

**A COMPARATIVE CASE STUDY ON OUTREACH AND IMPACT OF THE
IKHTIAR LOAN SCHEME AND THE DEVELOPMENT PROGRAMME FOR
THE HARD-CORE POOR IN SEBERANG PERAI, PENANG**

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THE HARD-CORE POOR IN SEBERANG PERAI, PENANG.**

by

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LIST OF ABBREVIATIONS

Serial

| | | |
|-----|----------|--|
| 1. | ADB | Asian Development Bank |
| 2. | AIM | Amanah Ikhtiar Malaysia |
| 3. | APDC | Asia and Pacific Development Centre |
| 4. | ASA | Association for Social Advancement |
| 5. | BancoSol | Bank Solidarity, Bolivia |
| 6. | BRAC | Bangladesh Rural Advancement Committee |
| 7 | BCIC | Bumiputera Commercial and Industrial Community |
| 8. | BRDB | Bangladesh Rural Development Board |
| 9 | CGAP | Consultative Group to Assist the Poorest |
| 10. | CPI | Consumer Price Index |
| 11. | FELDA | Federal Land Development Authority |
| 12. | GB | Grameen Bank |
| 13. | GDP | Gross Domestic Product |
| 14. | GO | Governmental Organisation |
| 15. | HH | Household |
| 16. | IHI | Ikhtiar House Index |
| 17. | HHY | Household Income |
| 18. | HRD | Human Resource Development |
| 19. | IADP | Integrated Agriculture Development Programme |
| 20. | ICU | Implementation Co-ordination Unit |
| 21. | IDB | Islamic Development Bank |
| 22. | ILS | Ikhtiar Loan Scheme |
| 23. | IRDP | Integrated Rural Development Programme |
| 24. | MFIs | Microfinance Institutions |
| 25. | MP | Malaysia Plan |
| 26. | NDP | National Development Plan |
| 27. | NEP | New Economic Policy |
| 28. | NGO | Non-governmental Organisation |
| 29 | NPP | Non-participating Poor |
| 29. | NVP | National Vision Policy |
| 30. | OPP 1 | The First Outline Perspective Plan |
| 31. | OPP 2 | The Second Outline Perspective Plan |
| 32. | OPP 3 | The Third Outline Perspective Plan |

| | | |
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| 33. | PCY | Per Capita Income |
| 34. | PERDA | Penang Regional Development Authority |
| 35. | PFP | Poverty Focused Programme |
| 36. | PLI | Poverty Line Income |
| 37. | PPRT | Program Pembangunan Rakyat Termiskin |
| 38. | PSDP 1 | The First Penang Strategic Development Plan |
| 39. | PSDP 2 | The Second Penang Strategic Development Plan |
| 40. | RDA | Regional Development Authority |
| 41. | RD-12 | Rangpur Dinajpur Rural Development Project 12 |
| 42. | RM | Ringgit Malaysia |
| 43. | SERU | Socio-economic Research Unit |
| 44. | UNDP | United Nations Development Programme |
| 45. | VDSC | Village Development and Security Committee |
| 46. | WB | World Bank |
| 47. | YUM | Yayasan Usaha Maju |

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| 4.2 | Sigma (σ) | 46, 84, 85 104, 105, 107, 108 |
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| 4.5 | Plus minus (\pm) | 46, 85 105,107, 108 |

KAJIAN KES KE ATAS KESAMPAIAN DAN KEBERKESANAN IMPAK SKIM PINJAMAN IKHTIAR BERBANDING DENGAN PROGRAM PEMBANGUNAN RAKYAT TERMISKIN DI SEBERANG PERAI, PULAU PINANG

ABSTRAK

Program Pembangunan Rakyat Termiskin (PPRT) dan skim pinjaman ikhtiar, Amanah Ikhtiar Malaysia (AIM), direkabentuk khusus untuk mengurangkan kemiskinan tegar di kawasan luar bandar Malaysia melalui cara dan pendekatan mereka yang tersendiri. PPRT, di satu pihak, adalah sebuah program yang diasaskan oleh kerajaan pusat untuk menangani kemiskinan tegar melalui satu pendekatan perkhidmatan yang menyeluruh demi mempercepatkan peningkatan pendapatan isirumah peserta mereka. Program kredit-mikro AIM pula, adalah satu pendekatan badan-bukan kerajaan yang turut memperlengkapkan usaha nasional mengurangkan kemiskinan tegar.

Tesis ini direkabentuk untuk menepati tujuan pertama iaitu menilai keberkesanan strategi dan metodologi jangkauan golongan sasaran kedua-dua program tersebut. Tujuan keduanya adalah untuk menilai keberkesanan program kredit-mikro AIM berbanding dengan pendekatan PPRT terutamanya dalam aspek peningkatan pendapatan, tabungan, aset produktif, perbelanjaan berhemah dan penjanaaan peluang pekerjaan sendiri. Ini dibandingkan dengan golongan yang tidak mendapat manfaat daripada kedua-dua program pembasmian kemiskinan tegar iaitu golongan NPPs.

Justeru itu, tesis ini diharap dapat memberikan sedikit sebanyak sumbangan kepada tradisi akademik dan intelektual di dalam menentukan kualiti jangkauan dan keberkesanan impak memandangkan kedua-dua program pembasmian kemiskinan tegar tersebut menelan perbelanjaan yang besar serta dilaksanakan di seluruh negara.

Data-data yang diperlukan oleh kajian ini diperolehi melalui satu sampel rawak peserta PPRT, AIM dan NPP di kawasan liputan tanah daratan Pulau Pinang. Rujukan

kepada lapuran rasmi, sumber-sumber penulisan dan temubual memperlengkapkan keperluan tesis ini.

Sebagai program kerajaan pusat, PPRT menggunakan jentera dan struktur politik dan pentadbiran di peringkat kampung dan daerah di dalam menjangkau golongan termiskin di mana tanggungjawab mencari dan mendaftar isirumah tersebut diserahkan kepada Jawatankuasa Keselamatan dan Kemajuan Kampung (JKKK). AIM, sebagai inisiatif badan bukan kerajaan, berkomitmen untuk memaksimumkan jangkauan dengan memperkenalkan satu metodologi yang berasaskan kepada 4 fasa serta dilaksanakan secara sistematik kampung demi kampung di dalam kawasan liputan cawangan mereka. Dengan menggunakan anggaran perangkaan kemiskinan di peringkat mukim, diikuti dengan proses penyeraian indeks rumah berpotensi miskin, pengendalian ujian kelayakan dan diakhiri dengan temuduga semula untuk memastikan kualiti maklumat yang tepat untuk menentukan taraf pendapatan dan nilai aset isirumah, pendekatan AIM ternyata lebih menyeluruh, terbuka dan dilaksanakan dengan profesional. Pendekatan AIM terbukti lebih berwibawa berbanding PPRT di dalam menjangkau kemiskinan tegar.

Walaupun menggunakan ukuran (PCY dan HHY) dan tahap pendapatan yang berbeza (dua pertiga daripada garis pendapatan kemiskinan) di dalam menentukan isirumah di bawah kemiskinan tegar, pendekatan AIM terbukti bukan saja dapat menjangkau lebih ramai isirumah termiskin bahkan dapat mengurangkan kebocoran program pada tahap yang rendah. Sementara itu, pendekatan PPRT yang cuma berpandukan kepada 1/2 daripada pendapatan garis kemiskinan isirumah, di samping menggunakan asas yang kurang ketat, bukan saja didapati meminggirkan sebilangan besar isirumah yang layak daripada menyertai programnya malah membenarkan kebocoran yang serius di mana 12% isirumah bukan miskin menggunakan hak isirumah termiskin.

Dari segi keberkesanan dalam konteks impak kepada isirumah termiskin, kelebihan PPRT dan AIM nyata jelas terbukti, walaupun pendekatan AIM lebih baik berbanding PPRT. Kajian juga mendapati bahawa pendekatan membiarkan isirumah termiskin mendapat manfaat daripada pertumbuhan ekonomi negara ternyata kurang berkesan di dalam meningkatkan pendapatan dan tabungan isirumah serta menjana aset produktif.

Keupayaan mendapatkan sokongan kewangan melalui pinjaman yang berterusan bukan saja membolehkan peserta AIM meningkatkan penggunaan kemahiran hidup mereka dengan sepenuhnya malah mampu menjana peningkatan pendapatan isirumah dengan begitu impresif, menyediakan peluang pekerjaan sendiri kepada sebilangan besar anggota isirumah mereka yang menganggur dan 'underemployed'. Dengan mengenakan caj pengurusan dan keperluan membayar balik pinjaman, peserta AIM menyemarakkan sifat keberdikarian di dalam isirumah yang terbukti menjamin transformasi keluar daripada kemiskinan tegar. Lebih daripada 4/5 peserta AIM terkeluar daripada kemiskinan tegar berbanding kurang daripada 1/3 peserta PPRT. Dalam pada itu, golongan NPP langsung tidak mampu untuk mengeluarkan isirumah mereka daripada kemiskinan.

Penelitian ke atas peserta AIM mendapati bahawa tidak terdapat mana-mana isirumahnya yang masih kekal dalam kategori 'termiskin' maupun 'miskin-moderate' sementara 96% daripada 'isirumah termiskin' sudah berhijrah kepada kategori 'miskin' dalam masa 5 tahun.

Perubahan yang agak perlahan dirasakan di kalangan peserta PPRT dimana 1/5 (20%) masih kekal 'termiskin' sementara 15% melangkah kepada 'miskin-

moderate' dengan 32% naik kepada 'miskin' sementara 32% saja yang terkeluar daripada kemiskinan.

Golongan NPP yang hanya bergantung kepada sumber produktif yang sedikit, merupakan strategi yang paling tidak berkesan ke arah transformasi daripada genggaman kemiskinan. Lebih daripada $\frac{1}{4}$ (28%) masih kekal 'termiskin' sementara hanya 25% berjaya melonjak kepada kategori 'miskin-moderate' dengan baki 45% hanya mampu sampai pada tahap 'miskin' saja. Tidak terdapat kes NPP terkeluar daripada kemiskinan sepanjang 5 tahun jangkamasa penelitian.

Kajian ini merumuskan bahawa pendekatan AIM berjaya mendatangkan peningkatan pendapatan yang berkesan sehinggakan peserta mereka mampu meningkatkan tabungan dan melabur ke dalam aset produktif berbanding dengan kemampuan PPRT dan NPP. Penemuan daripada kajian ini dengan tepat memberikan implikasi yang jelas ke arah matlamat mensifarkan kemiskinan tegar menjelang akhir tempoh Rancangan Malaysia ke-9 (2006-2010).

A COMPARATIVE CASE STUDY ON OUTREACH AND IMPACT OF THE IKHTIAR LOAN SCHEME AND THE DEVELOPMENT PROGRAMME FOR THE HARD-CORE POOR IN SEBERANG PERAI, PENANG

ABSTRACT

The Development Programme for the Hard-core Poor (PPRT) and the Ikhtiar Loan Scheme (ILS) of the Amanah Ikhtiar Malaysia (AIM) are programmes designed to reduce hard-core poverty in rural Malaysia in their respective ways and through their own mechanism. PPRT, on the one hand, is an effort of the federal government in tackling hard-core poverty through a package of services to hasten the process of increasing the household income (HHY) of their participating poor. AIM's microfinance programme, on the other, is an effort of a non-government organisation in complementing national poverty reduction goal.

This study is designed to evaluate the strategy and methodology of PPRT and AIM programmes in reaching out to their hard-core poor and benefiting them to come out of poverty. Secondly, it is an attempt to determine the impact of the two programmes in the generation of household income, savings, accumulation of productive assets and the creation of self-employment opportunities among their household members while comparing it to those hard-core poor households untouched by both programmes i.e. the non-participating poor (NPP).

This thesis attempts to make a modest contribution to the intellectual and academic tradition in determining the quality of outreach and increasing effectiveness in the microfinance industry since both programmes incurred expensive public expenditures with both programmes being implemented nationwide.

The socio-economic information and relevant data for the study were collected from a random sample of the PPRT, AIM and the NPP households from villages in the

programme area. The information on PPRT and AIM programmes were derived from official reports, published materials and personal discussions.

Being a federal government initiative, PPRT utilised the official, political and administrative structure and mechanism at the district and village level to reach out to their hard-core poor, with the task of registering the participants entrusted to the Village Development and Security Committee (VDSC). AIM, being a non-government initiative committed to maximising outreach, developed a 4-stage methodology and implemented them systematically, village after village until all the villages within their branch area are covered. The use of mukim-based poverty estimates followed by 'ikhtiar house indexing', means-testing and finally re-interview were steps taken in determining the coverage effectively and extensively. The use of a more thorough eligibility form (M3) that incorporated information from all sources of income, remittances from other household members and cross-checking against the total value of household and productive assets facilitated the acknowledgement of AIM's methodology as being transparent and professionally implemented. The use of both measures by AIM i.e. the household income and the per capita poverty line income have made their methodology more creditable than PPRT in reaching out to the hard-core poor.

Despite using a different cut-off point in determining their 'hard-core' poverty category, i.e. 2/3 of the per capita poverty-line measure, AIM had proven to reach out to more very poor households while their programme suffered less leakage to the non-poor. PPRT, due to the use of the official political and administrative machinery and relying only on the household poverty line income, had deprived a considerable percentage of the eligible households i.e. the very poor from benefiting from the programme while facilitating a considerably higher leakage to the non-poor households.

As for the impact of the programme on the hard-core poor, even though AIM had proven to be more effective than PPRT, the study noted that reliance on the economic growth of the state with the trickling down effect as exemplified by the NPP, have proven to be less effective in generating increase in household income.

With access to vital financial support especially through subsequent loans, AIM participants managed to capitalise on and scale-up their income generating survival skills to record substantial increase in household income, savings, accumulation of productive assets while facilitating self-employment opportunities for the unemployed and under-employed human resource, abundant among the members of the hard-core poor households. Being a loan scheme with an administrative fee attached to each loan, AIM participants displayed self-reliance characteristics that facilitated their transformation out of hard-core poverty.

More than 4/5 of AIM participants have crossed the poverty-line income compared to only less than 1/3 among PPRT. It is worthy to note that none of the NPP hard-core poor households were capable of getting out of poverty via the trickling-down model. None of the AIM participants remained in the 'very poor' and 'moderately poor' category while 96% of their 'formerly very poor' households have graduated into the 'poor' category within the last 5 years.

A much slower transformation was found among PPRT participants with 1/5 (20%) entrenched in 'very poor' category, 15% moved into 'moderately poor' level and almost 1/3 (32%) reaching the 'poor' category. The NPP, by relying on meagre resources at their disposal was the least effective strategy in the transformation of the poor households with more than 1/4 (28%) entrenched in 'very poor', 25% under 'moderately poor' and 45% crossing into the 'poor' category, none crossing the poverty-line income.

With substantial increase in household income, it was not surprising to note that AIM participants were able to have more savings and generate more productive assets in comparison to the PPRT and NPP households.

Valuable findings have been noted and major lessons can be learned from them. With such comparative advantage being displayed by AIM, a major policy review is necessary towards increasing outreach and maximising impact in line with the national goal of zero hard-core poor by the end of the 9th Malaysia Plan (2006-2010).

CHAPTER ONE INTRODUCTION

1.0 Background

The Malaysian macro-economic development, initially enshrined in the First Outline Perspective Plan (1970-1990) covered four Five-Year Malaysia Plans with the focus on poverty reduction irrespective of ethnicity and economic restructuring with the creation of a viable Bumiputra Commercial and Industrial Community (BCIC) within the overall goal of national unity.

It was 1986, at the beginning of the 5th Malaysia Plan that Universiti Sains Malaysia (USM) initiated 'Project Ikhtiar' to complement existing government programme in reducing poverty. By September 1987, Amanah Ikhtiar Malaysia (AIM) was established to institutionalise Project Ikhtiar and to expand the Grameen Bank approach in reducing hard-core poverty across the nation. At the beginning of the 8th Plan (2000) AIM has a network of 63 branches throughout the country with coverage of 77,283 members mostly women from the hard-core poor.

By the end of the 6th Plan, the federal government realised the need to focus specifically on the hard-core poor. Thus in 1991 the Development Programme for the Hard-core Poor or Program Pembangunan Rakyat Termiskin or PPRT was initiated through the Prime Minister's Department with the Implementation Coordination Unit (ICU) taking the lead role in collaboration with the Ministry of National and Rural Development at the national level. The State Development Office and the District Office coordinated the programme on the ground. PPRT was designed to provide a big push to reduce hard-core poverty. PPRT offers a package of economic and social services aimed at reducing hard-core poverty.

AIM, on the other hand, is a poverty-focused micro-credit programme targeting very poor women. The programme pledges to provide services to the poor irrespective of race, religion or political affiliation. In-built for self-reliance; a compulsory savings programme is instituted in the form of 'group fund' while administrative fee is charged for all their economic loans.

AIM received RM300 million soft-loan from the federal government, a RM4 million soft loan from the Fisheries Development Board of Malaysia and a RM1 million from a commercial bank. The Malaysian Islamic Economic Development Foundation or Yayasan Pembangunan Ekonomi Islam Malaysia or YPEIM and the Ministry of National and Rural Development provide grant to service the hard-core poor. The objectives of AIM are to reduce poverty by providing poor rural women with income generating loans, complementing their transformation with education and basic house improvement loan.

Even though both programmes tried to reach out to the households of the hard-core poor, their cut-off point in determining them differs. PPRT used a straight-forward measure i.e. half of the poverty line income (PLI) while AIM's cut-off level is two-thirds of the PLI. Furthermore, PPRT used only household income in determining eligibility while AIM utilised both the household income and the per capita PLI.

Both programmes are designed to reach the poorest households and benefit them with their distinct approaches to reduction of hard-core poverty. This thesis is designed to evaluate the impact of both strategies in reducing the hard-core poverty in the state of Penang. The research problem is designed to determine the effectiveness in reaching out to the hard-core poor and evaluate the effectiveness of both programmes in reducing hard-core poverty.

1.1 Poverty in Malaysia with Special Reference to Penang

Malaysia experienced rapid macro-economic development with sharp decline in poverty since 1970. The GDP per capita income had increased from RM 1022 in 1970 to RM 3599 in 1985 to RM 4426 in 1990 to RM 14582 in 2000; consequently poverty level declined from 49.3% in 1970 to 16.5% in 1990 to 5.1% in 2002 (Malaysia, 1971; Malaysia, 1991; Malaysia, 2003). In 1970, 907,120 households were estimated to be poor. By 1990, it went down to 574,500 households. At the beginning of the 8th Plan, the estimated poor households stood at 281,000 declining further to 267,000 by the Mid-term review of the 8th Malaysia Plan.

A few macro-economic indicators of the 14 states of Malaysia are shown in **Tables 1.1 to 1.3** in comparing development and poverty trend. **Table 1.1** indicated the growth of GDP per capita from 1985 to 2000 among the states in relation to Malaysia as a whole. The average GDP per capita in Malaysia increased from RM 3599 to RM 14582 during the period. Among the states, the Federal Territory has the highest per capita GDP RM 29919 while Kelantan had the lowest at only RM 6137. Penang had the third highest per capita GDP with RM 20894 in 2000.

Table 1.2 showed the urbanisation and unemployment rates in the states of Malaysia. The average unemployment rate decreased from 7.6% in 1985 to 3.6% in 2001 and urbanisation rate increased from 34.2% to 61.8% during the same period. Penang had the lowest unemployment rate among the 14 States. However, the unemployment rate had increased from 1.3% in 1995 to 1.7% in 2001 in Penang. The rate of urbanisation in Penang is 79.5% compared to the national rate of 61.8%.

Table 1.1: Per capita GDP in different States of Malaysia (Amount in RM)

| Name of the States | 1985 | 1990 | 1995 | 2000 |
|--------------------------|--------------|--------------|---------------|---------------|
| Johor | 3,170 | 4,082 | 10,007 | 14,058 |
| Melaka | 2,775 | 3,732 | 11,305 | 15,244 |
| Negeri Sembilan | 3,111 | 3,744 | 9,034 | 13,574 |
| Perak | 2,760 | 3,532 | 9,290 | 11,826 |
| Penang | 3,780 | 5,246 | 15,054 | 20,894 |
| Selangor | 5,185 | 6,341 | 14,168 | 18,157 |
| Federal Territory | 6,768 | 8,501 | 22,799 | 29,919 |
| Kedah | 2,092 | 2,612 | 6,391 | 8,754 |
| Kelantan | 1,426 | 1,727 | 4,484 | 6,137 |
| Pahang | 2,677 | 3,648 | 7,548 | 9,855 |
| Perlis | 2,470 | 2,936 | 7,634 | 9,739 |
| Sabah | 3,845 | 3,695 | 7,206 | 9,560 |
| Sarawak | 3,452 | 3,892 | 9,287 | 13,248 |
| Terengganu | 5,901 | 6,993 | 16,553 | 22,514 |
| Malaysia | 3,599 | 4,426 | 10,756 | 14,582 |

Sources: Malaysia (1981): The Fourth Malaysia Plan (1981-1985)
 Malaysia (1986): The Fifth Malaysia Plan (1986-1990)
 Malaysia (1991): The Sixth Malaysia Plan (1991-1995)
 Malaysia (1996): The Seventh Malaysia Plan (1996-2000)
 Malaysia (2001): The Eighth Malaysia Plan (2001-2005) and
 Malaysia (2003): Mid-Term Review of the Eighth Malaysia Plan 2001-2005.

Table 1.2: Unemployment and Urbanization Rate in Malaysia

| Name of the States | Unemployment Rate % | | | | Urbanisation Rate % | | | |
|---------------------|---------------------|------------|------------|------------|---------------------|-------------|-------------|-------------|
| | 1985 | 1990 | 1995 | 2001 | 1985 | 1990 | 1995 | 2001 |
| Johor | 6.9 | 3.3 | 2.5 | 2.3 | 35.2 | 48.0 | 54.4 | 63.9 |
| Melaka | 8.3 | 4.0 | 2.2 | 2.0 | 23.4 | 39.4 | 49.5 | 67.3 |
| Negeri Sembilan | 7.5 | 3.7 | 3.0 | 3.3 | 32.6 | 42.5 | 47.3 | 55.0 |
| Perak | 8.1 | 4.5 | 3.8 | 3.5 | 32.2 | 54.3 | 56.2 | 59.5 |
| Pulau Pinang | 6.4 | 3.4 | 1.3 | 1.7 | 47.5 | 75.3 | 77.0 | 79.5 |
| Selangor | 6.3 | 2.9 | 1.9 | 1.9 | 34.2 | 75.0 | 80.8 | 88.3 |
| Federal Territory | 5.9 | 3.9 | 1.6 | 2.6 | 100.0 | 100.0 | 100.0 | 100.0 |
| Kedah | 8.4 | 4.4 | 1.9 | 2.7 | 14.4 | 33.1 | 35.1 | 38.7 |
| Kelantan | 8.1 | 5.9 | 3.4 | 3.4 | 28.1 | 33.7 | 33.5 | 33.5 |
| Pahang | 7.2 | 4.0 | 3.5 | 2.8 | 26.1 | 30.6 | 35.0 | 42.1 |
| Perlis | 7.6 | 4.7 | 1.3 | 1.9 | 8.9 | 26.7 | 29.6 | 33.8 |
| Sabah | 9.3 | 9.1 | 5.4 | 5.6 | 19.9 | 32.8 | 39.8 | 49.1 |
| Sarawak | 8.7 | 8.9 | 4.7 | 4.6 | 18.0 | 38.0 | 41.8 | 47.9 |
| Terengganu | 9.4 | 7.4 | 5.9 | 3.3 | 42.9 | 44.6 | 46.6 | 49.4 |
| Malaysia | 7.6 | 5.1 | 3.1 | 3.6 | 34.2 | 51.1 | 55.1 | 61.8 |

Sources: Malaysia (1981): The Fourth Malaysia Plan (1981-1985)
 Malaysia (1986): The Fifth Malaysia Plan (1986-1990)
 Malaysia (1991): The Sixth Malaysia Plan (1991-1995)
 Malaysia (1996): The Seventh Malaysia Plan (1996-2000)
 Malaysia (2001): The Eighth Malaysia Plan (2001-2005) and
 Malaysia (2003): Mid-Term Review of the Eighth Malaysia Plan 2001-2005.

Table 1.3 showed the population and poverty reduction trend among the 14 states and Malaysia as a whole. It can be seen from the table that there was a sharp decline of poverty incidence in different states and in Malaysia as a whole since 1990. The poverty level decreased from 16.5% in 1990 to 5.1% in 2002. This table also indicated that the poverty incidence varied considerably among the states.

Table 1.3: Poverty Reduction Trend in Malaysia (Population and Households '000)

| States | 1990 | | | 1995 | | | 2002 | | |
|-------------------|--------------|-----------------|--------------------|--------------|-----------------|--------------------|--------------|---------------|--------------------|
| | Poverty Rate | Population | Poor (HHs) | Poverty Rate | Population | Poor (HHs) | Poverty Rate | Population | Poor (HHs) |
| Johor | 10.1 | 2,121 | 214(43) | 3.2 | 2,422 | 78(16) | 1.8 | 2,843 | 51(10) |
| Melaka | 12.4 | 532 | 66(13) | 5.2 | 600 | 31(6) | 2.7 | 662 | 15(3) |
| Negeri Sembilan | 9.5 | 713.7 | 68(14) | 4.8 | 804 | 39(8) | 2.2 | 897 | 20(4) |
| Perak | 8.9 | 1,980.6 | 176(35) | 9.1 | 2,036 | 185(37) | 7.9 | 2,203 | 174(35) |
| Penang | 7.2 | 1,114.5 | 80(16) | 4.1 | 1,179 | 48(9) | 1.4 | 1,366 | 19(4) |
| Selangor | 7.8 | 2,331.4 | 182(36) | 2.5 | 3,210 | 80(16) | 1.1 | 4,361 | 48(10) |
| Federal Territory | 3.8 | 1,214.0 | 46(9) | 0.7 | 1,239 | 9(2) | 0.5 | 1,431 | .15(.03) |
| Kedah | 30.0 | 1,357.8 | 407(81) | 12.1 | 1,501 | 182(36) | 10.7 | 1,725 | 185(37) |
| Kelantan | 29.9 | 1,184.4 | 354(71) | 23.4 | 1,286 | 301(60) | 12.4 | 1,373 | 170(34) |
| Pahang | 10.3 | 1,058.2 | 109(22) | 6.8 | 1,200 | 82(16) | 3.8 | 1,347 | 51(11) |
| Perlis | 19.3 | 187.2 | 36(7) | 12.7 | 197 | 25(5) | 10.1 | 215 | 22(5) |
| Sabah | 34.3 | 1,817.6 | 623(125) | 26.2 | 2,267 | 594(119) | 16.0 | 2,773 | 444(96) |
| Sarawak | 21.0 | 1,699.5 | 357(71) | 10.0 | 1,908.0 | 191(38) | 5.8 | 2,164 | 126(27) |
| Tereng-Ganu | 31.2 | 790.1 | 244(49) | 23.4 | 835.0 | 195(39) | 10.7 | 939 | 100(22) |
| Malaysia | 16.5 | 1,8102.0 | 2,987 (598) | 9.6 | 20,684.0 | 1,986 (397) | 5.1 | 24,575 | 1,253 (272) |

Sources: Malaysia (1981): The Fourth Malaysia Plan (1981-1985)
 Malaysia (1986): The Fifth Malaysia Plan (1986-1990)
 Malaysia (1991): The Sixth Malaysia Plan (1991-1995)
 Malaysia (1996): The Seventh Malaysia Plan (1996-2000)
 Malaysia (2001): The Eighth Malaysia Plan (2001-2005) and
 Malaysia (2003): Mid-Term Review of the Eighth Malaysia Plan 2001-2005
 Penang (1991): The First Penang Strategic Development Plan (1991-2000)
 Penang (2001): The Second Penang Strategic Development Plan (2001-2010)
 (Figures in the brackets are estimated assuming household size 5 until 1995 and 4.6 in 2002).

The Federal Territory had the lowest at 0.5% while Sabah had the highest at 16% of its total population of 2.27 million in 2002. Kedah, Kelantan, Perlis, Sarawak, Perak and Trengganu are the most poverty prone states. Penang had relatively less

poor compared to other states, although the poverty incidence in Penang had increased from 1.6% in 1997 to 2.7% in 1999. The rate declined to 1.4% by 2002.

Table 1.4: Comparative Economic and Social Indicators of Malaysia and Penang.

| Items | Malaysia | | | Penang | | |
|----------------------------------|-----------|-----------|---------------------|-----------|-----------|--------------------------------|
| | 6thMP | 7thMP | 8thMP | 6thMP | 7thMP | 8thMP |
| GDP Growth Rate | 8.7 | 4.7 | 7.5 | 10.0 | 5.4 | 7.5 |
| Monthly Household Income (in RM) | 1167 (90) | 2020 (95) | 2472 (00) | 1332 (90) | 2225 (95) | 3128 (00) |
| Unemployment Rate | 5.1(90) | 2.8(95) | 3.6(01) | 3.4(90) | 1.3(95) | 1.7(01) |
| Poverty Rate | 16.5(90) | 9.6(95) | 7.5(99), 5.1(02) | 7.2(90) | 4.1(95) | 1.6 (97), 2.7(99), 1.4 (02) |
| Population (in million) | 18.10(90) | 20.68(95) | 23.49(00) | 1.145(90) | 1.179(95) | 1.307(00) |

Sources: Malaysia (1981): The Fourth Malaysia Plan (1981-1985)
 Malaysia (1986): The Fifth Malaysia Plan (1986-1990)
 Malaysia (1991): The Sixth Malaysia Plan (1991-1995)
 Malaysia (1996): The Seventh Malaysia Plan (1996-2000)
 Malaysia (2001): The Eighth Malaysia Plan (2001-2005) and
 Malaysia (2003): Mid-Term Review of the Eighth Malaysia Plan 2001-2005
 Penang (1991): The First Penang Strategic Development Plan (1991-2000)
 Penang (2001): The Second Penang Strategic Development Plan (2001-2010).

A comparative trend in some macro-economic indicators in Malaysia and Penang since the 6th Malaysia Five Year Plan period can be seen from **Table 1.4**. It showed that the average monthly household income in Penang was higher than the national average during the 6th, 7th and 8th Malaysia Plan period.

While the research problem focuses on the methodology of two approaches and nature of the outreach and effectiveness of the two approaches in reducing the hard-core poverty, Penang state was chosen as it was the third developed state with macro-economic growth at 7.5% (Malaysia, 2003) and least unemployment rate at 1.7%. Despite the development of industrial zones and growth centres throughout Penang, both AIM and PPRT were operating poverty-reduction programmes since 1988 and 1989 respectively. Thus the study aims at evaluating the effectiveness these approaches within the macro-economic growth and industrial development of the state. Furthermore, all previous studies on AIM concentrated in less developed states prone

to lower macro-economic growth, higher unemployment and limited growth centres. The strength of this research problem is reflected in looking at the effectiveness of NGO-driven compared to government-driven poverty reduction programme.

Table 1.5: Poverty Rate and estimated Poor Households in Malaysia and Penang since 1990

| Year | Malaysia | | | | Penang | | | |
|------|--------------|-----------------|----------|---------------|--------------|-----------------|----------|----------|
| | Poverty Rate | Population '000 | HHs '000 | Poor HHs '000 | Poverty Rate | Population '000 | HHs '000 | Poor HHs |
| 1990 | 16.5 | 18,102 | 3,487 | 576 | 7.2 | 1114 | 229 | 16,023 |
| 1995 | 9.6 | 20,684 | 4,141 | 370 | 4.1 | 1179 | 236 | 9,673 |
| 1997 | 6.8 | 21,604 | 4,321 | 294 | 1.6 | 1231 | 246 | 3,945 |
| 1999 | 7.5 | 22,565 | 4,800 | 360 | 2.7 | 1286 | 257 | 6,944 |
| 2000 | 5.5 | 23,490 | 5,107 | 281 | n.a | 1307 | n.a | n.a |
| 2002 | 5.1 | 24,575 | 5,342 | 267 | 1.4 | 1363 | 296 | 4,148 |

Sources: Malaysia (1981): The Fourth Malaysia Plan (1981-1985)
 Malaysia (1986): The Fifth Malaysia Plan (1986-1990)
 Malaysia (1991): The Sixth Malaysia Plan (1991-1995)
 Malaysia (1996): The Seventh Malaysia Plan (1996-2000)
 Malaysia (2001): The Eighth Malaysia Plan (2001-2005) and
 Malaysia (2003): Mid-Term Review of the Eighth Malaysia Plan 2001-2005
 Penang (1991): The First Penang Strategic Development Plan (1991-2000)
 Penang (2001): The Second Penang Strategic Development Plan (2001-2010).

Note: HHs in the table is used for Households

Table 1.5 depicted the poverty trend in the whole of Malaysia compared to Penang since 1990. It can be noted from the table that the poverty incidence declined by two third (from 16.5% to from 5.1%) from 1990 to 2002 in Malaysia but the absolute poverty i.e. the number of poor households declined from 576,000 to 267,000 during the same period. The average poverty incidence in Penang declined from 7.2% in 1990 to 1.4% in 2002 but the absolute number of the poor households declined from 16,023 to 4,144 which mean that although poverty rate is low, the absolute poverty i.e. the number of poor households has not declined proportionately.

1.2 Methodology of the Two Programmes

The methodology for this study refers to the operational strategy, philosophy, targeting tool, procedure and criteria adopted in determining eligibility of the households as highlighted below.

Strategy: The strategies of PPRT are development of human resources and improvement of the quality of life while AIM capitalises on the survival skills of the poor to make them self-reliant. PPRT is both asset-based and grant oriented, while AIM is a loan scheme.

Philosophy: The underlying philosophy of PPRT was fulfilment of one of the major basic needs i.e. better accommodation that should contribute to poverty reduction. If this need is fulfilled, the poor will be able to spend more on other basic needs and improve the quality of their life. On the other hand, the philosophy of AIM is to finance income generating survival skills of the poor especially women. The poor can create self-employment opportunity and generate income to sustain poverty reduction.

Targeting Tool: Both PPRT and AIM programmes target the households of the hard-core poor. Both programmes used 'Income' as targeting tool as it has been accepted as a universal measure in determining poverty. But the method they calculate and focus are different. PPRT uses $\frac{1}{2}$ of the national PLI, while AIM uses $\frac{2}{3}$ of PLI in determining the eligibility of the households. PPRT uses household Income (HHY) only while AIM uses both HHY and per capita income (PCY). Furthermore, AIM considers income of other members of their household including income from productive sources such as that are remitted to households, household assets and productive assets.

Procedure: The Village Development and Security Committee (VDSC) register the poor within the village and submitted the list to the district office. The district office

compiles the lists from other department and prepares the programme for the poor. On the other hand, AIM collects information and implements the schemes through their independent structure and follows 3-pronged procedure that includes mukim estimates, village estimates and systematic household survey.

Criteria: PPRT uses a simple application form in recording information, which does not contain any visual poverty indicators. On the other hand, AIM uses Ikhtiar House Index (IHI) followed by the Means Test (M3). M3 contains visual indicators of poverty such as description of houses, number of income earners, amount and sources of income, household assets and productive assets.

Quality Control: PPRT does not have quality control mechanism in verifying the poverty level of the households compared to re-interview technique adopted by AIM.

It is of research interest to examine to what extent the methodology of the programme affects the degree and quality of outreach coverage and which of the approaches contribute more towards the reduction of poverty via generation of income. The details of the programme of PPRT, AIM and their methodology, outreach coverage are given in **Appendices 1 and 2**.

1.3 Research Problem

The government programme for the development of the hard-core poor and the non-government microfinance programme have been implemented since mid-eighties. The government approach is both income and asset-based mainly in improving the quality of life of the poor. The non-government microfinance programme is credit-based financing the self-employment and scaling up of income-generating survival skills.

By 1993, five impact studies had been conducted; SERU (1991), AIM (1988, 1990, 1992), Siwar Chamhuri (1992) and similarly other studies by Mohd Taib (1993), Mohamed Zaini (1995) and the Centre for Policy Research, USM (1998) had investigated the impact of microfinance programme on their participating poor in comparison to the non-participating poor (NPP). These studies had found that the participants have higher income compared to non-participants. To date there are no comparative impact study on AIM and PPRT.

Therefore, it is of research interest to examine to what extent the methodology affects the degree and quality of outreach and compare the effectiveness of the government programme for the hard-core poor (PPRT) and the poverty-focused microfinance programme of AIM. The problem statement as defined for the study is as follows:

“To what extent does the methodology of PPRT and AIM affect the degree and quality of outreach to the hard-core poor and which of the two is more effective in reducing hard-core poverty by increasing household income, quality expenditure, savings, productive assets and self-employment?”

On the basis of the above, the research questions developed for this study are:

Research Question One: To what extent does the methodology of PPRT and AIM affect the degree and quality of outreach to hard-core poor households?

Research Question Two: ‘Which of the two approaches is more effective in increasing participant’s income, improving quality of life, that is, improving quality of expenditure, increasing savings and productive assets and generating self-employment?’

1.4 Research Objectives

This study is designed to provide academic and intellectual discourse on the two expensive hard-core poverty reduction programmes namely, a government programme for the hard-core poor and a non-government microfinance programme by focusing on their methodology and impact. The main objectives of this study are:

(1) To compare the methodology of PPRT and AIM in determining the degree and quality of outreach to the hard-core poor.

(2) To determine and compare the impact of PPRT and AIM on household income, quality of expenditure, savings, asset values and self-employment of participating households in comparison to non-participating poor households.

1.5 The Scope of the Study

As noted by the research problem, the scope of this study is geared to two fundamental issues: outreach and impact.

(1) Targeting the hard-core poor, reaching out to them with PPRT on the one hand and delivering micro-loan to scale up income generating capacity through microfinance on the other, is the first major scope of the study. With the view of taking a more scientific assessment of the methodology of the two approaches, this study attempts to provide an avenue for a more transparent, creditable and cost effective poverty tool.

(2) Secondly this study attempts to determine the effectiveness of the two approaches in reducing hard-core poverty especially in increasing household income, savings and asset value and improvement of basic quality of life especially expenditure on education, health, nutrition and investment in business.

1.6 Justification of this Study

Both the federal government and the non-government organisation adopt various methodologies in implementing poverty reduction programmes. So far, no study comparing the effectiveness of the methodology of different poverty reduction programmes in extending outreach and quality of outreach, raising income and improving the quality of life, creating self-employment opportunities for the participants and their adult family members in Malaysia have been undertaken. This study attempts to provide a scientific and academic endeavour to compare and contrast the methodology of the development programme for the hard-core poor (PPRT) of the government of Malaysia and the microfinance programme of AIM and analyse their effectiveness in reducing hard-core poverty.

1.7 Significance of this Study

The Mid-Term Review of the 8th Malaysia Plan and the policy direction of the 2005 budget acknowledged the renewed focus of the federal government to reduce hard-core poverty significantly, aiming for zero hard-core poor by 2009. Such daring target require a major review of the underlying philosophy of the programme, a more transparent and creditable targeting the hard-core poor households and a more tangible impact assessment. Finally, the government acknowledges the need for a more self-reliant approach in the reducing hard-core poverty. As noted earlier, this study offers valuable, independent and scientific analysis in meeting those goals. Lessons learned from both approach can revitalise the strategy and policy towards zero hard-core poor by 2009.

1.8 Summary

The poverty trend in Malaysia since 1970s was discussed in this chapter. The average poverty rate decreased from 49.3% in 1970 to 5.1% in 2002 (Malaysia, 1971 and Malaysia, 2003) with Penang being one of the more developed states with only 1.4% of its total population living below poverty line.

The federal government, the state government and non-government organisations have implemented various poverty reduction programmes. Among them are the development programmes for the hard-core poor (PPRT) of the government of Malaysia and the microfinance programme of AIM.

The research problem in this study was “To what extent does the methodology of PPRT and AIM affect the degree and quality of outreach to the hard-core poor and which of the two approaches is more effective in reducing hard-core poverty”.

CHAPTER TWO LITERATURE REVIEW

2.0 Introduction

Since 1950s national governments have become more concerned with economic development and poverty reduction despite the world experiencing quick successions of development strategies (Yunus, 1994) with increasing involvement of non-government initiatives in the development as well as in poverty reduction activities. Because of various limitations, most of those strategies are not equally effective in reducing poverty. Therefore comparing the methodologies and 'assessing the effectiveness of different approaches in reaching the poor and evaluating the impact on their income and quality of life in a sustainable manner is the main thrust of this thesis.

This chapter discusses the concepts and the measurement of poverty, highlights the emergence of non-government-driven microfinance institutions as an 'alternative approach' in addressing poverty and reviews some studies on the impact of microfinance and development strategies in relation to poverty reduction in Malaysia.

2.1 Concepts and Causes of Poverty

Poverty has been defined from various perspectives. Rowntree (1901), for example perceived poverty from a biological perspective and defined families as being in 'primary poverty' if their total earnings are insufficient to obtain the minimum for the maintenance of mere physical efficiency. Sen and Omnibus (1999) on the other hand, looks at 'starvation' as the most telling aspect of poverty.

From the Asian Development Bank's perspective, 'poverty' is defined as a 'deprivation of essential assets and opportunities to which every human is entitled'

(ADB, 1999). The World Bank (WB) on the other hand defines 'poverty' as 'inability of a person to attain a minimal standard of living' (WB, 1990).

Remenyi (1991) defines poverty as 'systemic'. The systemic poverty is the outcome of social indifference as well as the economic and political processes. He argued that the existing socio-economic processes keep the poor poor.

Poverty in the past was thought to be due to laziness and unwillingness to work (Social Science Research Council, 1968). This concept has changed. Wage employment in some cases perpetuates poverty (Yunus, 1994) because of low wages the poor cannot generate savings to build up an asset-base. The perception of sub-culture, inequality, feminisation and subsequent ineffective measures to overcome the problem, could hardly bring about tangible change in the life of the majority of the poor.

Yunus (1994) perceived 'poverty' as a situation of lack of sufficient income to meet the minimum requirements and with no access to productive resources they cannot utilise their skills fully.

2.2 Measurement of Poverty

Different methods are used in determining poverty level. The absolute approach looks at the minimal living standard in terms of nutritional level, clothing, shelter etc with the necessary income level to support them. The relative approach interprets 'poverty' in relation to the prevailing standards within society, recognising explicitly the interdependence between the poverty line and the entire income distribution (Anand, 1983; p-113).

Poverty line income (PLI) is considered one of the most practical measures for poverty, especially in national planning purposes (Hashim, 1997) and the most widely

used (Asry Yusoff, 2004; Mohamed Zaini, 1995; Khandker et al. 1998). Each country defines PLI according to their macro-economic indicators. The World Bank (WB) regards a person as poor, who survives on less than US\$1 a day. The Mid-Term Review of the 8th Malaysia Plan (Malaysia, 2003: 61) specified the PLI for an average household size of 4.6 members at RM 529 for Peninsular Malaysia, RM 600 for Sarawak and RM 690 for Sabah. The main components of PLI are food, clothing, rent, fuel, household equipment, transport and communication (Anand, 1983; p-113-118).

Thus the present PLI in Malaysia is almost equivalent to the income level defined by the WB. The household with half of the PLI is considered the hard-core poor. The PLI of Malaysia is used in this study to assess the impact of poverty reduction programmes.

2.3 Emergence of Microfinance

The concept of development had become critical especially after the Second World War (Singer, 1989). 'Reconstruction and Rehabilitation' was the top priority agenda in the post-war-economy of Europe (Yunus, 1994: 43). Since then the world has experienced a number of strategies in development and poverty reduction. Among them growth through industrialisation, agricultural development through green revolution, rural development, co-operatives and redistribution with growth were prominent. They were designed with the belief that the benefits of growth and general macro-economic development would trickle down in the form of fuller employment and higher production. In fact, the benefits of these strategies did not reach to the majority of the poor (Remenyi, 1991; Yunus, 1994; Ariffin, 1994). Unemployment and poverty have not been checked by these approaches especially in the developing countries.

Development strategies were designed for general macro-economic development such as the construction of roads and highways, construction of industrial

base such as construction of power plants, ports etc (Remenyi, 1991). The poor could not generate benefits from such infra-structural development.

With poverty persisting, national governments had emphasised implementation of programmes like the provision of basic needs and vulnerable group development. These expensive programmes could not bring about tangible change in the life of the poor as the poor returned to their original level once the relief goods are depleted.

Development should be looked at and handled as a human rights issue not simply as a question of economic growth. It should be directed to generate sufficient income by the poor themselves to sustain their poverty reduction. Yunus (1998) viewed that lack of sufficient income is the root of poverty. Development strategies were not specifically designed for the poor households to increase their income and generate productive assets.

The failure of the past macro-economic development strategies in eradicating poverty in a sustainable manner paved the way towards a more poverty-focused development strategy. Microfinance had emerged as an alternative strategy to eradicate poverty in a sustainable manner allowing the beneficiaries to become self-reliance.

Poverty-focused microfinance programme started off in the late seventies and gained momentum with the Micro-credit Summit of February 1997 in Washington D.C. Since then, the interest in microfinance institutions (MFIs) to sustain poverty reduction and to increase outreach to growing numbers of the poor dominate the development philosophy (Seibel and Bijay Kumar, 1998). The WB, largely ignorant of micro-credit and micro-savings since then also discovered 'microfinance' as an area of priority in the fight against poverty (Deschams and Lambert 1997:29) and established a

consultative group to assist the poorest (CGAP) in June 1995. The growing interest has resulted mainly from the failure of government development banks to provide financial services to the bulk of the poorer population (Seibel and Bijay Kumar, 1998)

Microfinance is considered one of the most effective tools in poverty reduction (Gibbons and Meehan, 1999; Seibel & Perhusip, 1998; Otero, 2002, Hulme & Mosley, 1996; Christen and Drake, 2001). Poverty-focused microfinance is designed to be pro-poor i.e. without material collateral or threat of legal action. Small loans with avenue for subsequent loan cycles allowed the poor to capitalise on their income generating survival skills and generate self-employment in the process. It started spreading in the early eighties and emerged as an industry. MFIs can be a financially viable (Otero, 2002) and it is a viable economic tool for the poor (Yunus, 1998).

Providing small loans as working capital on reasonable terms to the hard-core poor households for income generating has proven to be among the most effective way of poverty reduction (Gibbons and Meehan 1999). Microfinance does not mean only small loans for business, it provides a package of services (Karim and Osada, 1998), and it includes loans for housing, education, insurance etc. Thus Ledgerwood (1999) defines microfinance as a social and financial intervention.

The Micro-Credit Summit drew the attention of the national governments, international donor agencies, development partners and non-government organisations in the late nineties. The Micro-Credit Summit of 1997 came up with the declaration of reaching 100 million of the world's poorest families especially the women of those families with credit for self-employment and other financial and business services by 2005. Since then, microfinance has gained momentum in both developing and developed nations.

There are a number of microfinance models that had evolved ranging from individual financing (BRI in Indonesia) to group financing (Grameen Bank of Bangladesh), solidarity group model (BancoSol in Bolivia), village banking (in South America), FINCA model (in South Africa) over the period of time (Zeller, 1998; Remenyi, 1991). However, Co-operatives, ROSCA, self-help groups are relatively older 'microfinance' models (Seibel, 2001). Poverty-focussed Grameen Bank (GB) model has spread all over the world. It has emerged as a more effective alternative to reaching out to a large number of poor households and benefiting them with small loans.

2.4 Review of some Studies on the Impact of Microfinance

A large number of studies on impact of microfinance on the poor and the hard-core poor are now available. Different approaches have been used to measure the effectiveness of programme intervention. "Before" and "after" situation of the participants and "with" and "without" approach are used (Kothari, 1990, p. 51-53, Mohamed Zaini, 1995; Khandkar et al.1998) to compare the changes in income and qualities of life due to such programme intervention. Repayment rate and loan size are also used (Bhatt and Tang, 2001) to assess the impact of microfinance.

The impact studies on GB borrowers in Bangladesh found that they could lift themselves out of poverty within five years of participation and could attain economic graduation within 8 years of micro-financing. It implies that economic graduation requires bigger amount of loan and longer period of participation. Some studies also found that microfinance programme is able to influence the rural power structure by enhancing economic capability and social awareness. A summary of few impact studies of microfinance is given in **Table 2.1**.

Table 2.1: Studies on the Impact of Microfinance

| Name of the Study | Author, Year, Publications | Findings |
|--|--|--|
| Rural development and poverty alleviation in Peninsular Malaysia- the Emergence of an alternative approach: the Amanah Ikhtiar Programme | Mohamed Zaini, 1995; Ph.D. Dissertation; University of Sheffield | The participants of Amanah Ikhtiar programme increased their income by 92% by utilising loans in 5 years compared to non-participating poor. |
| Finance Against Poverty | Hulme & Mosley (1996); Vol.1&2 Rutledge International Publishing Company. London & New York | 12 MFIs were studied in 7 countries in 3 continents and found that despite leakage of fund to the non-poor and some operational constraints, microfinance has positive impact on the income of the participants. |
| Role of Targeted Credit Programmes in Promoting Employment and Productivity of the Poor in Bangladesh | Rahman & Khandker (1994);The Bangladesh Development Studies; Vol. XXII, No 2&3 | The study found positive impact on participants' employment and productivity. |
| Role of Targeted Credit in Rural Non-farm Growth | Khandker, 1996, The Bangladesh Development Studies, Vol. XXIV No. 3&4 | The study found that micro-credit contributed to additional income of the participants |
| Woman at the Centre | Helen Todd, 1996,Westview Press Inc ,USA | The author conducted a qualitative survey in rural Bangladesh and reported a number of real story how the poor fought poverty and have overcome them by micro loan |
| Income and Employment Effects of Micro-Credit Programmes: Village Level Evidence from Bangladesh | Khandker et al., 1998; The Journal of Development Studies Vol.35 No. 2; Frank Cass; London | The study compared the effectiveness of GB, BRAC and RD-12 and found that the effectiveness of programme intervention by GB is greater than the others. |
| Impact of Credit on the Relative Well-Being of Women. Evidence from the Grameen Bank | Osmani, 1998; Institute of Development Studies. Bulletin, Vol. 29, No 4. | This study found that the microfinance programme enhance women's role in decision making in any household matter. |
| Replicating Grameen in Papua New Guinea | Fleischer, 1999, Humanomics Vol. 15 No 2/3 | A case study of microfinance in Papua New Guinea found a positive outcome of intervention on the qualities of life of the participants. |
| Impact of Micro-Credit Programs of Two Local NGOs on Rural Women's Lives in Bangladesh | Newaz w. 2003. Ph. D. Thesis; The University of Tampere | The study analysed the impact in four dimensions and found that microfinance contributed to awareness & increase the role of women in hhs and social decision |
| Attacking poverty with micro-credit | Mahmud, 2003, Grameen Dialogue, Dhaka | Small loan plays a vital role in increasing income of the very poor. |
| Dropping out: An Emerging Factor in the success of Micro Credit-Based Poverty Alleviation Programmes | Karim & Osada, 1998, The Journal of Developing Economics, The Institute of Developing Economics, Tokyo | A large number of the participants are dropping out of the programme. Dropping out it affects continuation and economic viability of the programme |
| Mis-Targeting by the Grameen Bank. A Possible Explanation | Imran Matin, 1998. Institute of Development Studies. Bulletin, Vol. 29, no-4. | Introduction of seasonal loan by GB in 1992 encouraged the non-target group to participate and increase the extent of mis-targeting |

The effectiveness of programme intervention of microfinance is measured by outreach, changes in income, the quality of life and sustainability of poverty reduction. Mohamed Zaini (1995) using both the “before” and “after” situation and “with” and “without” approach in the impact study of AIM found that the participants increased their income by 92% in five years compared to non-participating poor (NPP).

Hulme & Mosley (1996) using the “with” and “without” approach in their study of 12 MFIs in seven countries in three continents investigated the changes in income and employment of the participants compared to the changes in income and employment of the non-participating poor households in the programme area during the programme period and concluded that microfinance contributed to increasing income and additional employment of the participants. Their study also found that the poor can come out of poverty by continuing participation for five years and graduate by nine years. The study also found that microfinance has widened the avenue for social and economic development in those countries.

Rahman and Khandker (1994) by using the “with” and “without” approach found that the participants created self-employment and increased their productivity by utilising loans from the credit programmes. Khandker (1996) also applied the same approach and found positive outcome of microfinance programme intervention on the income and employment of the participants. The study concluded that the participants generate more benefits from non-farm activities than from agricultural activities. The participants of microfinance programme contribute not only to increasing income but also to increased savings which helped them gradually build up an asset-base over the period.

Helen Todd (1996) conducted a qualitative survey to investigate the impact of microfinance programme on the poor community in rural Bangladesh and uncovered a

number of life-stories of how the poor overcome their poverty. Her study revealed that the microfinance programmes increased household income of the participating women, created awareness among them and empowered their role in the household.

Khandker et al. (1998, P. 121) using the “with” and “without” approach to compare the impact of intervention of microfinance programme of GB, BRAC (an NGO in Bangladesh) and RD-12 (a project of the government of Bangladesh) on their participants found that the borrowers under these programmes had increased their income by 29%, 33%, 21% respectively compared to NPP in the programme area during the same period. This study found that GB and BRAC generated benefits from non-agriculture sector such as petty-trading, micro-enterprises etc. while RD-12 generated more benefits from the agriculture sector. Their study also found that the programmes have positive impact on the quality of life of their participants.

Access to credit not only enables participants to increase their income and generate self-employment but also enhances the role of women in economic decisions within their households. Osmani (1998) investigated the relative well being of the women using ethnographic data of GB participants and non-participating poor households. The theoretical framework of this study was based on ‘bargaining model’. According to this model, the relative well being of women depends on relative bargaining power within their households. The study showed that access to microfinance increased the relative well being in-terms of control on decision and autonomy.

Fleischer (1999) conducted a case study of Grameen Bank Replication programme in Papua New Guinea and found that the participants of the micro-credit programme had not only increased their household income but also improved the quality of their life by utilising small loans.

Access to credit provides a vital resource to women to renegotiate the terms of relations at various levels at home and in the community (Newaz, 2003). Her study also compared the effectiveness of NGOs-run microfinance programme vs. government-run credit programme in creating employment and generating income among the participants and concluded that the programmes run by NGO are more effective in terms of increasing income and employment than the programmes run by the government and the in-built mechanism of NGOs for disbursement and recovery of loans, cost-effective targeting and professional approach to delivery financial services to the poor have helped the NGOs better their financial performance.

The male participants contributed to increase household consumption in terms of food and non-food items. But the female participants contributed towards reducing the extreme poverty and increase in productive assets. Microfinance is not concentrated only on lending credit but it is a package programme which includes improvement in productivity, marketing, income, primary health care, sanitation, education and protection of environment. Microfinance contributed more to the reduction of extreme poverty than that of moderate poverty. Mahmud (2003) observed that initially, income generated from utilisation of small loans might be small but for a hard-core poor, the small amount of additional income is vital.

Repayment rate and loan size are also used in impact study (Bhatt, 2001). It is argued that higher repayment and larger loan size are proxy that the borrowers have increased their ability to repay loans and handling of larger capital in their business which is the outcome of programme intervention. But higher repayment rate does not always mean that the poor have increased their income stream. Sometimes the poor repay in fear of penal action or in anticipation of getting subsequent loan or may be due to repeated persuasion of the field staff. Despite of these limitations, higher repayment rate indicates the maintenance of financial discipline by the borrower.

2.5 Weaknesses of Microfinance Programmes

Microfinance programme is not free from weaknesses. Dropping-out, mis-targeting and high non-participation rate are the major weaknesses in the outreach of microfinance institutions (MFIs). The study of Karim and Osada (1998) found that a large number of participants are dropping-out of the credit-based poverty alleviation programmes. Mis-targeting resulted in the leakage of fund to the non-poor. Dropping-out and mis-targeting affected the institutional mission and financial viability of MFIs. For example, Hulme and Mosley (1996) indicated that in practice, microfinance programmes are benefiting “middle and upper income” poor households. Only a few hard-core poor benefited from microfinance. Therefore, the study concluded that if poverty is to be eradicated, ‘microfinance’ should absolutely focus on the very poor.

Microfinance too had negative effect on their participants. Khandker (1998) noted that woman borrowers become the victim of micro-credit. They fall into vicious cycle of loan burden. They cannot come out of that cycle. Microfinance programme increases the employment and production in rural non-farm sectors as long as the technology is traditional. In this manner, poverty is alleviated on a short-term basis.

2.6 Development Strategies and Poverty Reduction in Malaysia

2.6.1 Government Efforts

It can be noted from **Table 2.2** that despite increase in the average household income since 1957, the income gaps have increased among the ethnic groups (Anand, 1983; Mid-term Review of 8th Malaysia Plan, 2003). The income disparity between Bumiputra and Chinese is higher than Bumiputra and Indians. Due to the heterogeneity of the population, income disparity among the races in Malaysia is a serious threat to national unity and balanced socio-economic development.