ABSTRACT

This paper examines the role of micro finance projects in eradicating poverty in Malaysia. It aims at analysing the effectiveness and efficiency programs of AIM in eradicating poverty. The paper highlights some issues about economic globalisation and poverty. It argues whether globalisation would lead to economic growth that in turn brings about poverty reduction. Over the last three decades, Malaysia has made overall a very impressive progress in poverty reduction. The reduction in the incidence of poverty was due to the implementation of the AIM programs among others, towards increasing the productivity and improving the living standards of the poor. Although overall a very important progress has made in fighting poverty, still have major challenges to deal with specially that issues of health and education and basic services. Poverty based on economic indicators alone is not an adequate measure to explain poverty. Poor people are also poor due to lack of skills, illiteracy, adequate investment, good management, and weak institutions. Based on the finding, a number of policy implications can be recommended and suggested to upgrade the experience of AIM as well as to replicate it in many developing countries.

Keywords: poverty alleviation, micro finance projects, Malaysia’s experience

1.0 Introduction

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

One of the government strategies to eradicate the poverty is through micro financing programs. Micro finance was offered by different kind of institutions, informal and traditional systems, local and international NGOs funded by donors, cooperatives and credit unions, local government institutions, specialised financial institutions and ultimately by regulated, formal commercial financial institutions. Micro-financing program was introduced in Malaysia in 1986 to replicate Grameen Bank’s successful specialized in delivery system, emphasizing direct targeting, informality of delivery, and delivering credit to the ‘doorsteps’ of the poor. Micro finance programs (MFPs) have been part of the poverty alleviation policies and strategies. MFPs became a popular approach, especially to reach the poor who would normally be excluded from the formal credit sector (Chamhuri and Basri, 2001). Credit unions, co-operative banks and specialised credit windows of banks have operated it. Micro finance services of financial credit range for about RM10,000 (USD2,631) and mostly to finance small businesses, agricultural loans and loans for poverty reduction. Majlis Amanah Rakyat (MARA), council of trust to the Bumiputera and Credit Guarantee Corporation (CGC) are some of the pioneers whose introduced micro finance loans to its borrowers. The rural credit institutions comprising of Agriculture Bank of Malaysia (BPM), Farmers Organisation Authority (LPP), Federal Land Development Authority (FELDA), and agro-based Co-operative Societies provide micro credit for the agriculture sectors. There are a number of non-government organisations (NGOs) that engaged in micro finance. These include Yayasan Usaha Maju operating in Sabah, Koperasi Kredit Rakyat in Selangor and Amanah Ikhtiar Malaysia (AIM).

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

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

This paper is organized as follows. Section 2 provides the literature review while section 3 presents the methodology used. Section 4 provides the empirical results whilst the progress and challenges are presented in section 5. Section 6 presents the conclusion of the study.

2.0 Literature Review

Several research works has been done on the relationship between globalization and poverty such as Heshmati (2005) and Aisbett (2004). Heshmati (2005) found that the results show evidence of a weak and negative relationship between globalization and income inequality and poverty. The study used two composite indices of globalization; the first is based on the Kearney/Foreign Policy magazine and the second is obtained from principal component analysis. Aisbett (2004) also found that no group of poor people is made worse off by globalization. They argued the perceived concentration of political and economic power that accompanies globalization causes many people to presume that globalization is bad for the poor, and the continued ambiguities in the empirical findings mean that this presumption can be readily

According to Bardhan (2003) economic globalization is a surprisingly controversial process. Surprising, that is, to the many economists and policy makers believe it is the best means of bringing prosperity to the largest number of people all around the world. Proponent of economic globalization has had a tendency to conclude that dissent and criticism is the result of ignorance or vested interest. They have argued that anti-sweatshop campaigners do not understand that conditions in the factories owned by multi-nationals tend to be better than those in comparable domestic firms; that environmentalists are denying the world’s poor of the right to develop freely and unionists in developed countries are protecting their interests at the expense of workers in poorer parts of the world.

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

2.1 Definition of Globalization

According to the dictionary of international trade theory, globalization means the process by which government gives ways the rights of their citizens in favour of speculative investors and transnational corporations; the erosion of wages, social welfare standards and environmental regulations for the sake of international trade; the worldwide imposition of a consumer monoculture. Widely but falsely believed to be irrevocable (Ulrich Beck, 2000). The United Nations Conference on Commerce and Development defines globalization as the increase in flow of resources and products across national boundaries and the presence of a set of organizational structure to manage international economic activities. The flow of resources not only includes products and services, but technology transfer and foreign direct investments, particularly by multinational enterprises (ITF, 2000). According to Giddens (1990), globalization can be defined as the intensification of worldwide social relations which link distant localities in such a way that local happenings are shaped by events occurring many miles away and vice versa. Globalization operates at various levels including the political, culture, social and economic spheres. These forms of globalization are interdependent and pave the way for one another. In conclusion, globalization means different thing to different people. It can be define simply as the expansion of economic activities across political boundaries of nation-states. It is associated with not only an increasing cross boarders movement of goods, services, capital, technology, information and people, but with an organization of economic activities, which straddles national boundaries.

Globalization from its concepts and practices is leading to greater interdependence, and poverty is becoming more challenging in most developing countries. Globalization also is driven by information and communication technology and scientific research, which have a major economic component that is essential for development. With regard to the poor, these fields are unfortunately hardly accessible for different reasons. In fact, many poor do not read foreign languages specially English that dominated digitized information. In addition, information technology businesses are not currently meeting appropriate educational, training and workforce needs of the young people who are poor.

3
2.2 Concept of Poverty:

There are many definitions of poverty concept. According to the World Development Report (1990), poverty is the ability to attain a minimal standard of living. In economic literature, conceptualization of poverty is based on two different classifications: absolute poverty and relative poverty. Absolute poverty is measured in terms of the poverty line income, whereas relative poverty is defined in terms of inequality between groups and is measured by using income disparity ratio of income group of urban and rural. According to the Asian Development Bank, poverty is the deprivation of essential assets and opportunities to every human who is entitled. It is measured in terms of various indicators such as basic education, health care, and employment. Recent studies on poverty widen the scope of poverty definition by including the inaccessibility to new technology as another form of poverty. Some authors state that there is a significant relationship between poverty and information technology communication. They speculate that the higher the value of ICT indications, the lower poverty indexes.

Poverty causes great suffering to the people of both developed and developing economies. Poverty is a state of economic, social and psychological deprivation occurring among people or states lacking sufficient ownership, control of or access to resources to maintain minimal acceptable standard of living.

Overall, the poverty in Malaysia decreased from 8.5 per cent in 1999 to 5.7 per cent in 2004 with a corresponding decline in the number of poor households from 409,300 to 311,000 as shown in Table 1 below. The total number of hardcore poor households declined from 91,700 to 67,300 and the mean income of poor households increased from RM656 in 1999 to RM764 in 2004. It narrows the poverty gap from 2.3 per cent to 1.4 per cent in 2004. However, the poverty gap in rural areas was five times higher than in urban areas, indicating that poverty was much more severe in the rural areas.

<table>
<thead>
<tr>
<th>Poverty Indicators</th>
<th>1999</th>
<th>2004</th>
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<tbody>
<tr>
<td></td>
<td>Malaysia</td>
<td>Urban</td>
</tr>
<tr>
<td><strong>Hardcore Poverty</strong></td>
<td></td>
<td></td>
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<tr>
<td>Incidence of hardcore poverty (%)</td>
<td>1.9</td>
<td>0.5</td>
</tr>
<tr>
<td>Number of hardcore poor households (’000)</td>
<td>91.7</td>
<td>11.9</td>
</tr>
<tr>
<td>Poverty gap (%)</td>
<td>0.4</td>
<td>0.1</td>
</tr>
<tr>
<td><strong>Overall Poverty</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Incidence of poverty (%)</td>
<td>8.5</td>
<td>3.3</td>
</tr>
<tr>
<td>Number of poor households (’000)</td>
<td>409.3</td>
<td>86.1</td>
</tr>
<tr>
<td>Poverty gap (%)</td>
<td>2.3</td>
<td>0.8</td>
</tr>
<tr>
<td>Total of Households (’000)</td>
<td>4,800.0</td>
<td>2,612.5</td>
</tr>
</tbody>
</table>

Source: Ninth National Plan (2006)
associated with poor households of all ethnic groups. (Ninth Malaysia Plan, 2005). The hardcore poverty among Bumiputra households was the highest at 1.9 per cent in 2004 compared with 0.1 per cent for the Chinese and 0.3 per cent for the Indians as shown in the Table 2.

<table>
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<tbody>
<tr>
<td>Hardcore poverty</td>
<td>2.9</td>
<td>0.2</td>
<td>0.3</td>
<td>1.9</td>
<td>0.1</td>
<td>0.3</td>
</tr>
<tr>
<td>Urban</td>
<td>0.7</td>
<td>0.1</td>
<td>0.2</td>
<td>0.7</td>
<td>Neg.</td>
<td>0.2</td>
</tr>
<tr>
<td>Rural</td>
<td>4.4</td>
<td>0.4</td>
<td>0.5</td>
<td>3.3</td>
<td>0.3</td>
<td>0.5</td>
</tr>
<tr>
<td>Overall poverty</td>
<td>12.4</td>
<td>1.2</td>
<td>3.5</td>
<td>8.3</td>
<td>0.6</td>
<td>2.9</td>
</tr>
<tr>
<td>Urban</td>
<td>5.1</td>
<td>0.8</td>
<td>2.4</td>
<td>4.1</td>
<td>0.4</td>
<td>2.4</td>
</tr>
<tr>
<td>Rural</td>
<td>17.5</td>
<td>2.7</td>
<td>5.8</td>
<td>13.4</td>
<td>2.3</td>
<td>5.4</td>
</tr>
<tr>
<td>Poverty gap</td>
<td>3.3</td>
<td>0.2</td>
<td>0.7</td>
<td>2.1</td>
<td>0.1</td>
<td>0.6</td>
</tr>
</tbody>
</table>


3.0 Methodology

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

4.0 Findings

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

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

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

In terms of access to productive assets, the study found that 98% of the respondents had a plot of land, animal, vehicles and house. With respect to the impact of a loan on the client income and consumption, the results showed a significant increase in the income of 73.6% respondents. Also results showed that 70% of the respondents have used their loans in trading activities while the rest are farming and tailoring.
In attempts to narrow the ever-widening gap between their meager household incomes and expenditures, the respondents were induced to save some proportion of their income to meet urgent household needs. As results showed 18.9% of the respondents could afford to save between RM 100-200 out of their income-earning surplus while 8.1% were save between RM 1000-2000 and 2.7% were be able to save RM 5000 or more.

5.0 Progress and Challenges:

Over the last three decades, Malaysia has made an impressive achievement in many aspect of poverty eradication, especially in the area of income generation, health care, education. It is noteworthy that Malaysia is a top performer among developing country although it is not a high-income country. It has the highest number of computers per person (147PCs per 100 inhabitants) and the highest rate of Internet users -320 users per 1000- (Masrur, 2004). Today, competitiveness in trade and in attracting capital and foreign investment is more knowledge intensive than ever before. Through information superhighways, new technology is eliminating some problems of access to knowledge. Nevertheless, poor people are left with little access to these superhighways, lacking the vehicles, personal computers, telephones, televisions, and skills to drive them. Many developing countries need assistance in managing the information revolution to avoid marginalization and exploitation (UNDP, 1997). In addition, it has a low illiteracy rate of 12% and 60% of its population is located with urban area this means that about third of its population has access to the Internet. Although overall a very important progress has made in fighting poverty, still have major challenges to deal with specially that issues of health and education and basic serves.

6.0 Conclusion

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

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

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

One of the most important reasons for the success of AIM program has supportive conditions. The most prominent of these is the existence of a supportive national policy adopted by government. Therefore the necessary condition is that the government should not oppose the implementation of loan scheme for the poor nor undermines it with confecting legislation or action.

In conclusion, poverty and the poor has been subject of intensive debate on globalization and its impacts on communities; however, the knowledge based economy, which drives the forces of globalization, raises issues about the ability of poor to benefit from it. Poverty based on economic indicators alone is not an adequate measure to explain poverty. Poor people are also poor due to lack of skills, illiteracy, adequate investment, good management, and weak institutions
References


