

CHAPTER 1

INTRODUCTION

1.1 The Research Topic

This study is a contribution to the ongoing debate on the effectiveness of poverty eradication programs and their impact on the poor. Its aim is to analyze and investigate the role played by Amanah Ikhtiar Malaysia (AIM) in poverty eradication in Malaysia and to derive some lessons for successful implementation of poverty eradication programs in Sudan.

1.2 Statement of the Research Problem

The alarming scale and gravity of the problem of poverty has become a challenging development issue to the international community, international financial institutions, national governments, NGOs, social scientists and national governments. In both Malaysia and Sudan many attempts have been made to mitigate its impact and to reduce it to some tolerable level. Various policies, programs and strategies of intervention have been set up. In Malaysia these policies and programs for alleviating poverty have been incorporated and expressed in different national economic plans and within a stable political system and rapid economic growth that have significantly reduced the incidence of poverty (Malaysia, 1971, 1976, 1981, 1986, 1991, 1996, 2001). In Sudan, on the other hand, poverty alleviation efforts have been arbitrarily carried out within the framework of a lopsided development and growth pole strategy as well as within an unstable political system concentrating development in certain regions and neglecting others. These in turn contributed to the widening disparity between the different regions

of the country leading to a remarkable increase in the incidence of poverty in both rural and urban areas (Awad, 1998,1997, Ali, 1985.1991,1992,Nur. 1992,1996,1997)

Poverty alleviation initiatives in Malaysia were undertaken by the government and complemented by the NGOs such as Amanah Ikhtiar Malaysia (AIM) that focused on the eradication of hardcore poverty by providing microcredit to the poor to carry out income generating activities. By all measures, AIM as a replica of Grameen Bank is proved to be successful in alleviating poverty in Malaysia (Sukor, 1988a, 1988b. 1991, Chumhuri, 1991) and such experience needs to be investigated further and needs also to be assessed so that lessons can be derived to replicate it in Sudan. On the other hand, poverty eradication programs implemented by the Sudanese government and NGOs in most cases failed to achieve their prescribed targets whereby the incidence of poverty are still high and on the increase (Sudan, 1998, Sahl, 1997). Thus, the government and NGOS in Sudan failed to address the issue of poverty properly compared with the Malaysian experience. These important issues have been largely ignored in past research and need to be studied further.

Sudan has been classified in terms of the Human Development Index (HDI) as a low country ranking 142 and it was ranked 61 in terms of the Human Poverty Index (HPI) (World Bank, 1997). It is not surprising, therefore, that the economic performance has been poor for over a decade. The GDP per capita declined at an annual average rate of about 0.8% between 1976 and 1989 (World Bank, 1990). Sudan is now facing an extremely difficult economic situation, which is the consequence of many factors such as civil war, political instability, economic mismanagement, three years of drought (1983, 1984, and 1985) and a major flood in 1988, which caused severe damage to the physical infrastructure throughout the entire region. Thus, poverty and malnutrition are

widespread and traditional food security structures and the health care delivery systems have virtually collapsed. Hence, Sudan illustrates very vividly every aspect of the poverty question (El Dawn, 1998). Poverty is now prevailing in both rural and urban areas and hence it poses a serious problem for which public policies have virtually little or no solution.

As an endemic problem in Sudan, poverty has a negative implication and impact on a large segment of the population. According to authentic and official statistics, poverty engulfs the bulk of the Sudanese people (over 90%) (Nur, 1992, Ali, 1994). Poverty in Sudan is both rural and urban phenomenon but slightly higher in the rural areas. The latest official statistics showed that the incidence of poverty in the rural areas amounted to 93.3% in 1995 compared to 84.6% in the urban areas (Sudan, 1996). However, poverty in Sudan is related mainly to misimplementation of the development plans and policies that are in most cases biased towards specific region of the country (Ali, 1994). This in turn led to severe socioeconomic disparity and inequality as well as escalating the process of impoverishment between the different regions leading in the end to ravage war in the southern and western regions and political instability in the country as a whole.

The widespread distribution of poverty and the fragile socioeconomic situation in Sudan are a product of economic, social, cultural, political and environmental processes which have resulted over the years in widening the gap between the rich and the poor in both rural and urban settings (El Dawi, 1998).

In short, monitoring the poverty situation in Sudan has revealed that poverty (as measured by all poverty ratios) has increased rather substantially, especially during the

period of application of the Structural Adjustment Policies (SAPs) or the liberalization of the economy (Ali, 1994). However, SAPs' austerity measures have been implemented without due regard to their social repercussions. Thus, poverty in this connection cannot be treated in isolation but to be considered as part and parcel of the overall economic development programs and policies of the country.

However, in the face of the adverse effects of these processes, the Sudanese government has attempted to launch a number of poverty alleviation programs within the framework of the National Comprehensive Strategy (NCS), 1992-2002. These include the Zakat Chamber, Takaful Fund, Student Supportive Fund and Sudanese Social Development Corporation – all catering for the eradication of poverty in the rural and urban areas. Although these programs have succeeded in reducing poverty to some tolerable levels, their overall performance tends to be unsatisfactory. Such poor performance could be attributed to many factors; among them are managerial incompetence, lack of financial resources and the uncoordinated and disjointed nature of these programs (Sudan, 1999). Therefore, these programs can be viewed as palliative remedies towards the eradication of poverty.

The increasing incidence of poverty in Sudan shows that these program could not address the problem quite satisfactory and could not meet the requirements of the poor. Some of them were urban biased such as the Social Development Foundation concentrated mainly in the national capital even though poverty incidence is quite high in rural areas. For instance, in Darfur, the incidence of poverty according to the latest statistics reached 72% in 1990 and sharply increased to 95.4% in 1995 (Sudan, 1996).

Therefore, it is of research significance to study the performance of these programs and to examine to what extent they achieved their prescribed objectives in alleviating poverty in Sudan in light of the Malaysian experience in poverty eradication.

In contrast, poverty in Malaysia does not constitute a serious malaise compared with that of Sudan. Poverty eradication initiatives were carried out successfully and incorporated in various Malaysian plans leading eventually to a drastic reduction in the overall incidence of poverty from 49.3% in 1970 to 5.1% in 2002 (Malaysia, 2003). The incidence of poverty in the rural areas was sharply reduced from 58.7% in 1970 to 12.4% in 1999 and further to 7.4% in 2002 (Malaysia, 2003). In the urban areas, the incidence of poverty showed a substantial decline from 21% in 1970 to 3.4% in 1999 and sharply reduced to 1.7% in 2002 (Malaysia, 2003). The incidence of hardcore poverty declined from 1.4% in 1999 to 1.0% in 2002.

Studies undertaken by government sector and other researchers claimed that the rapid economic development and substantial growth in income has brought about a reduction in the incidence of poverty (Jamilah, 1994). By most economic indicators, Malaysia's economic performance was outstanding and strong compared with that of Sudan. The GNP achieved a rigorous growth estimated at 7.8% in 1997 and 4.5% in 2003 (Malaysia, 1999, Malaysia 2003). This was a reflection of several factors, including the country's wealth in natural resources and outward-oriented growth strategy, favorable development in the world economy and stable social and political institutions. Malaysia has been classified as a medium human development country and ranked as 56 and in terms of the Human Poverty Index (HPI) it has been ranked 18 (World Bank, 1997).

However, despite favorable economic growth achieved over the last three decades poverty in Malaysia is still high in certain states. For instance, Sarawak has the highest incidence of poverty of about 16% in 2002 although its GDP per capita amounted to RM 9,560 (Malaysia, 2001). Similarly, the incidence of poverty in Terengganu stood at 10.7% despite the fact that its GDP per capita was among the highest in Malaysia reaching RM22, 514 in 2000 (Malaysia, 2001).

These statistics, however, indicate that in spite of the government and NGOs poverty reduction programs intervention, poverty still persists at higher rates in the underdeveloped states and lower rates in the more developed ones.

While absolute poverty has been considerably reduced, relative poverty in terms of income differential is expected to grow. Therefore, even when there has been an improvement in per capita income and standards of living for the country as a whole, a phenomenon that has emerged, is the existence of pockets of poor groups within the society.

Despite the progress made in eradicating hardcore poverty, the inter-ethnic and rural dimension of poverty remained. Poverty is still highly concentrated within the traditional primary commodity sectors and in the rural areas. In terms of occupation, the rubber smallholders, paddy farmers, coconut smallholders and fishermen still constitute a large proportion of the poor (Jamilah, 1994). This implies that poverty eradication programs could not address the issue of poverty properly and could not effectively reach out to the target poverty groups.

One of the basic contentions underpinning this study is that poverty eradication programs and policies at the macro levels need specific focus and reorientation and should be carried out more effectively to meet the requirements of the target beneficiaries, that is, the poor. Therefore, it is of research importance at the macro level to study the poverty eradication programs being carried out effectively within the context of the national development plans in Malaysia and to what extent they have succeeded in achieving their prescribed targets in alleviating poverty in Peninsular Malaysia and what are the lessons that could be derived from such experience which might help Sudan to implement a more effective poverty eradication programs.

At the micro level different government agencies, states governments and NGOs undertook poverty eradication initiatives in Malaysia. Poverty alleviation programs carried out by the government include: provision of low cost houses, disbursement of small loans for income-generating activities in addition to medical and school facilities for the hardcore poor.

Among the NGOs, Amanah Ikhtiar Malaysia (AIM) has played the leading role in complementing the government efforts in alleviating hardcore poverty in the rural areas. AIM onlending operations reached 60,815 hardcore poor in ten Malaysian states in 1999 (AIM, 1999).

The three impact studies conducted by AIM and the Socio-Economic Research Unit (SERU) to study the impact of AIM microcredit on the poor clients found that AIM clients have achieved higher income compared to non-AIM clients.

A study conducted by Gibbons and Sukor in 1990, the founding implementers of the Amanah Ikhtiar pilot project, confirmed that small loans on reasonable terms to very poor households for financing additional income-generating activities could be an effective way of reducing extreme rural poverty (Gibbons and Sukor, 1991). The study noted that during the one-year reference period, the average monthly incomes of clients increased by 90%. Moreover, by providing working capital to small sized farm households it was confirmed that credit could bring about a significant increase in farm size and hence absorbing surplus labor in small farms leading to the increase in household income and consequently reducing extreme rural poverty (Sukor, et al., 1983). These studies indicate that Malaysia provides strong evidence that microfinance is indeed an effective tool for poverty alleviation.

However, the success of the Amanah Ikhtiar model in poverty alleviation in rural Malaysia has been gauged in terms of the high degree of participation of women, and the correspondingly high repayment rate. The near perfect rate of repayment and high degree of participation, however, should not be viewed as an indication of poverty eradication among loanees in AIM. Another study carried out by Parveen (1991), has shown that these factors do not necessarily mean that the loanees enjoy a high standard of living or are better off, economically or socially. Failed projects which are due to personal problems, natural calamities, theft, disease, death, etc. have left loanees worse off than before (Parveen, 1991). Thus, it is of research significance to assess AIM microcredit performance not only in terms of the degree of participation or the rate of repayment but also in terms of the degree of outreach, financial sustainability and the impact on the poor. In this research it is of great importance to examine AIM microcredit program performance on the three aspects. Having assessed and appraised such experiences, lessons could be derived to upgrade and replicate AIM in Sudan.

1.3 The Research Objectives

1.3.1 General Objectives

- a. To explore the nature of and types of poverty eradication programs being launched and implemented in both Malaysia and Sudan; and
- b. To derive some relevant lessons from the experience of AIM in poverty eradication in order to be implemented and replicated in Sudan.

1.3.2 Specific Objectives

- a. To evaluate the impact of AIM's microcredit program on poverty in the study areas;
- b. To detect the impact of the credit facilities provided by the AIM's branches under study on the improvement of the clients' socioeconomic conditions;
- c. To examine the effect of the loan extended by the AIM's branches under study on the clients' household income and consumption expenditure;
- d. To evaluate the performance of the AIM's branches under study in terms of the degree of outreach, impact on the targeted clientele, as well as in terms of the clients' perceptions and subjective judgments; and
- e. To evaluate the effectiveness of AIM microcredit performance with respect to financial sustainability and delivery system.

1.4 Importance of the Research

At the academic level, this study is highly relevant in that it attempts to provide a new documentary case study on poverty eradication that may be geared to the interests of antipoverty programs formulators and implementers in developing countries in general and Sudan in particular. At the practical and empirical level, the main thrust of this study is to derive some relevant lessons from the experience of AIM that can be used to

allow the researcher to detect the adequacy or inadequacy of the antipoverty programs being directed at overcoming poverty in Sudan and to evaluate them against Malaysia's experience in dealing with the same problem. Therefore, on the basis of the evaluation of the weaknesses and strengths of these programs and the contribution of the existing literature on poverty, the AIM model of poverty eradication in Malaysia will be upgraded and replicated in Sudan.

Although much has been said about the role of microfinance in poverty alleviation, very few studies focus directly on the importance of the impact of socioeconomic and demographic characteristics as well as the perception of the target beneficiaries on the program performance. Thus, the present study attempts to find out the correlation between the program's performance variables and the socioeconomic and demographic variables by utilizing the multivariate statistical techniques of factor analysis. Although in both Malaysia and Sudan poverty has been intensively researched, still more research is needed to discover the most appropriate approach to its eradication.

1.5 The Research Hypotheses

While the objectives that guide the course and direction of our present study have been sufficiently stated and the problems that underlined its rationale have been clearly elucidated, the hypotheses upon which the strength of the research depends, which should be tested empirically by the relevant data, are as follows:

- (i) The socioeconomic and demographic characteristics of the target population influence the effectiveness of the program performance;
- (ii) Access to microcredit, continuous utilization of it in viable and profitable income- generating activity, selected and managed by borrowers themselves, and

the ability of the borrowers to get a sufficient amount of loan will result eventually in a substantial increase in the average monthly income generated from that activity;

- (iii) A viable and profitable investment activity depends largely on a sufficient amount of loan being granted by AIM and on the type of activity being identified and selected by the borrowers;
- (iv) A good repayment performance could be maintained through a continuous and regular repayment of loan installments that depends on the amount of loan being disbursed to the clients, the length of the repayment period, and the investment in profitable projects and the type of the project for which the loan is used; and
- (v) Small loans being provided to finance income-generating activities will increase the level of a household's income above the prevailing poverty line more than its previous level before the client had an access to the microcredit program.

1.6 Research Methodology

Field surveys will be carried out covering three branches of AIM, namely Sungai Besar, Kuala Selangor and Kuala Kubu Bharu. Both quantitative and qualitative primary data will be compiled to guide the objectives of the research and to test the hypotheses stated. Both types of data are to be compiled and obtained through the employment of appropriate data collection methods, such as questionnaires, general observation, interviews and official records and documents. These include data on the program beneficiaries and the program performance. Data on the former will include certain aspects of the target population, their demographic and socioeconomic characteristics. Data on the program performance will cover the type of loans provided, repayment performance, saving, training, terms and conditions of finance as well as the perception of the target population of the program effectiveness and efficiency. The significance of

the correlation among the various classes of variables will be tested using appropriate statistical techniques compatible with the conceptual framework of analysis, which will be developed later. SPSS release 11.0 will be utilized for data analysis and interpretation of the results.

1.7 Layout of the Study

In addition to the introductory chapter, chapter two provides the theoretical framework of the study. Chapter three gives a thorough examination of poverty eradication programs and policies carried out in Malaysia. Chapter four is devoted to the study of poverty in Sudan. Chapter five focuses on the role of microfinance in poverty eradication providing background information on the experiences of Grameen Bank and Amanah Ikhtiar Malaysia in poverty eradication. Chapter six concentrates on the methodology and methods of data collection. Chapter seven focuses on the analysis and discussion of the research findings. Chapter eight summarizes the major results of the study, highlights the theoretical implications and suggests some policy prescriptions and lessons derived from the experience of Malaysia and AIM in poverty eradication in the light of the major findings.