CHAPTER 5

MICROFINANCE AND POVERTY ERADICATION

5.1 Introduction

The foregoing two chapters elucidated in a critical manner the impact of development plans and programs on poverty eradication in Malaysia and Sudan. The preceding discussion has traced the history of development plans and programs in Malaysia and Sudan since their independence by focusing explicitly on poverty eradication at the macro level. However, the strategy of high macro-economic growth as measured by the GNP, adopted by Malaysia and Sudan in the post-independence era, succeeded in achieving a substantial reduction in the incidence of poverty in the former, while exacerbating it in the latter. This is due to the fact that while in Malaysia such a strategy had been accompanied by equitable distribution of the benefits of growth, in Sudan a growth pole strategy showed that undifferentiated growth benefited largely the better-off members of the society. Thus, the bottom 20 percent had been largely overlooked by economic growth and hence continued to live in poverty.

It has commonly been recognized that the limitations of conventional high growth policies have led to development strategies aimed at poverty alleviation. This has given rise to microfinance and the target-oriented programs that are widespread today (Getubig and Shams, 1991). Therefore, adequate macro-economic growth strategies would need to be complemented with direct bottom-up policies specially designed to ameliorate the conditions of the poor.

Towards this end, the purpose of this chapter is to provide a rigorous analysis of the role played by Microfinance Institutions (MFIs) in poverty eradication. In addition to the introduction, the remainder of the present chapter will be divided into the following sections. Section two deals with the measurement of MFIs' performance. Section three starts with a thorough discussion of the Grameen Bank Approach (GBA) to poverty eradication. Section four deals with the replication of Grameen Bank (GB) with special emphasis on a comparative study of some selected replicators. Section five deals mainly with Amanah Ikhtiar Malaysia (AIM) as a replica of the Grameen Bank model. Section six highlights the contribution of microcredit programs towards poverty alleviation in Malaysia. The last section provides a brief summary and conclusion.

5.2 Measuring the Performance of Microfinance Institutions

The performance of any MFIs is usually measured by using two basic concepts-outreach and sustainability (Yaron, 1994). Navajas, et al. (2000) expressed outreach and sustainability in terms of the theory of social welfare. They developed a theoretical framework for outreach, which is the social value of the output of a microfinance organization in terms of depth, worth to users, cost to users, breadth, scope and length. The depth of outreach is the value that society attaches to the net gain from the use of microfinance by a given borrower. Worth of outreach to users implies how much a borrower is willing to pay for a loan. Cost of outreach to users is the cost of the loan to a borrower, which includes both price and transaction costs. Breadth of outreach is the number of users. Length of out-reach is the time frame in which a micro organization produces loans. Scope of outreach is the number and types of financial contracts offered by a microfinance organization. The first three aspects of outreach are closely interlinked but still distinct (Navajaz, et al., 2000).

On the other hand, sustainability means permanence. The social goal is not to have sustainable microfinance organizations but rather to maximize expected social value less social cost discounted through time. In practice, sustainable microfinance organizations tend to improve social welfare to the most. Most unsustainable microfinance organizations inflict costs on the poor in the future in excess of the gains enjoyed by the poor now (Rhyne, 1998). Financial self-sustainability is achieved when the return on equity (i.e. the net of any subsidy received) equals or exceeds the opportunity cost of funds (Yaron, 1994). Dependence on subsidies is the inverse of self-sustainability. Conventionally, most MFIs depend upon different types of implicit or explicit subsidies to ensure sustainability and continued operations. To eliminate dependence on subsidies, MFIs must have positive on-lending interest rates high enough to cover financial and administrative costs as well as to achieve a high rate of loan collection.

Outreach is measured on the basis of the type of clientele served and the variety of financial services offered such as the value and number of loans extended, savings accounts, financial services offered, the number of branches, female participation as clients, and the percentage of the total rural population served.

Outreach to all poor households can be realized through certain measures including institutional capacity for outreach; financial viability of microfinance provider enterprises; resource mobilization and the policy and regularity environment needed to facilitate the access of the poor to microfinance services (Getubig et al., 2000). The capacity to reach out to the poor entails the existence of effective mechanisms to identify and then deliver financial services to poor households. The absence of these will eventually lead to inefficient utilization of resources meant for the poor people. (Getubig, et al., 2000). For microfinance providers to be financially viable they should

make a profit to build up their equity, attract investment capital, and provide loans services to poor clients and they must ensure the interest charged on loans covers all operating costs. Studies on MFIs in Asia and Pacific show that most of these institutions have not achieved financial viability (Remenyi, 2000). Instead, they expanded their outreach to the poor by raising funds from external donor resource transfer, internally generated resources and commercial borrowing.

Despite the vital role that has been assigned to MFIs in poverty eradication, they still remain small and insignificant in their outreach to poor households in many developing countries. At present, most microfinance providers are reaching out to less than 5% of poor households in most poor economies. The exceptions are Bangladesh, Indonesia and Malaysia, where outreach has either approached or exceeded one-third of poor households since 1980 (Remenyi, 2000). However, within the context of the microfinance industry in Bangladesh and Malaysia, two prominent institutions will merit special focus, that is the Grameen Bank and Amanah Ikhtiar Malaysia (AIM).

5.3 The Grameen Bank Approach to Poverty Eradication

The 'Grameen' or the Village Bank, is a target group oriented credit institution set up to provide loans to rural households that own either less than 0.5 acres of cultivatable land or have family assets with an equivalent value of less than one acre of medium quality land in the area (Rahman, et al., 1991). Grameen Rural Bank Project (GRBP) was launched by Professor Mohammad Yunus at Chittagong University in December 1976 at Jobra village. It was an action-research project with the aim of testing the hypothesis that if financial resources can be made available to rural poor at reasonable terms and conditions they can generate self-employment without any external assistance

(Mukhopadhyay, 1985). Grameen became a government registered bank in 1983 with the objective of providing credits to the rural poor (Holcombe, 1995).

Grameen Bank carried out its credit program operations with the following objectives (Rahman, et al., 1991):

(i) To extend banking facilities to poor men and women;

(ii) To eliminate the exploitation by money lenders;

(iii) To create self-employment opportunities for the vast unutilized and underutilized manpower resources;

(iv) To bring disadvantaged people within the folds of some organizational format, which they can understand and operate, and can find socio-political and economic strength in it through mutual support; and

(v) To reverse the age-old vicious circle of " low income, low investment, low income" into an expanded system of "low income, credit, investment, more income."

5.3.1 The Grameen Bank Model

Grameen Bank can be best described as an operating model of targeted small scale rural credit (Holcombe, 1995). It is a unique model of experimental and structured learning processes based on mutual trust, strict supervision, accountability, participation and creativity (Rahman, et al., 1991).

The GB model of targeted rural credit is simple. As illustrated by Figure 5.1, the GB model is based on the assumption that the very poor in rural areas possess the skill but lack the capital needed to carry out a viable productive venture. If banking operations reach out to these people, coupled with small amount of capital (averages $60-70), the

poor will use such capital in a more productive way (Holcombe, 1995). Borrowers are usually organized into a group of five members who are of the same sex, who are liked-minded and who belong to a similar age group. The groups are responsible for the loans of each of the members. To ensure a low default rate, the client's loan has to be repaid weekly.

Membership of GB is conditioned by weekly savings in a Group and Emergency Fund. Every group member contributes to the Group Fund by depositing one taka each week as a personal saving. Over and above this, the members pay a Group Tax against the financial services that rendered him or her via the group, which in turn is deposited into the Group Fund. On the other hand, the Emergency Fund is insurance coverage in case of default, death, disability and other accidents. In addition, every six groups form a center, which functions as a basic operating unit of the GB. This form of grassroots organization not only promotes solidarity and participation but also promotes mutual support and peer pressure to ensure that the loans are properly utilized and repayment made promptly (Thas and Getubig, 1993). It also facilitates the development of leadership skills and the capacity to demand entitlements from government and rural leadership and to undertake self-help activities. The model of Grameen targeted rural credit is depicted in Fig, 5.1.

However, the main characteristics of the GB model that distinguish it from other organizations are awareness building, consciousness-raising, and leadership development. These usually follow rather than precede the delivery of credit services (Holcombe, 1995).

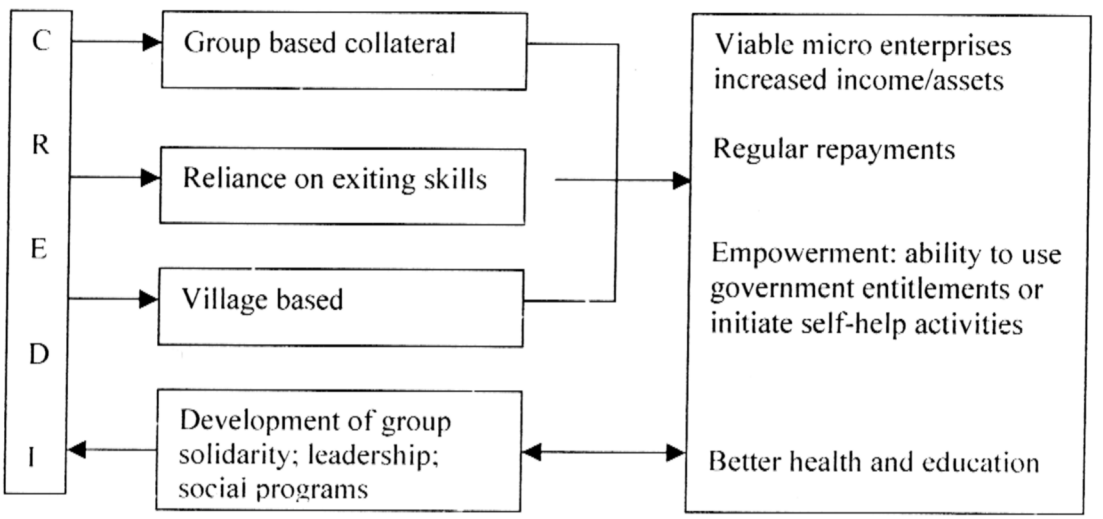

Figure 5.1 Grameen Bank Credit Model

5.3.2 Grameen's Design and Credit Delivery Model

To effectively reach out to its clients, the Grameen Bank has initiated a design and credit delivery system, which distinguishes it from the ordinary banking institutions. The main characteristics of Grameen's delivery system (Rahman, et al., 1991) are:

a) Focus on the group, not on individual

Grameen field operations concentrate on forming groups and building up the loan process (Holcombe, 1995). A group of five men or five women constitutes the banking unit of GB. This is considered a manageable size that allows close participatory interaction (Rahman, et al., 1991). From each household only one person is chosen as a member. The members must come from the same village and relatives cannot join the same group. Each group elects its own chairman and secretary and these responsibilities rotate amongst all members on a yearly basis. Six to eight groups are organized into a community called the "center" (Khandker, 1996). A center is a meeting place where members discuss their activities and in which all banking transactions are openly carried out.

b) Exclusive focus on the most disadvantaged groups

The failure of many poverty alleviation programs was attributed mainly to their broad-based targeting and not exclusively focusing on the most disadvantaged groups (Thas and Getubig, 1993). Grameen Bank is an organization for the poor. The conditions of membership are clearly defined (Rahman, et al., 1991). A clear-cut eligibility criterion is utilized to ensure only the poor or the very poor can participate. A person having more than 0.5 acres of land cannot join the bank.

c) Leakage–free delivery system

A well-designed and leakage-free delivery system has been developed as an alternative to the prevailing conventional banking system. The delivery system has the following distinct features:

(i) The group as a whole qualifies for the loan

Members of GB must first participate in an intensive training program, learning Bank rules, regulations and the objectives. Once all the members demonstrate their knowledge of the Bank and the group is recognized, their attendance and participation in weekly center meetings is observed for about a month (Holcombe, 1995). Then loans may be extended to two group members. If these two members repay regularly for the next two months, two more members may become borrowers. The chairman of the group is the last borrower of the five. In order to qualify for the loan, the members must learn to write their names and fulfill the prescribed conditions of the Bank.

(ii) Sanctioning of the loan does not require any collateral

Upon its recognition of the shortcomings of the poor and the limitation of commercial banks, GB loan does not require any collateral. The individual members are secured and guaranteed by its group. This in turn ensures mutual accountability through peer pressure.

(iii) Social collateral replaces material collateral

The group acts as an institution and is the building block of GB. Due to peer pressure, a member of the group uses the loan in productive activity and does not default. The members accept collective responsibility and this provides security for the bank.

(iv) Loan is taken to the poor

The loan is delivered to GB members' right at their doorsteps. This saves both the client's money and time.

(v) Bank transactions are conducted openly

Loan proposals are made at the center meetings and all other bank transactions are conducted openly with high transparency. This in turn raises bank members' confidence and protects the bank official from unnecessary criticism.

(vi) Loans are small

Loans are delivered in small amounts ranging between Tk. 2000 and Tk. 5000 (US$ 1 = Tk 32). Based upon the limitations of entrepreneurial capacity of the poor and market conditions, this amount is sufficient for creating self-employment and increasing income to a satisfactory level.

(vii) Undesirable elements are eliminated

Those who are not poor according to GB criteria are eliminated at the first instance. The process weeds out these who are not aware or do not care to learn the bank regulations and maintain discipline.

(viii) Borrowers are free to select their activities

The bank does not dictate anything. Based on their knowledge and skills, the member selects income-generating activities and prepares the loan utilization plan. Self-chosen economic activity increases the sense of participation, strengthens the base of self-help, and brings in success for the members.

(ix) Loan utilization is intensively supervised

The GB credit program is closely supervised. Discipline in loan utilization and weekly repayment is conducted through weekly meetings. Besides this, the field staff closely monitors the performance of the borrowers, and takes coercive measures if necessary. The GB credit program is supervised to a large extent by the members themselves and this paves the path for self-sustained development.

(x) Members save in group saving out of compulsion

A group member can borrow from the group fund with the consent of the remaining group members. Loan from this fund can be used for both consumption and productive purposes. The advantage of the group fund is to safeguard members from the informal credit market whereby members' savings can be invested to finance bigger projects. The members of the bank can increase their equity up to 75% through group savings.

d) Training: an Integral Part of the GB Delivery System

Through vigorous practical and locally-oriented training, GB has created a strong cadre of middle level officers. Induction training for newly-recruited officers and bank workers lasts for six months. During the induction course, trainees are provided with an understanding of the social and economic milieu within which the GB has to operate. The trainee must learn how to identify and organize the targeted group and prepare them for receiving the bank's services, and how to process loan applications and supervise loan recovery. After completing the induction training, the trainees are attached to a branch office for another six months where the focus is on job training.

GB also organizes workshops for its members. The member learns the implications of group discipline, mutual accountability, and the significance of its development

objectives as reflected in the "sixteen decisions" of GB for capacity building of the poor (Rahman, et al., 1991) (Appendix-B). These sixteen decisions were placed at the heart of GB activities. Every member of staff member must know and pursue these decisions. These key decisions encourage members to improve their livelihood, and inculcate in them values of discipline, unity, co-operation and hard work.

e) GB Delegates Authority to its Lower Units

GB is not a centralized decision-making organization. It has grown horizontally. The management functions and decision-making power are continuously delegated to the lower units of operation, to enhance managerial skills and enhance organizational development of management at zonal, area and branch levels.

f) GB has evolved a Participation process

The organizational framework of GB offers a social design, which provides the poor with equal opportunities for participation. The borrowers participate in decision-making in their weekly meetings and decide on all matters pertaining to planning, organization, investment, marketing and development of micro-level activities.

g) GB Ensures Women's Participation

More than 90% of GB members are women. They are organized into small groups, which in turn are federated into a center. They have equal rights and obligations like the male members. GB places women at the core of the social development programs. Since women are the worst victims of poverty, GB attached high importance to their participation. The women members' association with Grameen has increased their social

mobility, their knowledge and organizational skills and their participation in decision-making.

5.3.3 The Grameen Bank Performance: Impact and Achievements

Grameen Bank is widely viewed as a successful model of poverty alleviation through credit for micro enterprises (Holcombe, 1995). Grameen bank's achievements and successes can be best measured in terms of outreach, financial sustainability, and impact on the clients that is the critical triangle of micro finance (Zeller and Meyer, 2002). This section will cite the evidence available from other evaluations on the above mentioned measures and show that the most successful MFIs expand all sides of that triangle.

a) Outreach to the Poor

The rigorous definition and identification procedure (e.g., of means tests based on land and asset holdings), pursued by GB in selecting the beneficiaries confirms that only the poor participate in the program (Getubig, 1993).

A recent evaluation of GB based on household surveys shows that participants benefit from microcredit programs in a number of ways: increase in per capita consumption, women's non-land assets, and women's labor supply to cash income earning-activities, children's school enrolment, contraceptive use and fertility (Pitt and Khandker, 1996). Program participation also increases profit for self-employed rural non-farm activities in Bangladesh (McKernan, 1995).

By 1994, GB's coverage had increased to include 50% of villages of Bangladesh. In absolute terms, the bank's operations covered 34913 villages in 1994 (Table 5.1), and it reached 41015 villages in 2002 out of about 68000 villages in the country. Also in 1994,

GB had 1045 branches with 10861 employees serving more than 2 million members (94% of whom are women) (Table 5.1). By 2002, the number of branches had reached 1175 with 11752 employees serving 2366488 clients (Grameen Bank, 2001).

About 85% of the employees work in the branch offices. Staff productivity has increased substantially over time. This can be explained by the fact that a branch staff member that served 83 members in 1990 was able to serve 172 by 1993 and 186 members in 1994 (Appendix A-8). In 1994, as Table 5.1 demonstrates, an average branch with 9 staff served about 1928 members, with Tk 10.7 million in loans outstanding, and Tk 11.7 million mobilized as cumulative savings. The corresponding figures for 1989 were 1033 members, Tk 2.4 million loans outstanding, and Tk 2.5 million as savings. These statistics, however, illustrate the tremendous achievements of Grameen Bank over the years. Khandker (1996) attributed this success to staff productivity. In his view, GB follows the same incentive structure as commercial banks in Bangladesh, but its staff selection, training, recruitment, and placement processes are highly self-selective because of the commitment and nature of the work required in the Grameen-type banking. High staff morale is required to bank with and for the poor.

However, the drop out rate among Grameen Bank staff is quite low, and has declined in recent years. In 1989, the dropout rate was 9% compared with 2% in 1994 (Appendix A-8). These statistics indicate that staff must have both incentives as well as job satisfaction, otherwise the staff dropout rate would have been high. Grameen Bank success also rests on its outreach to the poor, particularly women. By 1994 GB had mobilized 2 million poor households, of which 94% were women members (Table 5.1).

Table 5.1 Grameen Bank's Achievements in Reaching the Poor and Women, 1989-1994

Year	1989	1990	1991	1992	1993	1994
Membership	662263 (35.06)	869538 (31.30)	1066426 (22.64)	1424395 (33.57)	1814916 (27.42)	2015130 (11.03)
% of women members	0.89	0.91	0.93	0.94	0.94	0.94
Borrowers	648467 (37.22)	852522 (31.52)	1041630 (22.17)	1385324 (32.10)	1682914 (21.48)	1860674 (10.56)
% of women borrowers	0.89	0.91	0.92	0.94	0.94	0.94
% of loans outstanding to women	0.82	0.82	0.80	0.89	0.93	0.93
% of saving mobilized from women	0.68	0.67	0.68	0.69	0.74	0.76
Average savings (thousand Tk)						
Men	4.63	7.21	9.41	11.94	24.55	17.48
Women	1.24	1.24	1.65	1.80	2.59	3.62
Average loan outstanding (Thousand Tk)						
Men	3.82	4.66	6.68	5.54	6.43	6.91
Women	2.16	2.10	2.19	3.03	5.11	5.98
Membership dropout						
Men	2.27	2.74	3.33	2.38	1.37	6.39
Women	3.45	4.52	5.03	4.42	2.30	4.50
Total	3.32	4.36	4.90	4.29	2.24	4.62

Note: figures in parentheses represent growth rates from proceeding year
Source: Khandker, Khalily, and Khan (1995).

Women constitute 94% of both members and borrowers in 1994. After two to three weeks of training on Grameen Bank procedures, almost all members become borrowers. In 1994, women received 93% of total loans disbursed and contributed 76% of total savings.

Loans outstanding of GB's borrowers in 1994 amounted to Tk 11,226.3 million (US$ 280 million), seven times higher than the amount in 1989 (Table 5.2). Grameen Bank considers saving mobilization as an integral part of lending. Table 5.2 reveals that cumulative savings (including voluntary deposits), increased significantly from Tk 1585 million (US$ 40 million) in 1989 to Tk 8,728 million (US$ 218 million) in 1993, and to Tk 12,232 million (US$ 430.6 million) in 1994.

The general loan used for income-generating activities dominated lending, followed by housing loans, technology loans and collective loans. The sectoral share of general loans in 1994 was 35% for agriculture, 16% for processing and manufacturing, 26 % for livestock and fisheries and 23% for other activities. The corresponding sectoral distribution in 1989 was 29% for processing and manufacturing, only 4% for agriculture, 42% for livestock and fisheries and 25% for other activities. Agriculture lending, therefore, increased dramatically, while processing and manufacturing loans decreased proportionally since 1991, when GB introduced the seasonal loan to support seasonal farming activities (Khandker, 1996). Regardless of the dramatic increase of agriculture lending, loans recovery rate has consistently stood above 90% throughout 1989-1994 (Table, 5.3), indicating GB's remarkable success compared with other banks in Bangladesh.

Table 5.2 Grameen Bank's Achievement as a Bank, 1989- 1994

Year	1989	1990	1991	1992	1993	1994
Total loan outstanding (million taka)	1518.9 (46.0)	1987.9 (30.9)	2640.5 (32.8)	4417.7 (67.3)	8735.9 (97.7)	11226.3 (28.5)
Share of general loan (%)	64.95	63.36	59.69	71.49	69.80	70.21
Share of housing loan (%)	30.17	29.16	28.96	26.12	29.17	29.69
Share of collective loan (%)	0.66	0.55	0.34	0.24	0.13	0.10
Share of technology loan (%)	4.21	6.93	11.01	2.16	0.81	0.73
Sectoral distribution of general loans (%)						
Processing & manufacturing	28.8	31.3	28.9	18.8	14.0	15.5
Agriculture	4.1	4.4	4.1	26.7	35.6	34.9
Livestock & fisheries	42.2	42.4	43.8	31.8	28.2	26.1
Others	24.9	21.9	23.2	22.7	22.2	23.5
Savings & deposits (million taka)	1585.2 (64.5)	2490.4 (57.1)	3559.8 (42.9)	5260.8 (47.8)	8728.4 (65.9)	12231.8 (41.1)
% of voluntary Savings	32.6	32.3	33.3	33.9	28.24	26.67
Loan recovery rate	96.9	95.4	93.0	96.3	99.0*	99.4*

*Represents figures of the reported recovery rates of the Grameen Bank
Note: figures in parentheses represent growth rates from proceeding year
Source: Khandker, Khalily, and Khan (1995).

The GB recognized the needs of its clients for durable shelter, which enabled them to organize and manage their business activities and at the same time undertake plans and programs for creative pursuits. To meet such requirements the bank provided housing loans for the poor. A bank member can borrow up to Tk. 25000 (US$ 500) for constructing a simple tin-roof house at interest rate of 8%. Housing loans are usually paid back in ten years, in weekly installments (Grameen Bank, 2001). By December 2001, more than 545000 houses had been built, for which loans worth Tk.7566.91 million (US$ 187.86 million) (Grameen Bank, 2001). The average size of the housing loan was only Tk. 13881 (US$ 345 approx.). This experience of Grameen Bank proves that given the opportunity, the poor can provide and pay for decent housing for themselves from incremental earnings.

b) Financial Sustainability

Financial sustainability means the ability of a program to sustain its operations on the basis of financial viability (Khandker, 1996). In evaluating microfinance programs, benefits to targeted and untargeted groups must be weighed against program costs, which rely on financial performance. Microfinance programs are encouraged to strive for financial sustainability; if programs pay for themselves, they can expand coverage over time to reach a larger number of households (Park & Ren, 2001). The important factors that affect the microfinance financial performance are the interest rate, the repayment rate and the overall operational efficiency.

Financial strength is measured by profitability and subsidy dependence. Table 5.3 shows that GB made profit in every year except 1992. Its financial margin (about 9% of its asset), compared with (3 – 4%) of other commercial banks, is relatively higher. Such profitability has been mainly attributed to income from sources other than lending

(Khandker, 1996). Table 5.3 demonstrates that the interest rate needed to break even, given the cost of funds, has always been higher than its average on-lending rate, except in 1993 and 1994. This means that before 1993 Grameen's interest income did not meet its cost of lending. Since 1993 Grameen Bank has been operationally efficient and financially viable.

Table 5.3 also reveals that the subsidy per taka per loan has been dropped considerably from 21% in 1989 to 4% in 1994. This decline was due largely to increased GB membership and lending as well as to a rise in on-lending interest rate (from 16% to 20%) in 1991. In addition, GB reliance on foreign funds has decreased dramatically from 99.9% in 1992 to 58% in 1993 and 4% in 1994 by depending more on market and domestic resources (see Table 5.3).

Similarly, GB's savings and deposits mobilization from its members has reduced its dependence on external sources of finance for on-lending. Its incremental savings financed more than 42% of its outstanding loans in 1993 and 26% in 1994. Increases in resources mobilized from both internal and external market sources were not sufficient for GB to be subsidy-free by 1994. During the 1989-1994 period, the average growth of outstanding loans was about 40%. Thus, if such growth can be sustained, GB would be subsidy-free by 1998 if and only if additional lending comes from market sources at market interest rates.

Table 5.3 Grameen Bank's Financial and Economic Viability, 1989-1994

Year	Profit (million taka)	Financial margin	Break even rate of interest	Average on lending rate of interest	Subsidy as % of loan outstanding	Dependency on foreign funds as % of total fund	Savings and deposits as % of loans outstanding
1989	2.26 (93.46)	9.33	17.64	12.90	21.12	90.76	29.52
1990	10.22 (352.21)	8.77	20.34	12.90	21.57	93.57	33.32
1991	11.92 (16.63)	9.20	22.79	16.50	21.12	94.64	29.50
1992	(-5.65) (-147.4)	9.75	16.50	16.74	16.80	99.93	31.25
1993	9.56 (269.20)	9.48	14.85	15.96	11.90	58.12	42.44
1994	21.74 (127.40)	8.43	16.30	16.51	3.72	3.73	26.13

Note: figures in parentheses represent growth rates from proceeding year
Source: Khandker, Khalily, and Khan (1995).

c) Impact on the Poor

Grameen Bank's ultimate success and achievements must also be gauged by the nature and extent of the benefits offered to its clients (Khandker, 1996). This section attempts to assess the impact of Grameen Bank targeted rural intervention on income, consumption, assets, investment and employment and on the status of women in the family.

(i) Impact on income, consumption, assets, investment and employment

Hossain (1988) suggests maintained that Grameen Bank loans have resulted in a significant increase in members' income and assets. Moreover, he found that GB household's members had incomes increased by 43% higher than the targeted group households in controlled villages and 28% higher than those of non-participants in Grameen villages.

An evaluation by Hossain and Salimullah (1983) has also demonstrated empirically that GB loans have had a positive impact on consumption and capital formation by the group members. Pitt and Khandker (1998) found that the annual household expenditure increased by $18 for each additional $100 of cumulative disbursement. They also found that non-land assets of women increased by $27 for each additional $100 of cumulative disbursement.

Member assets have also been expanded significantly through improved house ownership facilitated by GB loans. By April 2003 GB had extended Tk.1602.1 million (US$27.6 million for housing loans (Grameen Bank, 2003). All housing loans go to women. Initially, borrowers' investment was largely in non-agricultural and agricultural production.

Borrowers were highly inclined to put their money in social investment, housing, education, and sanitation, after three years of joining the GB (Hossain, 1988).

Despite the lack of adequate statistics, it is obvious that GB had a significant impact on self-employment generation for the landless since 1979 (Mukhopadhyay, 1985). GB also confirmed that most of the employment benefits reached the rural landless women, who were generally neglected by the development efforts. Based on the observations of Grameen Bank operations in Modhupur as well as past evaluations, Grameen's loans were used for the purpose borrowed, so that self-employment generated was productive in nature (Mukhopadhyay, 1985).

Khandker (1996), using the econometric estimates of the GB borrowing effects on the gender of participants, suggested that program credit has a significant effect on the well-being of poor households. More interestingly, the credit impact is greater when women are the program participants. As Table 5.4 shows, the credit effects is about 2.5% higher in increasing per capita expenditure among women compared with men borrowers. Similarly, the impact of borrowing on girls' schooling is higher for female than for male borrowers. Also a woman's borrowing from GB has helped increase her labor supply to cash income earning activities by 10% and nonland assets holding by 20 %. The results clearly suggest that credits provided by Grameen Bank are not perfectly fungible within the household.

Grameen Bank lending also has a significant socioeconomic impact. Table 5.4 reveals that male borrowing from GB has reduced fertility by 4% by increasing contraception used by about 37%. Grameen Bank lending also plays a vital role in reducing poverty among its participants.

Table 5.4 Gender Differential Effects of Grameen Bank Borrowing, 1996 (%)

Changes in Indicators	Male Borrowers	Female Borrowers
Per capita expenditure	1.8	4.3
Boys' schooling	28.4	24.2
Girls' schooling	0	18.6
Recent fertility	3.9	0
Women's labor supply	0	10.4
Women's nonland assets holding	0	19.9

Source: Pitt and Khandker (1996, p.117) Asian Development Review

Moderate poverty was reduced by about 10% and extreme poverty was 7% lower among program participants than among non-participants in Grameen villages (Kandker and Chowdhury 1996). The data analysis suggests that it takes 9-10 years for average poor household to free itself from poverty by borrowing from and being a member of GB.

(ii) Increased Status of Women Members of Grameen Bank

Studies on the impact of Grameen Bank on the status of women confirmed that there was a significant improvement in the status of women borrowers in both economic and social terms. Women's changed status is economically measurable in terms of their participation in the labor force and increased income and assets (Holcombe, 1995). Socially, women's status has improved at home and in the community. However, women as earners of cash income are more valued as members of both social groups. In the homes, women's husbands tended to respect them and consult them on various family matters and they were more likely to treat their wives on an equal footing, and there was a decrease in physical violence and other verbal abuse (Parveen, 1991, Rothschild, 1989).

In the community, women's participation in groups for borrowing gives them the confidence and support that enables them to assert their rights in economic assets (Rothschild, 1989). The 1989 evaluation of the Housing Program saw housing as contributing to women status: " the fact that the housing loan is given in the name of female head of the household ensures her legal ownership of land and the house, her status is definitely improved. She is now a confident person"(Nazrul Islam, et al., 1989).

5.3.4 Factors Contributing to Grameen Bank's Success

The previous section focused merely on the performance of Grameen Bank in terms of outreach, sustainability and impact on the target beneficiaries. In all the three areas, the Grameen Bank has achieved impressive performance, which in turn makes it a successful poverty–focused program. There are certain factors that have contributed to the success of Grameen Bank in Bangladesh (Gibbons, 1987, 1988a; Sukor, 1988a; Atiur Rahman, 1986) which are worth mentioning. These are:

a) Its target group orientation and innovative approach;
b) The availability of abundant income-generating activities in rural Bangladesh which the very poor either know or can learn about, for which they have or can acquire the necessary skills, and in which they are interested;
c) High returns on capital invested and significant increases in household incomes which meant an improvement in living standards and willingness and ability to repay;
d) The disbursement of small amount of loans, as well the early and regular repayment;
e) More additional loans will be granted to those who repay frequently and regularly;

f) Peer group pressures and close supervision by loan workers, which encourage repayment;

g) Honest, dedicated implementation – without political interference-has meant that the goals have not become distorted; and

h) Subsidized loan funds which made it possible to keep the interest rate down.

i) Participation in management by member borrowers has helped to keep the goals and objectives in sight.

5.3.5 Constraints and Handicaps

Grameen Bank is widely recognized as a successful approach to poverty alleviation and as such it has been copied and replicated in both developed and developing countries. Despite such facts, some constraints and handicaps retard its progress and achievements. Grameen Bank attracts a number of criticisms from the skeptical and cynical. Tammen (1990) suggests that Grameen's success is overstated, using the criterion that costs cannot be recovered on a sustainable basis. GB itself is not self-sustaining, but heavily dependent on foreign aid. She goes on to suggest that accessible credit is not the answer to poverty, but reform in property rights, limited liability and easy licensing deserve more attention.

Chowdhury (1989) asks whether the micro enterprises funded by Grameen capital have the capacity to sustain themselves and to expand. Most enterprises are low technology (e.g. cow fattening, or milking) for which the rate of return is limited. Some development practitioners have asked whether the high repayment rates for which GB was deemed to be successful are gained at the expense of the excessive pressures on poor people who curtailed household expenditure to pay weekly loan installments (Holcombe, 1995).

But these constraints do not deny the achievements or hinder the advancement of GB as a pioneering model of poverty alleviation that has been followed and replicated by developed and developing countries in their endeavor to combat poverty.

5.4 The Replication of the Grameen Bank Approach (GBA)

The successful story of the Grameen Bank approach to poverty alleviation has attracted potential replicators in both rich and poor countries. Grameen Bank's overwhelming achievement in terms of repayment and impact on the poor has led to rapid growth in funding for microfinance worldwide. The Bank's performance makes the GBA an impressive poverty-combating measure on which replicators cannot afford to compromise (Thas and Getubig, 1993). In replicating GB, one must remember right from the beginning that, if the recovery rate is not near 100%, no matter how good it looks, it is not GB. All the strength of GB comes from its recovery performance. It is not merely the money, which is reflected through the recovery rate, it is the discipline, which speaks loudly through the rate (Yunus, 1994).

However, a number of studies have shown that GB's model is replicable but the concept of "breed your own institution from good foreign stock" has to be the basis (Hulme, 1990,). However, the crucial component for successful replication is the availability of funds for on-lending. The availability of funds, whether subsidized or borrowed at market rates, and members savings will determine the cost of lending and program profitability (Khandker, 1996). Once replicated, the program's success depends almost entirely on the creativity and commitment of the leadership and its ability to carve out market niches.

5.4.1 Comparative Study of some selected Replicators of the Grameen Bank Approach: The Asian Experience

Six replicators of GBA are selected. These include: Amanah Ikhtiar Malaysia (AIM), Ahon sa Hirap, Inc. (ASHI) of the Philippines, Karya Usaha Mandiri (KUM) of Indonesia, Project Dungganon (PD), the Savecred in Sri Lanka, and the Projek Usaha-maju (PU) of Sabah. The first three MFIs were set up as action research-cum-pilot projects by local academic institutions in collaboration with the Asian and Pacific Development Center. The other three are distinct from the first ones and from each other (Getubig, 1993). This subsection compares the similarities and differences of the six replicators in terms of coverage and outreach, financial viability and impact on the clients.

(a) Coverage and outreach

The scales of the operations of the six GBA replicators are still limited partly because they are relatively new and have limited resources. Compared with other replicators, AIM Malaysia is the oldest (started in 1986) and the best established, with branches stretched out in almost all states of Peninsular Malaysia. It has the largest number of borrowers amounting to 6200; total loan disbursed (US$ 930,167), and covering 885 villages. The others have been in operation for only three to four years, with membership ranging from 329 (KUM) to 4482 (PD), and loan disbursements of US$ 11,755 (KUM) to US$ 609,210 (PU). The data in (Appendix A-9) demonstrate that both PD and ASHI deal exclusively with poor women, while the others cater to predominantly women clientele, who represent 74% to 98% of the total membership.

The amount of loan disbursed to the individual borrower appears to be very small; it varies from US$35 for KUM of Indonesia, to US$300 for PU of Sabah. This in turn reflects the economic status of the country as well as the absorptive capacity of the clients to carry out a productive venture. However, for many borrowers this small loan size is quite sufficient to bring about a significant increase in their monthly income. The reason cited in GB's on-lending program, is that providing small loans at the beginning of the Bank operations allow the borrower to build up his confidence in both the program and his ability to manage his loan.

Table 5.5 displays that the estimated average monthly income of borrowers of GBA replicators falls sharply below the poverty line except for Savecred, which is significantly above it. Outreach in terms of targeting the poor exclusively has been attained in all cases except Savecred because it targeted both poor and nonpoor beneficiaries. However, outreach in the sense of reaching a large proportion of the poor has been achieved by AIM where it had reached in early 1993 close to 20% of the 100000 total poor households in the country compared with the other replicators (Getubig, 1993).

(b) Financial Sustainability

In the previous discussion it has been assured that for any credit program to strive for self-sufficiency and be financially sustainable, it should operate efficiently to recover all its costs and to earn some profits. However, interest charges represent the main source of income of credit programs which is anticipated to be large enough to cover salaries, all other operating costs, the cost of funds, and some allowance for bad debts and inflation.

Table 5.5 Estimated Monthly Household Income of Borrowers as a (%) of Poverty Line Income, Six Grameen Bank Replicators

	AIM	PU	PD	ASHI	KUM	Savecred
1. Monthly household income						
(a) Estimated average monthly income (cash and kind)	MR239	RM90	P350-400	P1200	Rp.62848	Rs.900
(b) Official PLI	MR370	MR540	P3000	P3000	Rp.64000	Rs.700
Estimated average income as % of PLI	45.59	18.33	11.67 to 13.33	40.00	98.20	128.57
2. average size of family (persons)	5.82	6.30	6.00	6.00	4.58	5.00
3.Average number of family members contributing to income	1.98	1.80	1.50	2.00	2.00	2.00

Source: Getubig, 1993, p. 54

Table 5.6 Interest Charges, Repayment Rates, Grameen Bank, and GBA Replications, August 1991

	GB	AIM	PU	PD	ASHI	KUM	Savecred
Interest rate charged (%)	16	-	7	20	16	40	18
Repayment rate (%)							
Men	92	99.97	65	_	_	95.2	n.a
Women	99	99.98	97	99	100	99.6	n.a
Overall repayment rate (%)	98	99.9	95	99	100	99.1	92

note: n.a means not available
Source: Getubig, 1993, p. 56

Table 5.6 reveals that while the GB charges competitive interest rates (currently 20%), the GBA replicators are charging market interest rates. KUM of Indonesia charges 40% interest on its loan whereas PD and ASHI of Philippines charge 20% and 16% interest respectively. In contrast, both AIM and PU Malaysia do not charge interest but instead collect an administrative charge on their loan in conformity with Islamic practices. AIM charges RM 75 and PU levies 7% on their loans, which are assumed very close to the market rate of interest at the time. In the case of AIM, the effective interest rate is assumed competitive for the first loans (RM500), but smaller and far below the market rate for the subsequent loans. Thus, all GBA replicators are trying hard to charge an interest rate comparable to commercial rates due to high costs incurred in managing and monitoring credit and savings programs for the poor.

(i) Repayment Rate

As stated earlier, a high repayment is indispensable to the financial viability of the credit program. Repayment rates (defined as the amount of repayments received as a percentage of the amount of repayments due one year after the loan is disbursed) have been close to or 100% for the four GBA replicators (KUM, AIM, PD and ASHI). The other two replicators, PU and Savecred, had achieved repayment rates of 95% and 92% respectively. Thus, almost all GBA replicators measured up to GB's own repayment rate of 98%, with some even exceeding it (Table 5.6). The implication of the above analysis is that the poor are creditworthy, contrary to conventional wisdom. They can pay interest rates sometimes above the market rates that reflect the higher costs of servicing their credit needs.

(ii) Cost Recovery

It has generally been argued that recovering the full cost of a credit program for the poor is more difficult than for a credit program in the formal sector. This tends to be the main reason behind commercial banks' reluctance to deal with the poor (Getubig, 1993). The GBA, whose design has been tailored to meet the needs of the poor and adapted to their conditions, tends to yield high cost per dollar of loan compared to other approaches. However, none of the GBA replicators, even AIM, which has been in operation for five years, has been able to recover their costs at the present stage. In order for GBA replicators to achieve financial sustainability, they must adjust in two main areas: by charging higher interest rates and improving cost effectiveness by increasing the number of borrowers and volume of loans. Thus, it can be concluded that none of the GBA replicators has been able to reach financial viability at this stage and to attain such goal they have to be adjusted and expanded.

(c) Impact on Income

As noted, the high repayment rates achieved by GBA replicators mean that the borrowers must have generated some benefits from the loans. This may take the form of increases in the client's income because of the profits derived from the activity financed by the loans. In addition, the beneficiary may get non-monetary benefits such as empowerment and other benefits emanating from social development activities.

Looking at the types of the IGAs being financed by the loans and how profitable they are will give the basis for estimating the increase in income. It was found that in the four GBA replicators, namely, PU, PD, ASHI and Savecred, more than one –third of the borrowers

invest their loans in petty-trade. In the other two replicators (AIM and KUM), growing and selling of farm products are the most common activities accounting for about one third of the projects of the borrowers. Livestock raising is also common in all GBA replicators except PD, (accounting for 25%) (Getubig, 1993: 61). However, to meet their weekly repayment installments, the borrowers are encouraged by GBA replications to invest in petty-trading which has a vast turnover compared with agriculture and livestock rising.

Consequently, the efficient use of a loan in profitable projects would eventually lead to a substantial increase in the borrower's income. Using before-after analysis of changes of income of borrowers (before and after joining the program), the following results have been obtained as shown in Table 5.7. Over the base-period income, in all the GBA replicators except one, the monthly income of the borrowers increased by more than 70% (72% for AIM, 87% for KUM, 90% for PU, 187% for Savecred and 414% for PD).

Apart from these monetary benefits enjoyed by borrowers, there are also non-monetary benefits that the programs' participants obtain. These include among others, empowerment of the beneficiary, particularly women, by organizing themselves into solidarity groups. These solidarity groups inculcate positive development values, which are incorporated in the pledges and code of ethics known as center decisions. Many of these decisions promote the value of education, sanitation, nutrition, health, family planning, and the practice of justice, discipline and hard work (Getubig, 1993).

Table 5.7 Estimated Increase in Household Income of Borrowers Generated by Projects Financed by Loans, Six GBA Replicators

Item	AIM (MR)	PU (MR)	PD (P)	ASHI (P)	KUM (Rp)	Savecred (Rs)
A. Average monthly household income before the loan –financed projects (local currency)	221[a]	291	369	335	63860	730
B. Additional monthly household income generated by the loan financed projects	160[a]	261	895	440	55776	1370
C. Percentage Increase in household income (B/A×100)	72	90	414	33	87.30	187.67

a from Gibbons & Kasim, 1990, Banking on the Poor, pp. 9-10
Source: Getubig, 1993, p. 65

5.4.2 Lessons and Implications

There are some relevant lessons that can be derived from GBA replicators, which have more implications on broader policy and strategy issues in rural development (Getubig, 1993). These lessons can be summarized as follows:

(i) The methodology adopted by GBA replicators is rather flexible and can be adapted to suit local culture and socioeconomic conditions;

(ii) The GBA is replicable in other countries achieving results as effectively as that obtained by Grameen Bank, such as outreach especially to poor women, viability of IGAs of poor borrowers, excellent repayments, impact on income, employment and empowerment of the poor;

(iii) It is possible to scale up the GBA replications beyond the pilot project phase as in the case of AIM, PU Malaysia, and PD Philippines; and

(iv) The GBA makes efficient use of scarce capital;

(v) The GBA is staff and capital intensive. An effective and efficient GBA entails a substantial number of staff and an amount of capital per dollar of loan and per poor borrower reached. A mature GBA-type branch, operating at full capacity, would require 8 staff to service 1800 borrowers with loans not exceeding US$ 100 annually.

(vi) The experience of the GBA replicators illustrates that even the poorest in society are capable of accumulating significant amount of savings and productive assets when given the chance to do so.

In short, the GBA replicators, as we have seen, are efficient and financially sustainable compared with commercial banks. However, the case studies on the GBA replications show that the approach is replicable in other countries in Asia, which are quite different in culture and socioeconomic structure from that of Bangladesh where it originated. In the following section, however, the discussion will center mainly on a GBA-patterned program, that is, AIM Malaysia, our present case study.

5.5 Amanah Ikhtiar Malaysia (AIM): The GBA Replication

Amanah Ikhtiar Malaysia started as Projek Ikhtiar (literally means Strive Project to overcome poverty), in December 1986 and was launched in North-West Selangor by the Center for Policy Research (CPR) at University Sains Malaysia (USM), with the collaboration of the Asia Pacific Development Center (APDC), the Selangor State Government, and the Malaysian Islamic Economic Development Foundation (MIEDF).

Projek Ikhtiar was later institutionalized as a Registered Private Trust "Amanah Ikhtiar Malaysia" (AIM) by September 1987 with priority given to the poorest among the poor households, with special focus on poor women (Sukor, 1999). As was mentioned earlier, Projek Ikhtiar began as an action-research project of the CPR to test the effectiveness of the GBA for the reduction of extreme rural poverty in Malaysia, commencing 1st.January 1986 and ending 30 June 1988. Projek Ikhtiar was introduced in Peninsular Malaysia with the idea of trying to implement the essence of GBA exactly as it was done in Bangladesh (Gibbons and Sukor, 1990). Although Projek Ikhtiar was started with the intention of implementing the "essential Grameen" 100%, it has been modified to suit the socio-cultural, economic and political conditions of Malaysia. The next subsection will highlight the main differences between AIM and GB.

5.5.1 Differences between Projek Ikhtiar and the Grameen Bank Approach

As a GB-typed replicator, Projek Ikhtiar attempts to pursue the organizational structure, lending procedure and methodology of the Grameen Bank but with some modifications related to local conditions:

a) Projek Ikhtiar differs from the GB in its legal status. It is not a bank; instead, it has been registered as a Private Trust NGO;

b) Unlike the GB, which imposes a high interest rate on its loan comparable to market rate, Projek Ikhtiar, following Islamic principles and rules, levies only a 5% administrative charge to cover its operating cost;

c) While the Emergency Fund is usually used in GB as an insurance coverage in the present of contingencies, Projek Ikhtiar does not see any need for it since the unpaid balance of loans in the event of death has been written off. Instead, a general loan fund

was set up to meet members' needs and to prevent them needing to resort to moneylenders in times of emergency;

d) GB has been subjected to severe criticism because it promoted a fascist culture with its emphasizing on physical exercise at center meetings as well as salute and shouted slogans (Holcombe, 1995:48). Both physical exercise and saluting at Projek Ikhtiar center meetings were deemed culturally inappropriate in rural Malaysia and as such, they were prohibited; and

e) To screen out those who are eligible for loan, Projek Ikhtiar applies a rigorous means test to all qualified poor households. This is because in the case of Projek Ikhtiar, only 25% of village poor houses were in the target group, while in the GB, all villagers are eligible for the loan and hence there is no need for a rigorous means test.

5.5.2 Projek Ikhtiar: Outreach and Scale of Operations

The GB-patterned approach was closely followed within a specialized delivery system carried out by well trained officers and field assistants with some changes (Chamhuri, 1991). By the end of June 1988 Projek Ikhtiar had reached 448 members amongst the poorest of the poor in Northwest Selangor region (Gibbons & Sukor, 1990). About 373 out of these had received a total of more than RM 420000 (US$ 162000) to finance IGAs projects (Appendix A-10). Out of the total amount disbursed, the Projek Ikhtiar borrowers were able to repay a total of RM 248, 821 that is the overall repayment rate was 78% which was far below the 90% target set (see, Appendix A-10). However, this was seen as disappointing when compared with the 97%-98% cumulative repayment achieved by the Grameen Bank. But among the women borrowers of Projek Ikhtiar, the repayment was 95% (Gibbons and Sukor, 1989; Sukor, 1988a).

Table 5.8 Activities Financed by Projek Ikhtiar Loan Capital, Number of Loans and Amount (in Ringgit), 1990

Code	Activity	Male		Female		Total	
		No.	RM	No	RM	No	RM
01	Padi cultivation	67 (18.2)*	57411 (24.3)	52 (23)	29401 (26.1)	119 (20)	86812 (24.9)
02	Tree crop	33 (8.9)	24659 (10.4)	9 (4.0)	3851 (3.4)	42 (7.1)	28510 (8.2)
03	Maize	37 (10)	19315 (8.2)	9 (4.0)	3211 (2.9)	46 (7.7)	22526 (6.5)
04	Other	39 (10.6)	22545 (9.5)	8 (3.5)	4531 (4.0)	47 (7.9)	27076 (7.8)
05	Fishing equipment	34 (9.2)	24419 (10.3)	22 (9.7)	19816 (17.6)	56 (9.4)	44235 (12.7)
06	Animal husbandry	69 (18.7)	33782 (14.3)	44 (19.5)	14321 (12.7)	113 (19)	48103 (13.8)
Subtotal Agricultural		279 (75.6)	182131 (77.1)	144 (63.7)	75131 (66.6)	423 (71.1)	257262 (73.7)
07	Hawking/ distribution (food)	12 (3.3)	9289 (3.9)	12 (5.3)	2744 (2.4)	24 (4.0)	12033 (3.5)
08	Food & drink stall	13 (3.5)	7070 (3.0)	14 (6.2)	8477 (7.5)	27 (4.5)	15547 (4.5)
09	Hawking fish& Vegetables	16 (4.3)	6212 (2.6)	6 (2.7)	2307 (2.1)	22 (3.7)	8519 (2.4)
10	Hawking other agriculture	18 (4.9)	13403 (5.7)	7 (3.1)	3774 (3.4)	25 (4.2)	17177 (4.9)
11	Hawking non-agricultural	8 (2.2)	4915 (2.1)	15 (6.6)	9110 (8.1)	23 (3.9)	14025 (4.0)
12	Purchase/ repair own vehicle	17 (4.6)	8702 (3.7)	22 (9.7)	7971 (7.1)	39 (6.6)	16673 (4.8)
13	Indirect uses	2 (0.5)	600 (0.3)	1 (0.4)	100 (0.1)	3 (0.5)	700 (0.2)
14	Repair/ servicing vehicle	1 (0.3)	600 (0.3)	4 (1.8)	2878 (2.6)	5 (0.8)	3478 (1.0)
15	Other services	3 (0.8)	3457 (1.5)	1 (0.4)	285 (0.3)	4 (0.7)	3742 (1.1)
Subtotal Nonagricultural		90 (24.3)	54248 (22.9)	82 (36.2)	37646 (33.3)	172 (28.8)	91894 (26.2)
Grand total		369	236379	226	112777	595	345156
Total borrowers		189	253544	90	120621	279	374165

* Figures in brackets denote percentages
Source: Gibbons and Sukor, 1990, pp. 12-13

Thus, women were more creditworthy compared with men who registered high default rates after one year from the start of Ikhtiar operations. Almost all borrowers in the six villages covered by Projek Ikhtiar were able to repay the operating costs of RM15282 as well as to save a total of RM 41261 in their Group Fund as the data in (Appendix A-10) revealed.

An analysis of the IGAs projects carried out by the first 279 loanees showed 595 activities, which implies an average of over two projects per borrower (Table 5.8). All borrowers used their loans effectively in productive activities such as agriculture and animal husbandry. About 77% of the total loans borrowed by men were invested in these two types of activities compared to 66.6% of their female counterparts. The rest of the women's loans tended to be invested in non-agricultural activities (mostly food processing, hawking and petty trading). In contrast, 24.3% of the men's loans were used in hawking and agricultural products as well as repairing of vehicles (Gibbons and Sukor, 1990).

5.5.3 Impact on Income

Based on the in-house impact evaluation study (1986-88), Table 5.9 shows that about 70 per cent of the borrowers had experienced a substantial positive increase in household income as a result of Ikhtiar loan. On the other hand, 30% of the borrowers had negative increase or no change in household income. Table 5.9 also demonstrates that female borrowers on the average had done better than their male counterparts with 84% of female borrowers experiencing an increase in income compared to 65% of male borrowers.

Table 5.9 Net Increase in Monthly Household Income as a Result of Ikhtiar Loans by Sex of Borrowers, December 1986- August 1988

Nature of change in income	Female average per month		Male average per month		Total Average per month		Number of cases
	%	MR	%	MR	%	MR	
Positive	84.0	136	65.0	65	70.0	119	125
Negative/ no change	16.0	-1	35.0	-21	30.0	-20	53
Total	100.0	113	100.0	63	100.0	78	178

Source: Impact Evaluation Study of Project Ikhtiar 1988

The overall average increase for women borrowers (including the 16% who did not experience an increase) was RM 113, compared with 65% of the men borrowers who experienced an increase in average monthly income of RM 63. During the one-year reference period average monthly income increased from RM 173 prior to the scheme to RM 328 or by 90% (Gibbons and Sukor, 1990). The total of RM 191610 that had been disbursed by Ikhtiar to sampled borrowers had resulted in 99.7% annual return to loan capital (Sukor, 1999). The study concluded that both the impact of Ikhtiar loan on borrowers' income and average return to loan capital had been substantial.

5.5.4 The Implementation of Amanah Ikhtiar Malaysia (AIM)

As Projek Ikhtiar succeeded in achieving its objective of reducing poverty considerably among a substantial number of very poor households exceeding the specific targets, Amanah Ikhtiar Malaysia (AIM) was institutionalized as a Private Trust on September 17, 1987. According to its Deed of Trust (AIM, 1987:15):

"The Amanah is established for the sole purpose of assisting very poor households to lift themselves out of poverty, primarily by means of benevolent loans to be used for financing income- generating activities" (Gibbons and Sukor, 1990:74).

Consequently, AIM's area of outreach has been expanded to include the poorest states of Peninsula Malaysia such as Kedah, Perak, Kelantan, Terengganu, Pahang, Perlis, Pulau Pinang and Selangor. Now its operations have been extended to include Sabah and Sarawak (AIM, 1999).

a) Lending Procedures

AIM adopts the poverty lending approach with some modifications tailored towards achieving operational and institutional sustainability (Malhotra, 1992). Lending is confined merely to the target beneficiaries that is households with monthly income not exceeding two thirds of the government poverty line and loans are strictly applicable to those members of the groups approved by the institution. In other words, AIM does not provide credit to all poor people but selects potential clients among them and offers loans based on the group lending system (Asry and Suhaimi, 2000).

AIM lending procedures include the screening process that usually starts by identifying the potential area in which to commence the lending program. AIM's staffs usually conduct field trips to potential areas and a thorough study is made of the selected area; they finally come up with an area report together with a sketch map illustrating all poor household units.

Table 5.10 Housing Index

No	Items	Scale and Score							
1	Size of building	Big	4	Medium	2	Small	0	-	
2	Number of stories	Two	4	One	2	-	-	-	
3	Structural condition	Firm	4	Average	2	Below average	1	Attap	0
4	Roofing materials	Asbestos	2	Zinc	1	Zinc & attap	0.5	Bambo/ attap	0
5	Wall material	Brick	2	Wooden	1	Wooden &attap	0.5	-	
6	Electricity supply	Available	2	Shared	1	Not available	0	-	
7	Piped water	Available	2	Shared	1	Not available	0	-	

Source Amanah Ikhtiar Malaysia [Document no. 355/92 – pp.2-3

The very poor households are then identified using crude measures based on the Housing Index (Table 5.10). The housing index includes certain items such as the physical structure of the building, number of storeys, roofing and wall materials, and amenities. Accordingly, a household is said to be eligible for AIM loans if it scores 10 points. A household whose scores exceed 10 points may appeal and AIM will meticulously consider such cases.

The "means test" is applied to all qualified households to gauge the depth and severity of poverty in terms of total household income, assets and sources of income. To be eligible for the loan a potential borrower has to pass the "Ujian Kelayakan" or the (Eligibility Test). AIM uses four indices for the means test: housing index, household profile, income, and land ownership. The means test stipulates that the qualified borrowers must have income of RM250 or less, and that the values of his/her assets are no more than a certain minimum level. That is land owned and cultivated must not be more than 0.1 hectare per family member for paddy cultivation, or 0.2 hectare for permanent cultivation. In addition, the

value of assets owned by the family (including land) must not exceed the value of 1.2-hectares of land. Qualified borrowers, who are willing to participate in the Ikhtiar loan, have to undergo certain screening processes such as group formation, compulsory training, and group qualifying test and center formation.

b) Credit Delivery System

The credit delivery system of AIM is typical to the Grameen system and entails a manpower-intensive organizational set-up (Chamhuri & Quinones, 2000). A formal group of five members is formed based upon the success of members in the group-qualifying test. Six groups form a center. At this stage, group members are granted probationary membership by AIM, whereby the two most needy members identified during the compulsory training session will introduce their loan proposals. Such a proposal is assessed first by the group then by the center and finally approved by AIM.

A grace period of three weeks is permitted before repayment begins in the fourth week after the loan is disbursed. Two weeks later, or during the sixth week, the other three members may submit their loan proposals if the first two repaid according to the repayment schedule and saved the required amount of money in the group fund. The proposals will undergo a similar loan approval process. A member will be qualified for applying for the second loan if he paid the entire previous loan in full and if all his group's members repay their loans on schedule. A member will gain a full membership status if he or she repays the first loan according to the repayment schedule and has been a probationary member for at least a year. A fully-fledge member is entitled to a wider spectrum of loans offered by AIM as

long as the group continues to commit to excellent repayment and saving in the group fund (Asry and Suhaimi, 2000).

A borrower will be informed of the repayment schedule immediately after he or she receives his or her loan. Loans have to be repaid over 50 weeks. Fixed administrative charges of RM 25, RM 50, and RM 75 for the first, second and third, are levied irrespective of the amount borrowed. This is added to the amount borrowed and divided by 50 weeks for repayment purposes.

Once loans are disbursed, they must be used in productive venture within seven days and changing loan purpose is highly prohibited. Strict discipline and close supervision ensures that funds are used efficiently, that borrowers attend center meetings regularly, as well as that repayments are made promptly.

5.5.5 Trend of Loans Disbursement

Since its inception as a pilot project in 1986, AIM has conducted its operations with two main types of loans, namely, economic and social loans. The economic loan scheme is dominated by the traditional Ikhtiar schemes (ILS, 1,2 and 3). A special scheme for fishermen (SPIN) took off in 1997 and the Single Mother's loan in late 1998. The social loan portfolio, on the other hand is two loans product: education and house improvement portfolios.

a) Economic Loan

The result of the External Impact Study of 1994/1995 reveals that over a period of 12 years of banking with the poor, AIM disbursed more than 54000 economic loans worth more than RM 271 million. Out of this sum, 61% (RM 165 million) was allocated for ILS1 and about 33% (RM 90 million) went for ILS2 and the rest 6% (RM 16 million) were disbursed as ILS3. Economic loans have increased steadily over time and experienced a big jump in 1996, 1997, 1998 and 1999. This remarkable increase has resulted from a major shift in AIM policy leading to an upward revision of loan amount starting from 1994 onwards. Until the end of 1993, ILS1 had an upper limit of RM 2000 from an initial sum of RM 500 first loan to a maximum amount of RM 1000 for the second loan and up RM 1500 for a third loan and to RM 2000 for fourth loans. ILS2 loans, on the other hand, are for those who have crossed the poverty line income of RM 425 per month for an average of 5.6 household members and who are willing to receive larger amount of loan to sustain their income earning capacity. To maintain credit discipline, ILS2 loans are disbursed from RM 2000 to RM 5000 with a much longer repayment period and a higher fixed administrative charge. The Islamic Bank of Malaysia funded ILS3 at a cost of 12% per annum (exclusive from AIM fixed charge of RM 200 per loan) with a repayment period of up to 5 years.

In 1994, the ILS1 loan was revised from RM 500 to RM 1000 with an upper limit of RM 4900 in 1997. The ILS2 was revised from RM 2000 to RM 5000 with an upper limit of up to RM 9900. ILS3 limit is RM 10000. In 1998, a new scheme was developed to offer a maximum loan of RM 20000 for "entrepreneur borrowers" with an interest of 4% per annum. The repayment period ranged from 50 weeks to 100 weeks for ILS1 and from 50 weeks to 150 weeks for ILS2 and ILS3.

These loans have been provided upon certain terms and conditions stipulated by AIM. For instance, for ILS1 the borrower must have at least a monthly household income not exceeding RM 285 or a per capita income RM 57 for Peninsular Malaysia, RM 344 or per capita RM 69 for Sarawak and RM 401 or per capita RM 80 for Sabah. For ILS2 the borrowers must have monthly household incomes exceeding RM 600 with perfect repayment record for the previous two loans. For ILS3, the borrower must have a monthly household income exceeding RM 1000 with perfect repayment record for at least 2 times ILS1 or ILS2 and owned at least 25% assets value/saving from the previous project. However, the tremendous increase in annual disbursement has far-reaching consequences in repayment capacity and portfolio at-risk. Out of the total amount of RM 271 million being disbursed, only RM 186.92 million had been collected over the years leaving a balance outstanding of RM84.5 million in the hands of almost 40000 borrowers from almost 56000 borrowers.

By the end of year 1998, a total of RM 3.04 million of Fishing Loan (SPIN) had been disbursed to 390 borrowers in 17 centers from 7 branches with an average loan size of RM 7884. The total fund disbursed in 1999 was RM 83980990. The share of the Economic Financing Scheme that consists of the Ikhtiar Financing Scheme (Skim Pembiayaan Ikhtiar-SPI), the Ikhtiar Fishermen Financing Scheme (Skim Pembiayaan Ikhtiar Neylayan-SPIN), and the Single Mother Financing Scheme (Skim Pembiayaan Khas, IbuTunggal-SKIT) accounted for RM 67986590 (AIM, 1999).

b) Social Loan Portfolio

The social loan portfolio includes education and house improvement loans. The former is offered after the first economic loan, while the latter is offered after the third loan, subject to a complete center of 6 groups of 30 members. Initially, the education loan was restricted to a maximum of RM 500 to be repaid weekly over six months, while the house improvement loans have an upper limit of RM 2000 on a weekly repayment scheme over 2 years.

However, in 1996 both the amounts of the education and house improvement loans were increased substantially to RM1000 and RM5000 respectively. Similarly, the repayment period has been extended to 50 weeks for the former and 50-100 weeks for the latter. Borrowers who intend to apply for the education loan must have a perfect repayment record for the first economic loan in addition to the statement of the purpose of the loan (e.g. to pay school fees, to buy books, attire, bus fare, etc.). On the other hand, applying for the housing loan required a perfect repayment record for the first, second, and third loans. Moreover, an administrative charge of 19% for the housing loan and 8% for the education loan was institutionalized in 1997. The education loan became more popular both as supporting children's education and upgrading member's skills. By the end of 1998, the education loan has reached RM30 million when more borrowers had completed their first economic loan.

The loans for housing improvement, on the other hand, had grown very slowly due to the qualifying conditions that limited the borrowers' eligibility for such loans. By 1998, the cumulative disbursement of the house improvement loan was RM 25 million.

5.5.6 Repayment Performance

The group lending approach also utilizes group members in payment collection. Under such an approach, each member takes a turn to receive a loan and be responsible for each member's project success, which in turn ensures repayment ability. Poor repayment performance among group members will deprive all members from future borrowing.

Asry and Suhaimi, (2000) believe that good repayment is not only due to the group lending approach but it directly reflects the quality of group members who had undergone rigorous training sessions which equipped them with strong positive moral values and disciplines. Cooperation and mutual support among group members ensure a good repayment performance. Other factors that contribute towards good repayment are close supervision on borrowers practiced by AIM as well as the compulsory group fund established by borrowers to recover repayment at times of financial difficulties.

Repayment performance in AIM is classified into weekly repayments, and repayments at the 50th week. Loan repayments are usually calculated based on 50 weeks. Borrowers normally repay in weekly installments over the 50 week period. Repayment starts a week after the loan utilization check report has been submitted, or two weeks after disbursement. For instance, if a member has taken a RM 500 loan, he has to repay RM 11 weekly for the first 25 weeks and RM 12 weekly from the 26th until the 50th week. This includes the weekly RM1 for the individual savings Group Fund. Default may occur at the end of this period if there are dues still unsettled. In 1998, from the total of RM325406882 disbursed for economic and social activity, a total of RM 218806525 was collected through weekly

repayment. The outstanding was RM 106600357. The repayment rate amounted to 99% (AIM, 1998).

5.5.7 AIM's Progress and Achievements

By the end of 1999 AIM had expanded its outreach by opening 12 new branches, bringing the total figure to 59 branches scattered over ten states (see Appendix C). These branches serve 60,815 members. AIM monitors the development of participants' projects. In 1999, 48,763 projects were evaluated based on their status and potential (AIM, 1999). Out of these, 30% have been classified as successful and have the potential to expand, while 57% will be able to sustain themselves. The remaining 13% will require intensive guidance such as skill development, marketing and motivation (Table 5.11). Table 5.11 also portrays that among the successful projects, investment in business can be regarded as the most profitable activity where it comprises 8,353 (57.6%) of the total successful projects, followed by agriculture with 2,717 (18.7%) successful projects.

5.5.8 Evaluation of AIM's Performance

This subsection underlines the measurement of the performance of the AIM credit program in terms of cost effectiveness, impact on the clients and sustainability.

i. Cost Effectiveness

While AIM has been perceived by many writers as a successful replication of GBA, nevertheless, it has subject to severe criticism particularly at the state level. Subtle criticism came in the form that "Ikhtiar is good but too costly" (Gibbons, 1993).

Table 5.11 Status of Participants' Economic Projects for the Year 1999*

Status/project	Success	%	Sustain	%	Recover	%	Total	%
Agriculture	2717	23	7321	63	1665	14	11703	12
Business	8353	34	13211	54	2888	12	24452	25
Livestock	1275	26	2742	57	797	17	4814	5
Fisheries	973	34	1633	57	251	9	2857	3
Others	1196	24	2856	58	885	18	4937	5
Total	14514	30	27763	57	6486	13	48763	50

*Project classification:

- Successful: project with good revenues or earnings to participant and thus have the potential to develop.
- Sustaining project with moderate revenues/earnings.
- Recovering project with no revenues or loss to participant.

Source: AIM, Annual Report, (1999:7)

Despite strong evidence that denies such criticism, it was viewed to be detrimental in the sense that it may discourage potential sponsors and withhold any attempts to diversify AIM's sources of finance. However, this criticism is based on the fact that the cost of loan disbursed was so high. For example in 1990 it was found that it costs RM 2.40 to disburse RM1 in loan, which is too expensive (Gibbons, 1993). This was justified by AIM's decision to bring Ikhtiar loan to as many very poor households as quickly as possible, keeping the total loan disbursement lagging behind total operating expenditure in the early years of the Ikhtiar Loan Scheme. The considerable amount of the initial expenditure was mainly devoted to investment in capacity building (e.g., staff training, office equipment, transportation means, etc.) where the return on it was expected to come about over a period of seven to eight years.

However, a declining trend in the cost per loan disbursed or per RM disbursed reflected efficiency in operations as the cost is kept at low levels (Sukor, 1999). This would in turn lead to institutional self-sufficiency. In analyzing the cost per loan disbursed, the External Impact Study revealed a disturbing trend with regard to the state of cost per loan. After a period of a steadily declining trend up to 1995, in 1996 the cost per loan began to increase due to higher expenditure being incurred.

The External Impact Evaluation Study (1994) of the cost-benefit ratio found that for every RM1 paid by borrowers as administrative charge, the average monetary benefit is around RM 133 in Terengganu compared to RM 119 in Kedah, RM 115 in Kelantan and only RM 82 in Perak. The overall average benefits stood at RM 115. Compared to the cost-benefit analysis of 1989/90 that stood at 1:10 that is for every RM 1 spent on AIM operations, a RM 10 in monetary benefit can be derived; the benefit in 1994/95 was at 1:115. This implies an increase of 115 times five years later.

Thus, the study concluded that by participating in the microcredit program, the poor could make a return of RM115 on average for every RM 1 they contributed to the administrative charge. Therefore, the continuing support of government in the form of on-lending funds or subsidizing operating costs for a reasonable period could facilitate borrowers to further maximize their benefits.

ii. Impact on the poor

As noted earlier, access to microcredit has resulted in a tremendous increase in AIM's active borrowers' incomes. However, the results of the External Impact Study (1994) of the

348 samples showed that outreach to the bottom half of the poverty line, which is denoted by net monthly disposable income of less than RM 205 is almost 50%. In other words Ikhtiar credit has reached out to the bottom half of the poverty line across all categories as follows: 46% among the non-participating poor, 67% among the drop-outs and 48% among inactive members, with half of the active borrowers coming from very poor households. In addition, 48% of the moderately poor (i.e those who earn an income between RM 205 and RM 267 per month) were outreached by AIM.

As far as the extent of leakage is concerned, it was detected that it was moderately high at 3% despite some rigid targeting and quality control procedures. Such a proportion of nonpoor still manages to infiltrate into the poverty-focused program, and in turn, has far reaching consequences on credit discipline. Three- fifths of the "leak" is from the active borrower category (60%), close to a third (33%) are from the non-participating poor and the last (10%) are from the inactive members.

The study also found that more than half (55.7%) were no longer poor, another third (33%) were in the moderate poor while 11.5% was still entrenched at the bottom half of the poverty level. Thus, continuous access to microcredit is crucial towards sustaining poverty reduction in the medium and long term. Microcredit was found to be more effective in reducing poverty among the active borrowers compared to those who have dropped out of the program and those who are no longer actively borrowing. For example, out of the 207 samples of active borrowers, half of which were very poor prior to their participation in microcredit, only 11% are still in the category of being very poor with almost a third (32%) in the "poor" category and almost three fifths (57%) are no longer poor.

iii. Viability and Sustainability

The results derived from the capacity assessment study reveal that AIM was not financially viable in that its revenues from interest and fees on loans were much lower than its total costs. The lack of viability is attributed merely to AIM's practice of charging low interest rates relative to its costs. As noted earlier, in accordance with Muslim faith, AIM charges no interest on its loans but collects an administrative fee.

It is generally argued that the practice of charging low interest rates has proved inadequate especially when the operation cost is relatively (too) high. In 1993, AIM's (unadjusted) total costs were higher than revenues by 6.3 times (Chamhuri and Quinones, 2000). AIM must expand the outreach and volume of business in order to reduce cost and become viable and sustainable. However, in an attempt to improve its productivity, AIM recruited more field staff and redeployed some of its Head Office staff to the branches. In order to attract and retain experienced staff, AIM adopts an incentive system that is slightly better than that of the public administrative scheme. Consequently, the average productivity of AIM's field staff improved substantially with the average number of client per staff member increased from 82 in 1993 to 110 in 1995. The total financial (saving and credit) services provided by AIM's field staff more than doubled, thus enabling it to reduce its average operating cost per unit of loan.

Chamhuri and Quinones (2000), suggested a number of measures that could be adopted by AIM to improve its financial viability and self-sufficiency, including improvement of the productivity of the staff, minimizing the cost of funds by mobilizing more savings, reducing the unproductive assets in order to minimize loan losses and realize full returns

from the current portfolio and increasing administrative charges in order to improve financial self-sufficiency.

In terms of resource mobilization, AIM depends largely on donor funds and this reflects that its microfinance program was not designed at the outset to be financially viable and self-sufficient. AIM is still receiving interest free loans from the Federal Government and other financial institutions for its loans funds (Chamhuri and Quinones, 2000).

5.6 The Contribution of Microcredit Programs Towards Poverty Alleviation in Malaysia

As mentioned earlier, poverty alleviation efforts in Malaysia have been undertaken by various parties including governmental and nongovernmental agencies. In addition to AIM microcredit program other poverty alleviation initiatives are worth mentioning here.

The NEP asserted that the emphasis of poverty eradication programs would be placed on the improvement of farm productivity through the provision of agricultural credit, extension and marketing to poor households in the rubber smallholding and paddy sectors. These two sectors have been identified with high incidence of poverty in Malaysia. Thus, *in-situ* development programs were initiated as mentioned earlier to improve the productive base, employment and income levels in existing villages and agricultural areas throughout the country particularly among poverty groups in rural areas.

The *in-situ* agricultural development programs are of two types: (i) the Integrated Agricultural Development Project (IADP) approach (with Muda scheme as its show - piece); and (ii) the normal Departmental Programs (including replanting of low – yield rubber trees and land rehabilitation programs). In this section more emphasis will be devoted to the effectiveness of the various programs implemented to eradicate poverty in the rubber and paddy sectors with special emphasis on credit and microcredit programs.

a) The Rubber Smallholding Sector

The largest identified group of poor rural households in Peninsular is rubber smallholders. According to the Mid-term Review of the SMP, the incidence of poverty among rubber smallholders increased by 19.8% between 1980 and 1983 i.e 41.3% in 1980 to 61.1% in 1983. To curb the high incidence of poverty, the government established the Rubber Industry for Smallholders Development Authority (RISDA) in 1972 to cater for the development and modernization of rubber smallholders. Apart from providing increased and improved extension services, RISDA also provides many other facilities to the development of smallholders' rubber industry. These include:

i) The extension of credit for fertilizers and weedicide as well as for cash crops;

ii) The establishment of a number of group processing centers to improve the processing of smallholders rubber;

iii) The establishment of the Malaysian Rubber Development Corporation to facilitate the marketing of rubber;

iv) To assist those with uneconomic holding to replant. RISDA launched its block new planting scheme whereby those with less than 7 acres were given shares in the new-planted areas; and

v) A national stabilization scheme was introduced in 1974 to handle over the problem of wide fluctuations in rubber prices.

As a result of the provision of these facilities, rubber output has increased by about 2.3% per year, from 1270,000 tones in 1970 to 1,600,000 tones in 1980. Although, the *in-situ* development programs have succeeded in increasing agricultural productivity and the incomes of the rural poor but their efficiency in reducing poverty is not so great. Several factors are responsible for this e.g. fertilizer subsidy is de facto paid to all farmers irrespective of farm size; a rubber tax is paid by all exporters but smallholders gain no countervailing benefit (Emsley, 1996).

Despite government attempts to reach the smaller smallholders, replanting grants have tended to go to larger smallholders and that relatively few of the smaller poorer holders have benefited from the program (World Bank, 1980). Sukor (1985) identified three major reasons for the persistence of poverty among rubber smallholders:

i. Despite increased output, there has been a major decline in the real price of rubber since 1960 and 1970 resulted in average real income to drop by 20% between 1960 and 1970;

ii. The average gains made by rubber smallholders have been distributed very unevenly; and

iii. Small size of holdings. The average holding size of rubber smallholders was only 6 acres and the distribution is very skewed as of the 1976 with 63% own less than 5 acres most of them were Malays.

In light of the above mentioned reasons for the persistence of poverty among rubber smallholders, the World Bank (1980) proposed a poverty reduction policy which include:

i) Replanting of individual smallholdings with high yield stock and provision of extension after tapping begins to help smallholders make the most of their improved stock;

ii) Enlargement of holdings that cannot provide above poverty incomes; and

iii) Financial program designed to maximize the farm gate price of rubber smallholders.

b) The Paddy Sector

The paddy sector involves about 20% of the economically active population in Peninsular Malaysia and 32% of those in the agricultural sector. The Malays constitute about 95% of the total number of paddy cultivators (Jomo and Ishak, 1986). The paddy cultivators can be broadly classified into two main groups. The first group involves those in ' rice bowl' areas (the Muda plain in Kedah, Perlis, Kelantan, Perak and Selangor) who used modern irrigation facilities and new agricultural innovations and produce for the market. The second group includes those who Practice subsistence farming and used traditional irrigation facilities and produce for their own consumption. Paddy cultivators still remain the second largest identifiable poverty group in Peninsular Malaysia in 1987, constituting about 54400 households or 13.5% of all poor households in the rural areas in Peninsular Malaysia. It has been estimated that 54% of the paddy cultivators in 1983 lived bellow the official poverty line (Jomo & Ishak, 1986).

A study carried out to evaluate the strategy; impact and future development of IADP identified seven factors for the persistence of widespread poverty among paddy cultivators. These include: small farm size and tenancy; population growth, stagnant yields; labor displacement from paddy; inadequate attention to other crops and farm activities; insufficient opportunities for employment outside agriculture; and the rising cost of living as of cost of production (Malaysia, 1983).

The Malaysian government policies and programs to eradicate poverty in the paddy sector take the form of input intervention such as the provision of improved and large irrigation and drainage facilities for double cropping and low- cost credit and fertilizers. According to the Fourth Malaysia Plan (1981), new irrigation facilities for both single and double cropping of paddy were extended covering about 68000 hectares during 1971 –80. In addition the yield of paddy improved from 1055 *gantang* per hectare to 1260 *gantang* over the same period. However, the improvement in paddy productivity has resulted in raising farm employment and income level of paddy farmers. Measures were also instituted to increase net income of paddy farmers especially through input subsidies and price support scheme.

The Malaysian Agricultural Bank (MAB) was set up in 1969 mainly to provide credit facilities for double – cropping of paddy and to increase purchase of fertilizers, improved seeds and other inputs. However, credits used by paddy farmers have been found to be small. In 1986 only 112752 hectare out of the total planted area of 600,000 hectare was financed by MAB. But the persistently high level of arrears and negative spreads has left MAB in a precarious financial position, requiring an annual grant from the government of about RM 30 million (World Bank, 1988).

The other important program to eradicate poverty in the paddy sector is the price subsidy scheme. Under this policy, paddy cultivators received the Guaranteed Minimum Price (GMP) of RM 496 per ton for their marketed produce plus a bonus of RM 165 per ton of paddy marketed (Ishak, 1994). As a result of state interventions in the paddy sector, paddy output and net incomes have increased substantially. The net income per family per year from paddy cultivation increased in nominal terms, from RM609 in 1966 to RM3,557 in 1985 i.e an increase of 9.7% per annum.

As mentioned earlier, paddy farmers benefit from two forms of subsidies; the fertilizers and price subsidies. The total cost of subsidies for the production of paddy in the Muda area (90,000 hectares) amounted to RM89 million per season, or RM178 million per year (Ishak, 1994). However, this means that such allocation, which represents about 38% of the Muda output, can only reduce the incidence of poverty by 16%. The main reason why such a large allocation has not been sufficiently effective in reducing the incidence of poverty is related to the fact that the distribution of subsidies is dependent upon farm size. Since poverty is very closely related to farm size, the amount of subsidies the poor could lay their hand on is very small. As a result, only a small section of the poor could benefit adequately to emerge out of poverty.

According to the Sixth Malaysia Plan during the 1990s, the Federal Government carried out special package program for the reduction of hardcore poverty. The government allocated RM600.00 million for the "development program for the poorest". This program include: providing food and nutritional requirements for the undernourished children; providing

better accommodation for hardcore poor; providing educational assistance in the form of scholarship, hostels and textbooks; income generation projects such as plantation of cash crop and livestock rearing; and general development that include construction and repairing roads, water supply, electricity supply and medical facilities (Malaysia, 1991:44).

As shown by the Second Malaysia Plan (1971-1975) poverty eradication initiatives have also been undertaken through the establishment of seven 'Regional Development Authority' (RDA) since the early seventies. The main emphasis was on employment creation in the rural areas, increasing the income of the rural poor, improving their living standards and ensuring higher quality of their life (Malaysia, 1971).

The Federal government has implemented a special development program in 1989 called Program Pembangunan Rakyat Termiskin (PPRT) for the hardcore poor. The PPRT is entrusted with providing low cost houses, income generating projects, direct welfare assistance, motivational training and to provide financial assistance for small business (Malaysia, 1991).

The Malaysian government set up another program named the Amanah Saham Bumiputra (ASB) for increasing the income of the hardcore poor. ASB introduced interest free loan scheme in 1991. Under this scheme the clients were given the share of different commercial projects amounting to RM5000.00. The clients have been provided with the fixed amount as dividend at the end of each year and after five years they became the owner of the shares. From 1992-1995 the government spent 75.70 million as dividend. Around 153,500 hardcore poor have been benefited from the scheme until April 2000 (Malaysia, 2001).

The NDP has stressed that effort to eradicate rural poverty in Malaysia should focus on the disbursement of agricultural credit to smallholders as well as commercial operators. During the Eighth Malaysia Plan, the MAB and the commercial banks disbursed RM2.8 billion loans to smallholders (Malaysia, 2001). During the same plan period the allocation for Fund for Food (3F) has shown a considerable upsurge from RM700 million to RM 1 billion. In order to improve the Fund's eligibility, some revisions were made to the eligibility criteria and eligible sectors as well. In addition, to facilitate the replanting of oil palm for smallholders as well as to provide an exist scheme for them to replace rubber with oil palm a soft loan scheme totaling RM60 million was introduced. Moreover, a special RM80 million fund was provided for rubber smallholders, to further promote the use of the low Intensity Tapping System (LITS) to increase productivity and reduce labor inputs. The delivery system of various agricultural agencies was strengthened to provide more effective training and extension services to farmers. Also during the plan period special emphasis has been given to new approach in farm management, agronomic practices, marketing, post-harvest handling and process as well as the diffusion of new agricultural technology. The role of farmers and fisheries organizations, including cooperatives, was enhanced to participate actively in agricultural activities including marketing and downstream processing.

Despite the government efforts to provide rural credit to smallholders or rural producers, a large part of rural credit tend to come from the pawnshop system. In West Malaysia there are about 211 pawnshops in operation in 11 states (Faaland, et al., 2003). The State Government received total revenue of RM50 million per annum from these pawnshops. Profits accruing to pawnshop owners are estimated to be between RM30 million and RM50

million per annum. A substantial proportion of these proportions were obtained from the rural people who paid the pawnshop rate of interest, which reached 60% per annum. If the Government were to operate the pawnshops directly and by charging a reasonable rate of interest comparable to those obtained by urban people in the form of farm overdrafts, this form of exploitation could not be eliminated.

5.7 Summary and Conclusion

Although the persistence of abject poverty is an inevitable fact for nearly 1.3 billion people in the world today, the philosophy and methodology of microfinance lending to the poorest offers the best alternative to uplift millions out of indigence. However, the initial success of microfinance programs in the 1970s led pioneers to think that many of the problems of the poor would no longer exist. As such, microcredit has been perceived as one of the most cost-effective and expedient methods to reduce poverty in the world. The unique application of the innovative delivery system that differs largely from that of the ordinary banking ones such as peer lending and social collateral rather than financial collateral, has led to the establishment of scores of successful Grameen Bank- style microcredit programs worldwide.

Yet, any attempt to replicate the Grameen Bank's model by imitating its mode of operations should be carried out with caution. This is because the model, which is relevant for Bangladesh, may not be applicable in another setting where the social values are different. Thus, the model should be adapted to the socioeconomic environment with some modifications as in the case of AIM.

Finally, future efforts to replicate the Grameen Bank approach to the reduction of extreme rural poverty must take into consideration the basic design features underlying the success of such approach. The experiences of GBA replications show that women are more creditworthy than men, and hence priority in terms of credit delivery should be given to them. The experience also reveals that credit is a critical missing element for many poor rural households and it must be delivered in a manner that facilitates the participation of the very poor. Successful GBA replicators must work within the context of supportive conditions. The most important of these are a supportive national policy framework and government as well as a substantial degree of national economic growth.