

## **Impact of Microcredit Programme for the Rural Poor: Evidence from Amanah Ikahtiar Malaysia**

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**Abstract:** Microcredit programmes provide small loans to the very poor in order to undertake self employment and other financial and business activities giving them the ability to care for themselves and their families and thus, achieve a level of independence. Microcredit is also referred to as microfinance and micro lending which has demonstrated to be an effective tool in the ongoing struggle against poverty and enables those without access to lending institutions to borrow and start small business. 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. For that reason, Amanah Ikhtiar Malaysia plays a major role in microcredit programmes of Malaysia. This study highlights on the AIM loan programme, financing scheme, loan disburse and achievement indicators of the Amanah Ikhtiar Malaysia (AIM) and also discusses the contribution of the AIM microcredit programme to poverty alleviation in Malaysia. The experience of the AIM shows that microcredit is the most important tool in efforts to reduce poverty.

**Key words:** Poverty, microcredit, loan, microfinance, independence, Malaysia

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### **INTRODUCTION**

Microcredit programmes provide small loans to the very poor in order to undertake self employment and other financial and business activities giving them the ability to care for themselves and their families and thus, achieve a level of independence. Microcredit is also referred to as microfinance and micro lending which has demonstrated to be an effective tool in the ongoing struggle against poverty and enables those without access to lending institutions to borrow and start small business (ABS, 2005). The microfinance programme was started in Malaysia in 1986 as a pilot project to replicate the experience and success of the Grameen bank. The project was launched in North-West Selangor in Peninsular Malaysia to test the effectiveness of the Grameen bank approach. After two and half year, the pilot project was evaluated to be a success (Gibbons and Kasim, 1990) and was institutionalised as an NGO registered under the Trustee Incorporation Act, namely Amanah Ikhtiar Malaysia (AIM) to expand the replication of the Grameen Bank approach towards the reduction of extreme rural poverty in Malaysia. However, 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. In Malaysia, there are also other microcredit programmes existed such as Yayasan Usaha Maju (YUM), Koperasi Kredit Rokyat (KKR), Koperasi Kredit Pekerja (KKP) and Tabung Ekonomi Kumpulan Usahawan Nasional (TEKUN). Amanah Ikhtier Malaysia is the first microcredit programme in Malaysia. The objective of AIM is to give out benevolent loans to finance income generating activities 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.

This study highlights on the AIM loan programme, financing scheme, loan disburse and achievement indicators of the Amanah Ikhtiar Malaysia (AIM) and also discusses the contribution of AIM microcredit programme to poverty alleviation in Malaysia.

### **AIM LOAN PROGRAMME**

AIM offers two types of loans. There are the Economic loans and the Social or Special loans.

**Economic loans:** The economic loans were designed to help the poor to generate extra income through the economic activities to improve their income and living

conditions and has three different schemes e.g., Ikhtiar Loans Scheme 1 (SPI 1), Ikhtiar Loan Scheme 2 (SPI 2) and Ikhtiar Loan Scheme 3 (SPI 3).

**Ikhtiar loan scheme 1 (Skim Pembiayaan Ikhtiar 1-SPI 1):** The first borrower in the scheme gets a maximum loan of RM 1,000. Borrowers who have good repayment record on their first loan are considered for a second loan which is twice the amount of the first loan and up to a maximum of RM 2,000 followed by a maximum of RM 3,000 for the third loan, RM 4,000 for the fourth loan and RM 4,900 for the fifth and subsequent loans.

**Ikhtiar loan scheme 2 (Skim Pembiayaan Ikhtiar 2-SPI 2):** This scheme offers a range of loans from RM 5,000-RM 9,900. Borrowers who have shown good repayment records in SPI 1 and with monthly income of at least RM 600 will be considered for this loan. The repayment period is between 50-150 weeks.

**Ikhtiar loan scheme 3 (Skim Pembiayaan Ikhtiar 3-SPI 3):** The loan offered in this scheme is RM 10,000. The borrowers with good repayment record, discipline and with monthly income of at least RM 1,000 are considered for loan from this scheme. It is specially designed to give opportunities to those who need bigger capital to expand their business activities. The repayment period is between 50-150 weeks.

**Social or special loans:** Loan may be used to start or expand any type of legitimate income generating activities of the borrower's choice according to their experience, skill and capabilities. The major activities are petty trading, agriculture, animal husbandry and fishing. Under the economic loan scheme, AIM has introduced two additional schemes namely Female single parents financing schemes (SKIT) and Fishermen financing scheme (SPIN).

**Female single parents financing scheme (Skim Ibu Tunggal-SKIT):** Female single parents financing scheme

(SKIT) is a financing scheme for the benefit of female single parents living in town areas. This scheme is introduced in view of economic and social problems faced by single parents due to divorce or death of the breadwinner. The purpose is to ensure that the living standard of female single parents does not decline dramatically following these incidents. The maximum amount the first loan is RM 10,000 and the maximum amount of second and subsequent loans is RM 20,000.

**Fishermen financing scheme:** Fishermen financing scheme (SPIN) is a financing scheme targeted at coastal fishermen of Malaysia. This scheme is introduced to help small fishermen increase their livelihood as well as prepare them for the commercialized fishing industry. It also aims at increasingly fish-based food production. The maximum amount the first loan is RM 10,000 and the maximum amount of second and subsequent loans is RM 20,000. Beside economic loan schemes, AIM also provides social loan schemes which are of two types:

**Educational loan:** Borrowers who have completed the first loan in SPI 1 could apply for educational loan whose maximum amount is RM 1,000 and to be repaid within 50 weeks. The purpose of the loan is to cover school expenses of their children.

**Housing loan:** Borrowers who have completed the third loan in SPI 1 entitled to get housing loan whose maximum amount is RM 5,000 for house renovation, land purchase and enlarging business premises. The repayment period for this scheme is between 50-100 weeks.

### AIM FINANCING SCHEME

Currently, AIM offers four types of financing scheme which are shown in Table 1. These are: Ikhtiar Rezeki (I-Rezeki), (Ikhtiar Bistari (I-Bistari), Ikhtiar Sejahtera (I-Sejahtera) and Ikhtiar Penyayang (I-Penyayang).

Table 1: Types of financing scheme of AIM

Ikhtiar financing scheme	Maximum limit (RM)	Repayment period	Description
<b>Ikhtiar Rezeki</b>			
I-Mesra	2,000.00 20,000.00	25-150 weeks	Loans for new members. Maximum loan is RM 2000. Each successive loan could be increased up to RM 1000 more from the previous loan
I-Srikandi	2,000.00 20,000.00	25-150 weeks	Each successive loan could be increased up to double the amount of the previous loan
I-Wibawa	5,000.00	6 month (could be repaid weekly/monthly/lump-sum)	Seasonal loan/short-term
I-Bistari	5,000.00	50-100 weeks	Loan for educational purposes. First loan, maximum RM 1000
I-Sejahtera	10,000.00	50-100 weeks	Multi-purpose loans such as for purchase of assets, investment etc.
I-Penyayang	1,000.00	12-50 weeks	Loan for project recovery

AIM cited in Roslan *et al.* (2006)

Table 2: AIM loan disbursed 1990-2004

Years	No. of clients	Amount of loan (RM)	Loan/client (RM)	Growth of loan disbursed
1990	3220	891,488	276.86	-
1995	39401	34716000	881.09	48.74
2000	69017	107247260	1553.93	29.24
2001	79492	128126650	1611.82	19.47
2002	87436	140712480	1609.32	9.82
2003	70197	152,082,150	2166.50	8.08
2004	131032	328,647,600	2508.15	116.10

AIM cited in Roslan *et al.* (2006)

### AIM LOAN DISBURSE

Except in 1999 which were due to re-screening of members, the amount of loan disbursed shows an increasing trend. Nonetheless the growth of loan disbursed fell until to reaches 8.1% in 2003 (Table 2). In addition to the significant increase in the number of clients and the percentage of loans disbursed might be due to larger amounts of loan borrowed on average by members. However, between 2003 and 2004, AIM saw a vast increase in the percentage of loans disbursed of 116.1%.

### ROLE OF AMANAH IKHTIAR MALAYSIA TO POVERTY ERADICATION

The overall poverty incidence in Malaysia has reduced to a significantly low level, nonetheless there still exist outstanding issues that should be of concern especially to policy makers. Table 3 shows the quantitative indicators of the AIM programme such as the number of branches, number of members and number of groups, cumulative loan disbursed among these members and recovered from them. The achievement of the AIM based on these indicators has established it as a successful financial institution lending to poor women.

In August, 2009 AIM has cumulatively disbursed nearly RM 3.4 billion of micro credit loan to assist members in expanding their business ventures. AIM has registered 230,779 members who have received continuous financing from AIM mostly female and single mothers in rural areas. AIM's activities have been directed almost entirely to the alleviation of poverty among poor Malays. It was set up with a charter to disburse small loans on reasonable terms exclusively to the very poor households to finance additional income generating activities (Gibbons and Kasim, 1990).

Figure 1 show that the impact of income by AIM in 2007 average monthly income has increased from RM 324-1948 or 502% or five times as compared to the income before joining AIM. In comparison, the non-borrowing members show the income increment for only

Table 3: Achievement Indicators of AIM 2009

Indicators	Total
Cumulative loan disbursement	RM 3,433,486
No. of members	230,779
No. of groups	54,400
No. of centre's	6,369
No. of branches	86
No. of regions	8
No. of staff	150

Ruslan (2009)

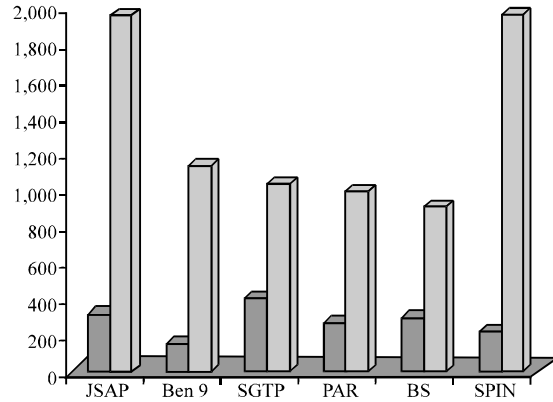


Fig. 1: Comparisons of monthly income earned before and after joining AIM; Ruslan (2009) (Before: 324, 152, 395, 267, 293, 216; After: 1, 948, 1, 117, 1, 022, 979, 892, 1, 947)

1.5 times as compared to the previous income. The increment is the lowest as compared to the other groups. The success of the business results in the increase of income which contributes to the community economic development and provides job opportunities for the local people. In the Ninth Malaysia Plan (2006), it is stated that AIM increases its non-financial and financial assistance to assist hardcore poor households to increase their income through small business activities. Therefore while the establishments of AIM, there are several achievements that have been accomplished by AIM. Among the most important factors that contributed to the success of AIM's projects are staff training, close supervision, transparent, delivery system and compulsory saving. The number of activity source of income in a single household has no positive relationship with the level of household income. According to Ismail (2001) in her study showed that some households received higher income even though they engaged in a lesser number of activities. Distribution of households by the number of activities and level of monthly income is shown in Table 4. Some households in the experimental group received income from four sources but none of these come from the control group. The percentage of households with more than RM300 average monthly

Table 4: Distribution of households by number of activity and average monthly income

No. of activity	Experimental groups					Control groups				
	<100	100-200	201-300	300	Total	<100	100-200	201-300	300	Total
1	-	7.0	10.0	19.0	36.0	2.0	8.0	11.0	7.0	28.0
	-	(19.4)	(27.8)	(52.8)	(100.0)	(7.1)	(28.6)	(39.3)	(25.0)	(100.0)
2	-	3.0	3.0	15.0	21.0	1.0	3.0	2.0	4.0	10.0
	-	(14.3)	(14.3)	(71.4)	(100.0)	(10.0)	(30.0)	(20.0)	(40.0)	(100.0)
3	-	-	-	1.0	1.0	-	-	2.0	-	2.0
	-	-	-	(100.0)	(100.0)	-	-	(100.0)	-	(100.0)
4	-	-	-	2.0	2.0	-	-	-	-	-
	-	-	-	(100.0)	(100.0)	-	-	-	-	-

Ismail (2001)

Table 5: Incidence of poverty and hardcore poverty, 1999 and 2004

Poverty indicators	1999			2004		
	Malaysia	Urban	Rural	Malaysia	Urban	Rural
<b>Hardcore poverty</b>						
Incidence of hardcore poverty (%)	1.9	0.5	3.6	1.2	0.4	2.9
Number of hardcore poor households ('000)	91.7	11.9	79.8	67.3	14.1	53.2
Poverty gap (%)	0.4	0.1	0.8	0.2	0.1	0.6
<b>Overall poverty</b>						
Incidence of poverty (%)	8.5	3.3	14.8	5.7	2.5	11.9
Number of poor households ('000)	409.3	86.1	323.2	311.3	91.6	219.7
Poverty gap (%)	2.3	0.8	4.0	1.4	0.6	3.0
Total of households (000')	4800.0	2612.5	2187.5	5459.5	3605.9	18533.5

Ninth Malaysia Plan (2006)

income were also larger for the experimental group received monthly income less than RM100 but there were some households in the control group in this category. As a whole, the result reflects that the experimental group manages to receive higher monthly income as a result of participating AIM project. Overall, the poverty in Malaysia decreased from 8.5% in 1999-5.7% in 2004 with an equivalent decline in the number of poor households from 409,300-311,000 as shown in Table 5. Total number of hardcore poor households declined from 91,700-67,300 and the mean income of poor households increased from RM 656 in 1999 to RM 764 in 2004. It narrows the poverty gap from 2.3-1.4% in 2004. However, the poverty gap in rural areas was 5 times higher than in urban areas indicating that poverty was much more severe in the rural areas.

Many studies have been carried out on poverty alleviation in Malaysia such as Warr (2000), Ariff (2000) and Lionel and David (1991). The studies dealt more with the theoretical aspects and the dimensions of poverty in relation to development or the formulation of practical programmes for poverty eradication, rather than on the effectiveness and efficiency of the programmes to the poor.

Amanah Ikhtiar Malaysia (AIM) has been the most successful NGO in helping government to redress poverty. This underscored by the fact that between 1991 and 1996 AIM provided interest-free loans accounting to RM 77 million to about 36,200 poor and hardcore poor households to enable them to venture in to micro or

small-scale business as well as poultry and livestock rearing. Most of the ventures were successful as was reflected in the increased household income of participants, almost all whom were women and in the loan repayment rate of almost 100% (Ariff, 2000).

Roslan *et al.* (2006) found that the Project Ikhtiar shows that 85% of poor households who have been given capital loan have increased their monthly earnings. Besides, the repayment rate of the loan is about 72%. Conversely, the repayment rate is 95% among the female borrowers which is higher from the target of 90% set by Project Ikhtiar.

The study of Norhaziah and Mohamed has shown that the women were more credit worthy than men of the AIM microcredit programme. In addition since, the bulk of the branch's members were women who have access to AIM facilities, they are likely to be poverty-prone. This is obviously found which shown that improvement compared to that prior to their participation.

According to the impact of a loan to the respondent income and consumption, the findings showed a significant increase in the income of AIM's branches members. The participant's income increased substantially by almost 70% from its previous level before them joining AIM programme in the rural areas of Terengganu.

Similarly, the information recorded has shown a considerable increase in the AIM's member household consumption expenditure. The findings also revealed that 68% of respondents had experienced a substantial

increase in their consumption expenditure. 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.

### CONCLUSION

In Malaysia with some modification from the Grameen Bank model, the Amanah Ikhtiar Project was adopted as a programme to eradicate poverty of the rural poor. The microcredit facility (AIM) was established to help poor female headed households engage in small business. According to the Eighth Malaysia Plan (2001-2005), 22,850 women benefited from the Amanah Ikhtiar Malaysia (AIM) to facilitate their involvement in small business.

The strategies are by giving out to borrower's interest free loans to undertake income generating projects.

The loans are to be repaid on a weekly basis. Once the loan being fully paid, bigger loans are offered. This process goes on as the demand arises. As with the Grameen Bank model, poor borrowers formed themselves into groups of five who in turn guaranteed each others loans (Roslan *et al.*, 2006).

These households will undergo a 1 week compulsory training of 1 h day<sup>-1</sup> to understand their rights and obligations in order to ensure good repayment. In terms of outreach, AIM is the largest and it reaches women from the lower segment of the poor households.

In addition, women play a very important role in poverty eradication and improving the level of living in Malaysia. Therefore, the experience of the AIM shows that micro credit is the most important tool in efforts to reduce poverty.

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