local government institutions, specialised financial institutions and ultimately by regulated, formal commercial financial institutions. Micro-financing programme was introduced in Malaysia in 1986 to replicate Grameen Bank's successful specialized in delivery system, emphasizing direct targeting, informality of delivery, and delivering credit to the 'doorsteps' of the poor. Micro finance programmes (MFPs) have been part of the poverty alleviation policies and strategies. MFPs became a popular approach, especially to reach the poor who would normally be excluded from the formal credit sector (Chamhuri and Basri, 2001). Credit unions, co-operative banks and specialised credit windows of banks have operated it. Micro finance services of financial credit range for about RM10,000 and mostly to finance small businesses, agricultural loans and loans for poverty reduction. Majlis Amanah Rakyat (MARA), council of trust to the Bumiputera and Credit Guarantee Corporation (CGC) are some of the pioneers whose introduced micro finance loans to its borrowers. The rural credit institutions comprising of Agriculture Bank of Malaysia (BPM), Farmers Organisation Authority (LPP), Federal Land Development Authority (FELDA), and agro-based Co-operative Societies provide micro credit for the agriculture sectors. There are a number of non-

government organisations (NGOs) that engaged in micro finance. These include Yayasan Usaha Maju operating in Sabah, Koperasi Kredit Rakyat in Selangor and Amanah Ikhtiar Malaysia (AIM).

Amanah Ikhtiar Malaysia (AIM) was established in September 1987 to institutionalise an action research project carried out by the Centre for Policy Research of University Science Malaysia (USM), sponsored by the Asia and Pacific Development Centre (APDC), Islamic Economic Development Foundation of Malaysia (YPEIM) and the Selangor State Government. The Ikhtiar Project was adopted as a programme to eradicate poverty of the rural poor in Malaysia, with some modification from the Grameen Bank model. The objectives of AIM are to give out benevolent loans to finance income generating activities such as farming, fishing and trading to the poor households and eventually move out from the poverty group. It is complementary to the Government objective in eradicating poverty amongst the poor households in Malaysia. AIM operational costs are borne through its administrative charges to its borrowers, state government, federal government, banks and financial institution and the private sectors.

The focus of this study is to analyse the effectiveness and efficiency programmes of AIM in eradicating poverty. One of the ways in which it can build up and improve the capacities of the poor and low income families in order to alleviate their poverty is through micro credit facilities. The study assess whether this method is effective in poverty alleviation of these families.

Literature Review

Many studies have been done on poverty alleviation such as the relationship between incidence of poverty and the rate of the economic growth, provision of micro credit, the role of micro finance institutions in poverty eradication and the role of government in poverty alleviation especially in rural areas. Peter G.Warr (2000) examines the relationship between the absolute poverty incidence and the rate of the economic growth, in the countries, namely, Thailand, Indonesia, Malaysia and Philippines over the period from the 1960s to 1999, in aggregate and in both rural and urban areas. The analysis has been done by developing a time series of available data on the headcount measure of poverty incidence in those three countries. The results indicate that the poverty incidence will rise but the numbers of people falling below the poverty line as a result of the crisis maybe less than is often suggested, especially in Thailand and Indonesia. Lionel D and David D. (1991) explore the effects of Malaysia's poor of the early 1980s' recession and the mid 1980s' adjustment. An applied general equilibrium model was used to assess three counterfactual policy packages against the chosen package. The study found that the slowdown in poverty alleviation in the mid-1980s was the result of recession, not of the adjustment policies. The government had few alternatives to restore macroeconomic balances as effectively without making matters even worse for the poor.

Alison M. (2001), looks at the different poverty targeting strategies used by micro-finance providers, and shows how the choice of targeting strategy can be partly explained by the provider's assumptions, about how poverty alleviation and economic development occur. Information was collected on the poverty targeting strategies of 25 micro-finance providers around the world and was summarized in the compendium. The

conclusion that has been made was effectiveness has to be measured in terms of sustained impact of financial services on the live hoods of the poor, including the poorest. The contributions to the compendium imply that this cannot be achieved by delivering financial services alone, however accurate the targeting strategy.

Numerous studies have been carried out on relationship between micro finance and poverty alleviation in Malaysia such as Chamhuri and Basri (2001) and Rahmah (2001). A micro finance capacity assessment of three Micro Finance Institutions (MFIs); Amanah Ikhtiar Malaysia (AIM), Yayasan Usaha Maju (YUM) and Koperasi Kredit Rakyat (KKR) shows that the outreach performances of these MFIs are relatively low. Of the three MFIs, AIM has the highest outreach. The MFIs outreach performance is low but the study shows that many poor women have benefited from the micro finance programs (Chamhuri and Basri 2001). Rahmah (2001) found that AIM loan was not very successful in uplifting households out of poverty except for a few cases engaging in trading activities. However, the level of income as well as expenditure for the experimental group was found to be higher than those of the control group, implying that standard of living of the former was higher.

Concept of Amanah Ikhtiar Malaysia (AIM)

The concept of AIM is to create out of the hardcore poor households, highly motivated individuals who are committed to earn an honest living and eventually move out of the poverty level. The strategies are by giving out to borrower interest free loans to undertake income generating projects such as trading and farming. The loans are to be repaid on a weekly basis. Once the loans fully paid, bigger loans are being offered. This process goes on as the need arises. The first loan is normally restricted to RM1, 000 up to a maximum of RM4, 000 for successive loan. Successful borrowers could apply for a much bigger loans of RM5, 000 or even up to RM10,000. The AIM targets are the household whereby their income is less than 2/3 from the poverty line that is stated by the government. Table 1 shows the poverty line and the eligibility.

Table 1: Poverty Line and the Eligibility

	Poverty Line as stated by the government	Household size	Poverty line for AIM	Income per capita AIM
Peninsular	RM 510	4.6	RM529	RM115
Sabah	RM 685	4.9	RM690	RM141
Sarawak	RM 600	4.8	RM600	RM125

Source : Report from the Amanah Ikhtiar Terengganu Branch

Before the individual is taken as a 'sahabat' of AIM, they have to go through several stages of test. One of the staff of AIM and also the trainer will be given a task to report about the place. The report will include the place that have been surveyed, the population, economic structure, the size of the place, and others. The staff of AIM, from the department of trustworthy will go house by house systematically based on the housing index that has been done. If the house is small, bad condition and under 20

points according to the housing index eligibility test, the assistant from the department of trustworthy will visit that house. When the individual is identified, AIM will brief him / her about the steps to get the loan and the types of loan offered. The individual will be interviewed to identify whether they are under the poverty line that have been stated by AIM. If they pass the eligibility test, they will be interviewed again by the assistant manager of the branch, if it is successful, a group with five people will be selected. The terms of the group approval are as follows:

- The same gender
- No blood relation
- Responsible
- Trustworthy
- Agree to be the group member

In the Ninth Malaysian Plan (2006) stated that, AIM increases its non-financial and financial assistance to assist hardcore poor households to increase their income through small business activities. AIM, through its 69 branches and 3,962 service centres throughout the country, provided micro-credit amounting to RM 1.02 billion to 147,544 participants, mostly female and single mothers in rural areas. The following table shows the flow of the Sahabat from 1990 to 2004.

Table 2: The Flow of the 'Sahabat'

Year	Total branch	New 'sahabat'	Total active 'sahabat'	Increment %	RM loan	Increment %	Average of 'sahabat' loan
1990	27	2311	3220		891,488		276.86
1991	33	6181	9401	192.0	2,970,467	233.2	316.00
1992	34	9517	18,918	101.2	7,318,141	146.4	386.83
1993	34	6552	25,470	34.6	18,512,693	152.3	726.84
1994	35	7531	33,001	29.6	23,339,550	26.1	707.24
1995	35	6400	39,401	19.4	34,716,000	48.3	881.09
1996	35	3460	42,861	8.8	47,912,552	38.0	1117.86
1997	37	8191	51,052	19.1	90,216,140	88.3	1767.14
1998	45	5414	56,466	10.6	102,685,700	13.3	1818.54
1999	59	4349	60,812	7.7	82,980,990	-19.2	1364.48
2000	61	8202	69,017	13.5	107,247,260	29.2	1553.93
2001	62	10,475	79,492	15.2	128,126,650	19.5	1611.82
2002	63	7944	87,436	10.0	140,712,480	9.8	1609.32
2003	63	-	70,197	-19.7	152,082,150	8.1	2166.5

2004	69	59,971	124,609	77.5	328,647,600	116.1	2637.43
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Source: Journal Ikhtiar, Special edition, 2005.

The types of the scheme that has been offered by AIM are 'I-mesra', 'I-srikandi', 'I-wibawa' and 'I-Penyayang'. The purpose of these schemes is to increase the income of the people. The Table 3 below explains the schemes offered by AIM.

Table3: Schemes offered by AIM

Scheme	Explanation
'I-Mesra'	The first loan will be given to the new 'sahabat'. Following the 'normal track', the next loan will be given
'I-Srikandi'	This loan is given after the first loan. The increment will be given using the last track concept to the sahabat who are successful.
'I-Wibawa'	Short-term loan The repayment can be done according to the suitability of the sahabat, either weekly, monthly or one shot.
'I-Penyayang'	The loan is given to the sahabat who face problems such as paying back because of the project failure or natural disaster or health problem.

Source: Journal Ikhtiar, Special edition, 2005.

AIM also offered two schemes namely, 'I-Bistari and 'I-Sejahtera' loan for the non economical product. 'I-Sejahtera' loan is to fulfill the need of the family or personal to live a better life and 'I-Bistari' loan is for the education purposes.

Currently AIM offers the following loan products to its members:

- ◆ Ikhtiar Loan Scheme 1 -provides loans to poor households with average monthly income of not more than RM340 or two third of poverty line income.
- ◆ Ikhtiar Loan Scheme 2 - Loan scheme provides loans between RM5,000 (USD1,315) to RM9,900 to borrowers who have made good repayment from the previous two loans and having a monthly income exceeding RM600. The repayment period of the loan is between 50 to 150 weeks.
- ◆ Ikhtiar Loan Scheme 3 - Provides loans up to RM10,000 to borrowers with good track recor with perfect repayment for at least 2 times and having a monthly income exceeding RM1,000.
- ◆ Single Mother Loan Scheme - Provides loans to single mothers living in town areas. The aims of the scheme are to increase the living standard of single mothers and motivate them to undertake stable economic activities to support the family. Eligibility for the loans depends on the household earnings and varies within states.
- ◆ In addition, special Education loan Scheme up to RM1,000 with maximum loan period up to 50 weeks, and special housing Loan Scheme up to RM5,000 with

maximum repayment period up to 100 weeks are available to borrowers with good repayment record.

Methodology

The study investigated the role of the AIM micro credit programmes in eradicating poverty in the rural areas in peninsular of Malaysia. A survey questionnaire was conducted to evaluate the effectiveness of the AIM programs. The questionnaire includes many sections such as demographic information, household living conditions, expenditure and income of respondents and AIM loans characteristics. The study includes three aspects namely, the evaluation of AIM programs in eradicating poverty from the perception of the targeted poor, the assessment of the AIM program from administration viewpoint and evaluation of AIM microfinance effectiveness based on reaching the poor and financial sustainability as well as positive impact on clients current status.

Respondent's Profile

The study is based on questionnaire from 448 respondents from some rural areas in Peninsular of Malaysia. The study used frequency on four variables namely, age, gender, marital status and place of residence. The frequency distribution shows the actual number of observations and the percentage of observations falling in each variable. The result shows that the highest number of the AIM clients is belong to the 36 to 45 age group (34.3%), followed by those were between the ages 46 to 55 (30.3%). Regarding the gender, 97.3% of AIM member who responded were female. This is due to basically maximization outreach of AIM and its focus on empowering poor women. With regards to marital status, 88.2 % of respondents were married women. This indication of their participation in AIM programme compared to the reset. 28.2% of respondents have SPM certificate, and 27.7% have SRP certificate, while 14.5% finished standard six and 20.9% did not attended schools. 48.1% of the respondents their family size between 5 to 7 persons and 21.1% have a family size between 8 to 10 persons. In terms of occupation, 31.9% were accounted for traders and housewives. 20.9% of the respondents were self employed. According to housing condition, 67.6% were in a good condition compared to 27.3% were in a bad situation. This reflects the economic status and the quality of life of poor households. AIM usually used a crude house index as an eligibility criterion for loans broad by the clients

Findings

The major principles that guide AIM programme in eradication of poverty is that AIM being entrusted to assist poor families to strive in increasing their income through micro credit facilities. The result shows that AIM relies exclusively on female participation. The study also found that women were more creditor than men. The cross-tabulation between gender and the repayment performance revealed that women were willing to repay their loans regularly compared to male members. However, there is a

relationship between gender and repayment statistically significant, implying that social demographic variables have effects on AIM programme performance.

Since AIM members at studied area have access to microprint facilities they are more likely to improve their income successfully. This is clearly confirmed for the study findings, which show that after joining the AIM programme the monthly income of the respondents have experience a significant improvement compared to that prior to their participation in AIM operations.

With respect to marital status the result shows that the 82% of respondents were married, 8.2% were widowed and 3.6 were divorced. This is indicated that the poor were more able to maintain a stable family when they have more access to microcredit facilities.

In terms of access to productive assets, the study found that 98% of the respondents had a plot of land, animal, vehicles and house. With respect to the impact of a loan on the client income and consumption, the results showed a significant increase in the income of 73.6% respondents. Also results showed that 70% of the respondents have used their loans in trading activities while the rest are farming and tailoring.

In attempts to narrow the ever-widening gap between their meager household incomes and expenditures, the respondents were induced to save some proportion of their income to meet urgent household needs. As results showed 18.9% of the respondents could afford to save between RM 100-200 out of their income-earning surplus while 8.1% were save between RM 1000-2000 and 2.7% were be able to save RM 5000 or more.

Conclusion

Based on the finding a number of policy implications can be addressed to upgrade AIM programme in poverty alleviation. The demographic characteristics of the AIM's members are found to be of paramount importance and have considerable impacts on the program performance as well as in identifying the magnitude of poverty in rural areas.

The social characteristics of the program beneficiaries are influenced the program effectiveness. Access to social services such as education, health, clean water, electricity, shelter and other basic amenities would enhance the earning capability of the poor. That can be achieved through improving their productivity as well as comprehensive government development program.

Access to microcredit on reasonable terms is the important factor for the success of AIM program. Access to credit is crucial for many very poor households since it enables them to capitalize their knowledge and skills in that they can purchase the assets to create additional income. Based on AIM experience, it is argued that credit should be an important component of any poverty alleviation program.

One of the most important reasons for the success of AIM program has supportive conditions. The most prominent of these is the existence of a supportive

national policy adopted by government. Therefore the necessary condition is that the government should not oppose the implementation of loan scheme for the poor nor undermines it with conflicting legislation or action.

In conclusion, although the AIM programme in poverty alleviation especially in the rural areas was succeed but the AIM only reach about 4% of the total poor in Malaysia. It is because the lack of staff and lack of promotion done by AIM. The AIM should increase their promotion strategies to attract the poor to join the AIM programme.

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