Banking on the Rural Poor in Malaysia

Project Ikhtiar

GEMINI Working Paper No. 6

GEMINI

GROWTH and EQUITY through MICROENTERPRISE INVESTMENTS and INSTITUTIONS
624 Ninth Street, N.W., Sixth Floor, Washington, D.C. 20001

DEVELOPMENT ALTERNATIVES, INC. • Michigan State University • ACCION International • Management Systems International, Inc. • Opportunity International • Technoserve • World Education

Banking on the Rural Poor in Malaysia

Project Ikhtiar

by

David A. Lucock
Development Alternatives, Inc.

September 1990

Prepared by GEMINI Project, Development Alternatives, Inc. for the U.S. Agency for International Development under contract number DHR-5448-C-00-9080-01.

TABLE OF CONTENTS

LIST OF TABLES

EXECUTIVE SUMMARY

At the instigation of the Science University of Malaysia, Project Ikhtiar began in 1985 as a two-and-a-half-year pilot project to test the viability of providing credit to poor families involved primarily in agricultural activities in Selangor State. These families were considered unbankable, even for the government-sponsored credit programs provided by the Agricultural Bank, Bank Pertanian Malaysia. The pilot project adapted a credit system used by the Grameen Bank in Bangladesh.

According to government statistics, there are 403,000 poor rural households in peninsular Malaysia. This number has increased slightly even as the country has experienced regular GDP growth exceeding 7 percent per year. The project is targeting its operations to reach 40 to 50 percent of a very poor subset of families totalling 150,000 households.

The pilot project exceeded its target of 300 borrowers, achieving 373 loans to 448 members. A private trust (Amanah Ikhtiar Malaysia) was set up to oversee future operations and a nongovernmental organization, the Malaysian Islamic Economic Development Institute (YPEIM), provided seed capital of $US 500,000 free of interest to fund further lending.

By July 31 1990, nine Project Ikhtiar branches had made 999 loans to 1,782 members. Twenty branches will be established this year and 30 to 37 branches will be in place by the end of 1991 to service an expected 60,000 borrowers within about six years.

Borrowers pay loan fees that cover all administrative expenses, although governmental subsidies are received to compensate for reduced loan fees charged for each borrower's first two loans. All loans are repaid weekly over 50-week terms and are not collateralized. The provision of credit has raised the incomes of the borrowers substantially; the impact on women borrowers has been much higher than the impact on men. A large proportion of borrowers are now women and, in the pilot project, they achieved income increases twice that of men.

Loan recovery exceeds 99 percent and illustrates the success and importance of close and regular contact with borrowers coupled with the guaranteed availability of financial services to customers in good standing. The project fortifies these services through intensive interviewing of potential members, the use of member groups, and compulsory attendance at weekly center meetings.

SECTION ONE

INTRODUCTION

PROJECT BACKGROUND

Research by the Science University of Malaysia (USM) in 1983 on the persistence of extreme poverty in Peninsular Malaysia suggested that credit to very poor, small farm households could bring about a rapid and significant reduction in their poverty. A detailed proposal for a pilot project to determine the effectiveness and potential of such a poverty reduction program was presented to the Prime Minister's Office and the Ministry of Agriculture. Although there was general agreement on the proposals, no immediate program was started.

In 1985, a staff member of USM was in Bangladesh and learned about Grameen Bank and its lending systems and policies, and felt these were very close to USM's own proposals. This led to discussions with Bank Pertanian Malaysia, which considered the USM proposals to be nonbankable and no action was taken. Following this, a steering committee comprising USM staff and representatives of federal and state government spearheaded Project Ikhtiar (P.I.), which was launched as a two-and-a-half-year pilot project in the northwestern part of Selangor State to test the applicability of a Grameen Bank type of approach in Malaysia. The first loans were disbursed December 1986 and the pilot project ran to June 30, 1988.

Prior to the completion of the pilot project, the steering committee for the project could see the need to establish an organizational body to carry on the work if extension were to be recommended. Since it was felt that a banking structure would be too profit motivated (to the detriment of services to the very poor) and that a cooperative structure was too open to exploitation by political and wealthier factions, the final decision was to establish a private trust. This was called Amanah Ikhitiar Malaysia (AIM), and was established on September 17, 1987 to oversee the extension of the project.

Government statistics supported the need for P.I. The number of rural poor — those with household income of less than $M 350 ($US 130) per month — had increased slightly from 402,000 households in 1984 to 403,200 households by 1987, and formal credit programs were not reaching the bulk of these people. To ensure that only the poorest of these people would be assisted, P.I. decided to lend to those with household incomes two-thirds or less of the government poverty level. Currently, this comprises an estimated 155,265 target households in the 11 Malaysian peninsula states. P.I. borrowers are those with personal income less than $M 50 per month ($US 18.50) or with a household income of less than $M 250 ($US 93) per month. This can be compared with the rural national average in 1987 of $M 853 ($US 316) per household per month.

For the expansion of activities into new states and the opening of new P.I. branches, operational start-up costs are provided by participating state governments as well as the federal government. A loan fee of $M 75 ($US 28) per loan and 1,800 borrowers per branch are needed to ensure that fee revenues will cover all administrative expenses. Start-up funding for loans to borrowers, totalling $M 1.35 million ($US 500,000), has been provided by YPEIM, the Malaysian Islamic Institute for Economic Development.

SECTION TWO

THE CREDIT DELIVERY SYSTEM

ORGANIZATION

Amanah Ikhtiar Malaysia

The AIM was registered in September 1987 to institutionalize and oversee Project Ikhtiar. Membership of this private trust comprises 12 trustees who are appointed by virtue of their own or their official capacities from the USM, the nongovernmental organization (NGO) YPEIM, and federal and state governments. Professor Yunus from Grameen Bank is also a trustee.

Project Ikhtiar Operations

There are two head office divisions: the field division, which supervises lending activities through five regional offices, and an administrative division, which is responsible for personnel and training, financial reporting, auditing, and other administrative duties.

Administrative Division

This division is supervised by the senior USM staff member (Professor David Gibbons) seconded to P.I., who is also the Managing Director of P.I. The division is made up of five departments: operations, finance, personnel and training, computer, and auditing, with a total of 21 staff. The Personnel and Training Department is located in Kedah State (in Baling) and has six staff made up of three trainers, two clerks, and one driver. The remainder of the administrative division is located on the USM campus in Penang.

Each branch provides summary data on its operations to its respective regional offices on a monthly basis. The offices send on individual branch and consolidated regional data to the head office. Data is processed by a computer located in each branch and regional office. Modems and surface mail are used for data transmission.

Field Division and Field Offices

The other senior USM staff member seconded to P.I. head office (Professor Madya Sukor Kasim) is the Director of the Loans Division and is responsible for the supervision of the five regional offices. Each regional office is headed by a programs officer with a professional staffing level of one staff per six branches supervised by the regional office. Regional offices have support staff of two clerical workers and a driver.

Each branch office at full capacity is expected to service up to 2,000 borrowers and is staffed with a manager, computer operator, and seven field staff. Field staff are expected to service up to 300 borrowers each by attending 10 borrower center meetings a week. Each center is made up of six borrower groups each comprising five members. Branch managers and more senior staff are university graduates, while field assistants are high school graduates.

Organization of the Borrowers

Selection of Customer Areas

Each state is divided into districts and P.I. branches are usually located at the district level. Prior to starting operations in each district, P.I. staff spend six to eight weeks surveying a new district to measure and locate areas of poverty and potential numbers of future borrowers. The first area serviced will be that containing the largest number of poor households and this area is canvassed by P.I. staff advertising the services it wishes to provide and searching for possible members who can act as the catalyst in establishing the first groups and centers.

Centers and Groups

Groups are formed by the members themselves without direct assistance from P.I. staff. It can take between two and six months for the formation of a group in a new area. The manager of a new branch is responsible for the formation of the first six groups. While informing potential customers of the availability and conditions of loans, a means test is completed for each interested family. The test, which takes about 30 minutes, places emphasis on personal and family income, the state of the house in which the family lives, and the value of total assets. Potential members are those with income levels that are less than $M 50 per month per member or $M 250 per month per family ($US 18.50 and $US 92.60, respectively). These levels are set at two-thirds of the governmental definition of poverty to ensure that the targeted very poor are reached.

Once a group of five people has been formed, the group receives compulsory training from the field assistant and passes a group recognition test to ensure that members understand their joint and several responsibilities. The group will then be admitted to a center that comprises up to six groups: a total of 30 members.

Each group and each center has a chief and a secretary. Within each group the first loans will be given to two members followed by two more members eight weeks later and finally the group chief after a further eight weeks. The center meets each week to discuss and agree upon loan proposals from each group, disburse loans and take in loan repayments and savings under the supervision of the P.I. branch field assistant. It is compulsory for all members to attend these weekly center meetings. If a member persists in not attending meetings, the group and the center as a whole will not receive further loans.

By July 1990, there were 129 centers of which 12 were for male borrowers and 117 for female borrowers. There were 398 groups with 1,782 members, of whom 90 are male and 1,692 are female. A description of P.I. group concepts and organization is contained in Annex C.

Differences between Project Ikhtiar and the Grameen Bank Model

There are differences, some of which are culturally motivated, between the P.I. and Grameen bank (GB) systems, as follows:

- P.I. is neither a bank nor connected with a bank. It is overseen by a private trust;
- P.I. pays no interest on its loan capital and therefore does not charge its borrowers interest. GB charges 16 percent interest on loans;
- Since YPEIM allows unpaid loans to be written off in the case of the death of a borrower, no emergency fund was set up;
- P.I. allows the use of up to 50 percent of the current running balance in the Group Fund (GF) account to meet member's unforeseen needs; GB allows use only up to 50 percent of the total funds collected;
- P.I. uses and enforces a Special Center Savings Fund (SCSF) to recover loan arrears. When a group member's loan is overdue, all members of that group and all members of the center must pay in an extra $M 2 and $M 1 respectively per week until the loan amount has been recovered;
- Physical exercises and saluting were seen to be culturally inappropriate in the rural Malaysian context and were not adopted;
- In Bangladesh the means test conducted to determine the eligibility of borrowers is less rigorous; and
- There is no use of computers in field branches in Bangladesh.

THE FINANCIAL SYSTEM

Extent of Lending

Achievements of the pilot project ending June 30, 1988 and of the project between July 1988 and July 31, 1990 are outlined in Table 1. All loans are for 50-week terms with equal weekly repayments. There were six branches as of June 1988 and nine branches with members as of July 1990.

TABLE 1

PROJECT IKHTIAR LENDING
($M)

	By June 30, 1988	July 1988 to July 31, 1990
Amount disbursed		
Male	284,801	176,557
Female	136,266	594,080
Total	421,067	770,637
Amount Repaid		
Male	155,396	155,995
Female	93,425	336,481
Total	248,821	492,476
Percent of Amount unpaid after 1 year		
Male	28.4 %	0.34 %
Female	5.4 %	0.27 %
Total	22.6 %	0.29 %
Number of Members		
Male	237	90
Female	211	1,692
Total	448	1,782
Number of Borrowers	373	999
Average loan size	$M 1,130	$M 771
	$US 419	$US 286

Overdue borrowers have declined in numbers substantially: from a total of 100 (26 percent) overdue accounts in 1988 to only three (0.2 percent) in 1990. Stricter enforcement of group responsibilities and discipline are the major reasons for this improvement. Women borrowers are more responsive in this regard and consequently a much greater number of loan disbursements has been to women: 911 (91 percent) of the borrowers are now women. Under the pilot project, there were 141 (38 percent of the total) women borrowers and only ten (7 percent) of these were in arrears. Comparative figures for men were 232 borrowers (62 percent of the total) of whom 90 (39 percent) were in arrears.

The number of borrowers is less than the number of members. One reason is because members must wait their turn for their initial loan. A second reason is that some members do not want to borrow a P.I. loan after receiving their second or third loans: instead they continue membership using the Group Fund to cover any short-term borrowing needs and to have access to savings facilities.

Sources of Funds

Original Loan Capital

YPEIM provided $M 1.35 million to P.I. as a grant for on-lending to members. It is estimated that a further $M 20 million may be needed in the future to reach a target of about 60,000 borrowers. This money is to be requested from federal government at zero interest rates and a 20-year term. The Institute for Agricultural Development (IFAD) is also interested in providing seed capital.

The Group Fund

Five percent of each loan plus savings of $M 1 per week are paid into the group fund by each member. Up to half of the running balance of this fund is available to members for borrowing to meet sudden needs, which tend to be emergencies rather than longer-term investments. The terms of repayment are up to six months with no other charges or payment of interest. The unused balance of the Group Fund is held in the National Savings Bank (BSN) and accumulates interest, which is credited to members' accounts annually. Upon leaving P.I., a member is able to withdraw accumulated savings. The status of the group fund is shown in Table 2.

TABLE 2

STATUS OF GROUP FUND
($M)

	30 June 1988	31 July 1990
Savings in fund	41,261	120,215
Loans from fund	19,723	57,040
Loans as Percent Savings	48 %	47 %
Fund as a percent of all loans outstanding	32 %	43 %

At a stable volume of lending, the Group Fund would eventually provide for self-sufficiency in loan funding: this would occur within four years with a loan size of $M 500 (an average outstanding balance of about $M 275), and need up to seven years at a loan size of $M 2,000.

Loan Fees

It has been estimated that a branch at full capacity of 2,000 borrowers would have annual administrative costs of about $M 125,000 and need a further $M 25,000 for its share of head office expenses. A fee of $M 75 per loan is required to obtain the necessary revenues. However, first-time borrowers pay only $M 25 and second borrowers pay $M 50 per loan and only reach $M 75 with the third and subsequent loans. The necessary revenue to cover these start-up costs comes from federal and state governments as a grant. A fee of $M 75 on a loan of $M 771 amounts to 17.7 percent on its average outstanding balance. This becomes 6.8 percent on a loan of $M 2,000.

Costs of Borrowing

Members must open an account with the National Savings Bank so that P.I. can deposit the loan into the account. A minimum deposit of $M 2 is needed to open an account. Five percent of each loan is placed into the Group Fund account and the remaining 95 percent is deposited in the member's BSN account. All loans are for 50-week terms with equal weekly repayment. Early repayment is not allowed as it would disturb group discipline. The effective costs of borrowing, including the loan fees as well as the immediate loss of funds (5 percent of the loan plus savings of $M 1 per week) into the GF account, are shown in Table 3 according to loan size.

TABLE 3

EFFECTIVE COSTS OF BORROWING

		Loan Sizes			
	$M	500	1,000	1,500	2,000
Loan fee	$US	185	370	556	741
$M25		40.39%	n.a.	n.a.	n.a.
$M50		49.80%	30.72%	n.a.	n.a.
$M75		58.99%	35.59%	27.44%	23.30%

These costs are without interest charges; a market cost of funds would add about 9 percent to each of the figures shown.

Access to the GF account for emergency loans (free of interest) can reduce the costs shown in Table 3 by about 0.24 percent when a member has a $M 2,000 formal loan size, and by about 1.98 percent in the case of the $M 500 loan size.

Even though the loan fee increases with subsequent borrowings, the effective cost of borrowing declines as loan size increases. The flat fee of $M 75 tends to encourage larger loan sizes to minimize costs. The fee is too high for loans of $M 500 or less and effectively discourages small loans. It would be better to reduce the fixed fee and complement it with a percentage fee based on loan size.

SECTION THREE

PERFORMANCE

BORROWER IMPACT

Program Targets

It is estimated that there are 155,000 very poor rural households in Peninsular Malaysia. The pilot project reached 448 of these and P.I. to date has reached 1,782 poor households. It is believed that 60,000 households can be serviced by 30 branches within about six years, and this is the break-even point to enable all loan fees to cover all administrative charges.

Currently there are 20 field branches of which nine have borrowing members and 11 are recently formed. There are plans for a total of 37 branches within the near future.

Under the pilot project, 74 percent of loans were for agricultural purposes and the remainder mainly for petty trading activities. Details are shown in Annex B. Now, with the predominance of women borrowers, agricultural lending has declined to about 50 percent of all lending. Major agricultural activities are the leasing of land for cultivation, the leasing of rubber trees to obtain tapping revenue, and the rearing of chickens.

Impact on Borrowers

The Pilot Project

Since all borrowers underwent a means test, a benchmark was established that enables the benefits from P.I. to be seen more clearly. In the pilot study, 178 borrowers were sampled. These had average annual household incomes of $M 2,076 ($US 769) prior to the project and $M 3,012 ($US 1,116) two years later: an increase of 45 percent. Not all borrowers benefitted: 125 borrowers had received an annual increase in income of $M 1,428 (+69 percent) and 53 had no increase in income. Overall, the average loan of $M 1,130 had yielded an annual rate of return of 83 percent. Women borrowers achieved income increases twice those of men.

The Current Project

An analysis of P.I. in 1990 based on a sample of 328 borrowers, following their first loan, showed annual household income increases from credit in five locations of $M 756 to $M 2,290 from an average loan size of $M 771. Average household incomes rose from $M 2,339 ($US 866) prior to receiving credit to $M 3,647 ($US 1,351) from income generated from credit-invested activities; an increase of 56 percent. Details are shown in Table 4.

TABLE 4

P.I. BORROWER IMPACT
($M)

Location	A	B	C	D	E	Total	Average
Sample size	21	178	50	29	50	328	
Average:							
Borrower age	38	45	41	40	36		42
Total Assets	3,185	n/a	2,454	2,761	6,123		1,756
Land ha.	0.19	n/a	0.11	0.14	0.76		0.16
Income[a]							
Pre-P.I.	2,513	2,078	2,641	2,735	2,664		2,339
Via credit	756	936	1,479	2,003	2,290		1,308
Via other	506	1,605	292	135	0		960
Current	3,775	4,619	4,412	4,873	4,954		4,607

[a] Annual household income

Project staff believe that the improvement in impact compared with the pilot study accrues from better counselling of members when they are choosing their business activities, learning from experience as to which activities are not good, moving towards more trading activities with higher profit margins, paying closer attention to ensure that loan funds are not misused, and loaning to a much higher proportion of women.

INSTITUTIONAL PERFORMANCE

Financial Performance

Asset Quality

The loan portfolio is in excellent shape as indicated by a collection rate in excess of 99 percent. This can be compared to cumulative repayment rates on government sponsored credits (that charge interest rates of between 0 percent to 4 percent) of about 52 percent.

P.I. has minimized the holding of other assets by renting all buildings it uses. Other major assets that it owns are computer hardware and four wheeled vehicles used by head office supervisory staff. All field staff are given a loan to purchase motor cycles for work and personal travel. The operating expenses of these are paid from loan fees.

Profitability

P.I. aims to make no profit. Initial operating losses caused by subsidizing loan fees on members' first and second loans and overstaffing while trying to establish groups are recovered from state and federal government grants.

If interest expenses are incurred on funds obtained in the future for lending to members, an equivalent charge will be levied on the borrowers to ensure there is no net operational loss.

Liquidity

Funds supplied by YPEIM have been more than sufficient to meet needs. Malaysian federal and state governments as well as IFAD have indicated strong interest in providing all necessary loan funds in the future. About $M 20 million ($US 7.4 million) will be needed over the next five years.

The GF accounts of the members are likely to be a major source of loanable funds in the longer term.

Organizational Performance

P.I. Personnel

Currently there are 200 P.I. staff of whom 19 are in head-office-related positions and 181 in the field. These numbers will grow to 300 within two years: 25 in head office and the remainder in the field.

Only 40 percent of new recruits remain after six months of training in the classroom and in the field: most leave within the first month. P.I. tries to select strongly motivated staff. A large pool of recruits is available. Branch office managers spend three to four weeks with the Grameen Bank in Bangladesh as on-the-job training.

P.I. staff to borrower ratios are very high. This overstaffing is being offset by using staff in promotional field surveys. The eventual expected level of one field staff per 300 borrowers is reasonable. Government subsidies are funding initial staffing costs.

Customer Service

Although the number of members is still small, it is growing rapidly and the sound reputation and political impartiality of P.I. seems certain to foster expected growth. It is interesting to note that the Agricultural Bank introduced an interest free loan scheme to households with annual income of less than

$M 2,100 ($US 778) in 1989. This is the same target population as the P.I. scheme. During 1989, the Agricultural Bank was able to disburse only one loan for an amount of $M 1,500 ($US 556).

Another government-sponsored credit scheme for petty traders provides loans of between $M 500 to $M 5,000 at 4 percent interest. No collateral is required but the loan application must be approved by the borrower's own trade association. Of 1,123 applications received, 661 (59 percent) were approved with an average loan size of $M 3,025 ($US 1,120).

Neither of these two sponsored credit schemes are effectively reaching the rural poor.

SECTION FOUR

REPLICABILITY OF PROJECT IKHTIAR

LESSONS LEARNED

A Market Segment Exists even in Moderately Developed Countries

In Malaysia, with a GDP per capita of $US 2,050 and average household incomes of almost $US 6,000, there are still 403,000 rural poor households with household incomes less than $US 1,250 per year. Despite substantial GDP growth rates of over 7 percent per year, this number of rural poor has slightly increased over a five-year period. The lack of adequate financial services to this group is inhibiting their growth in income.

Through the use of village surveys and means testing of applicant members, P.I. obtained a sharper focus on its intended target group and was able to market its services.

Institutional Needs

A Lead Institution

- A dedicated sponsoring and supervising body is needed to ensure the success of the program. The body should be legally incorporated and free from political pressures.
- Start-up funding for administrative expenses and lending is needed and should be free of ties.
- Staff must be well trained, dedicated, patient, and able to work closely with members in poor areas and in conformity with members' customs.

The Use of Groups

- The use of borrower groups can be an effective instrument to reduce the transaction costs of members and to ensure better loan recovery.
- The formation of groups encourages:
    - The development and maintenance of necessary personal and business communications between lending staff and borrowers; and
    - The beneficial effects of peer pressure in development motivation, the selection of business opportunities, the early resolution of problems, and loan recovery.

- Women seem to accept and follow the principles and concepts of groups more readily than men and, therefore, where groups are vital to financial operations, have a better loan repayment record than men.

- Women are more able to organize their own time so as to be able to attend weekly group and center meetings. Group formation for lending may lead to a bias towards lending to women.

- Members who are very poor, have no other access to credit, and who can see the benefits from credit use will accept compulsory weekly attendance at center meetings and the enforcement of joint loan repayment liability, through the SCSF, even though these requirements are not popular. Plausibly, people who do not accept these strictures are either not really poor or lack the discipline needed to operate a business successfully.

- Population densities must be such that the area covered by a center does not entail excess travel for its member groups. Mosque or church or health clinic boundaries can be an indicator of center locations and needs.

Financial Services

- The credit program must be completely separate from and independent of government sponsored lending programs.

- The credit program must be taken to the poor and procedures must be simple. Training must be given to ensure that borrowers fully understand their responsibilities.

- Borrowers are able and willing to pay the costs of providing financial services. These payments are needed to ensure the sustainability of services.

- Loan conditions must be enforced strictly. Once exceptions are made, loan recovery declines.

- Aid should not be mixed with credit. Borrowers become confused regarding their repayment liabilities and donations undermine the creation of self-reliance.

- The promise of continuing access to credit is a strong incentive towards prompt loan repayment.

- There is a demand for savings facilities that grow rapidly as borrowers succeed in their business activities. This is illustrated by the ability of members to make weekly savings, the desire of many members to draw down on accumulated savings in the Group Fund rather than take a further loan, and the many members now saving more than the minimum weekly requirement.

Benefits

- The provision of credit directly generates income-producing activities.

REASONS FOR NONREPLICABILITY OF P.I.

Institutional Restrictions

- Not all countries would allow, without interference, the setting up of an impartial and well-informed autonomous institution able to implement a program of financial services aimed at the very poor.

- A bank branch network may not be available to allow the correct and orderly disbursement of loan funds close to the borrowers. Since P.I. is not a bank itself, it is reliant on another bank for services.

Inadequacy of Start-up Funding

- Funding is available in Malaysia to cover losses on administrative expenses for the first six years of the program. The availability of funds for lending to the members is also assured. Both funding sources come without ties. Some countries may not have access to such funds.

Use of Groups may not be Possible

- Regions with sparse or scattered population will not be able to follow the concepts of groups and centers.

- In some regions, whole villages are related. Groups made up of unrelated members cannot be formed.

- Some regions do not have societies sufficiently open and public and with a strong enough sense of community obligations.

- It may not be possible for a group to function sufficiently independently of political, religious and other social pressures.

Trained and Dedicated Staff not Available

It is essential that the staff of the financial institution live and work closely with the customers. Besides the difficulty of finding staff with adequate levels of education, skill, and dedication, staff may not want to be located in rural areas.

ANNEX A

BASIC STATISTICS: MALAYSIA 1984 - 1990

ANNEX A

BASIC STATISTICS: MALAYSIA 1984 - 1990

	Year:	1984	1987	1988	1989	1990
Inflation rate		-	0.80%	2.50%	2.80%	-
GDP Growth in current prices		-	11.60%	14.80%	12.60%	-
Base lending rate		-	7.50%	7.00%	7.00%	-
Twelve month deposit rate		-	4.25%	4.25%	5.50%	-
Commercial lending	$M billions	-	-	76.978	92.533	-
-Rural credit	"	-	-	-	9.905	-
Commercial deposits	"	-	-	90.174	104.23	-
Population:						
Peninsular	millions	-		14.025	-	14.709
Sabah	"	-		1.443	-	1.535
Sarawak	"	-		1.682	-	1.766
Total	"	-		17.150	-	18.010
Total labor force	"	-	6.400	6.600	-	6.800
			(Unemployment ranges 7.5% to 8.2%)			
Peninsular population:						
Malay		-	-	58%	-	55%
Chinese		-	-	32%	-	30%
Other		-	-	11%	-	15%
Monthly Household Incomes:						
Total Peninsular	$ M	-	1,074 ($US 399)		-	-
Malay only	$ M	-	868 ($US 323)		-	-
All rural	$ M	-	853 ($US 317)		-	-
All urban	$ M	-	1,467 ($US 545)		-	-
Number of Poor Households:						
Rural		402,000	403,200	(97.5% of these are Malay.)		
Urban		81,300	82,600			
Total		483,300	485,800			

In 1989, agriculture made up 21% of total GDP

Over the last four years the Malaysian Ringgit has traded in the range of $M 2.6 - $M 2.7 per $US.

ANNEX B

ACTIVITIES FINANCED BY PROJECT IKHTIAR LOAN CAPITAL

ANNEX B

ACTIVITIES FINANCED BY PROJECT IKHTIAR LOAN CAPITAL

ACTIVITIES FINANCED BY PROJEK IKHTIAR LOAN CAPITAL, NUMBER OF LOANS AND AMOUNT (In ringgit)							
Code	Activity	No.	Male($)	No.	Female($)	No.	Total($)
01	Padi Cultivation	67	57,411	52	29,401	119	86,812
02	Tree Crop Cultivation	33	24,659	9	3,851	42	28,510
03	Maize Cultivation	37	19,315	9	3,211	46	22,526
04	Other Cultivation	39	22,545	8	4,531	47	27,076
05	Fishing Equipment	34	24,419	22	19,816	56	44,235
06	Animal Husbandry	69	33,782	44	14,321	113	48,103
	SUBTOTAL AGRICULTURAL	279	182,131	144	75,131	423	257,262
07	Hawking/Distribution (Food)	12	9,289	12	2,744	24	12,033
08	Food and Drink Stall	13	7,070	14	8,477	27	15,547
09	Hawking Fish and Vegetables	16	6,212	6	2,307	22	8,519
10	Hawking Other Agricultural	18	13,403	7	3,774	25	17,177
11	Hawking Non-Agricultural	8	4,915	15	9,110	23	14,025
12	Purchase/Repair Own Vehicle	17	8,702	22	7,971	39	16,673
13	Indirect Uses	2	600	1	100	3	700
14	Repair/Servicing Vehicles	1	600	4	2,878	5	3,478
15	Other Services	3	3,457	1	285	4	3,742
	SUBTOTAL NON-AGRI	90	54,248	82	37,646	172	91,894
	GRAND TOTAL	369	236,379	226	112,777	595	345,156

% NUMBER OF LOANS AND % AMOUNT OF LOANS							
Code	Activity	% Male(%)		% Female(%)		% Total(%)	
	Total Borrowers (No. & $)	189	253,544	90	120,621	279	374,165
01	Padi Cultivation	18.2	24.3	23.0	26.1	20.0	24.9
02	Tree Crop Cultivation	8.9	10.4	4.0	3.4	7.1	8.2
03	Maize Cultivation	10.0	8.2	4.0	2.9	7.7	6.5
04	Other Cultivation	10.6	9.5	3.5	4.0	7.9	7.8
05	Fishing Equipment	9.2	10.3	9.7	17.6	9.4	12.7
06	Animal Husbandary	18.7	14.3	19.5	12.7	19.0	13.8
SUBTOTAL AGRICULTURAL		75.6	77.1	63.7	66.6	71.1	73.7
07	Hawking/Distribution Food	3.3	3.9	5.3	2.4	4.0	3.5
08	Food and Drink Stall	3.5	3.0	6.2	7.5	4.5	4.5
09	Hawking Fish and Vegetables	4.3	2.6	2.7	2.1	3.7	2.4
10	Hawking Other Agricultural	4.9	5.7	3.1	3.4	4.2	4.9
11	Hawking Non-Agricultural	2.2	2.1	6.6	8.1	3.9	4.0
12	Purchase/Repair Own Vehicles	4.6	3.7	9.7	7.1	6.6	4.8
13	Indirect Uses	0.5	0.3	0.4	0.1	0.5	0.2
14	Repair/Servicing Vehicles	0.5	0.3	1.8	2.6	0.8	1.0
15	Other Services	0.8	1.5	0.4	0.3	0.7	1.1
SUBTOTAL NON-AGRI		24.3	22.9	36.2	33.3	28.8	26.2

ANNEX C

GROUP CONCEPTS AND ORGANIZATION

ANNEX C

GROUP CONCEPTS AND ORGANIZATION

Preliminary Group Formation

(i) Potential members themselves form their own group of five with the following conditions:

a. Neighbors — that is, sharing the same mosque;

b. Not close relatives;

c. Same social and economic standing;

d. Similar age and educational characteristics;

e. Agree to follow compulsory group training;

f. Agree to form that group.

(ii) The potential members are visited frequently by the Trust Assistant to enquire whether they have a group of five and to continuously motivate them on various aspects of the credit scheme.

Group Sanctioning

Once the group has been formed, the Trust Assistant talks to the group, remotivating them, describing the compulsory requirements, checking group member's backgrounds and whether they have met group formation principles. A few such meetings may be held until field staff feels that the preliminary group has the basic features needed for Compulsory Group Training (CGT).

The Trust Assistant reports to the Branch Manager on the preliminary group, so he can sanction Group Training. If the branch manager finds that the members meet all requirements, have the discipline and are willing to take the CGT, he will then allow the group to begin CGT again reminding them of the need for self/group discipline, and to ask questions until they understand what is being taught. The manager will inform them that he will visit them off and on to review their progress during the duration. The manager will also inform the Group that the Group Recognition Test (GRT) will be taken by the Director of the Loan Division (DLD) acting as Area Manager.

Compulsory Group Training Requirements

(i) A minimum of 7 days, an hour a day at the time and place that all Group Members (GM) agree to until the manager is confident that the GM are ready for the Group Recognition Test (GRT).

(ii) Compulsory daily savings of 20 cents per person per day up to 5 days and each daily collection must be kept in trust by each member until the GRT — failure to present the actual coins at that time means the GM fails the GRT.

(iii) Complete attendance is necessary on all CGT days and if a member fails to turn up, the CGT ends and the GM have to repeat the normal procedures.

(iv) Follow proper procedures in instilling discipline — especially in seating arrangement, refrain from smoking, eating, talking among themselves, stand when Trust Assistant enters and leaves.

(v) Agree to hold a group position and uphold procedures and discipline.

(vi) The poorest two members are nominated as the first two borrowers.

(vii) Follow CGT procedures properly and punctually for the beginning and closing of CGT.

(viii) Memorize the pledge, the principles of AIM and resolution of members.

(ix) Each GM will be tested daily to ensure they understand and remember what is being taught and to prepare them for the GRT.

Pass the Group Recognition Test (GRT)

The GRT is undertaken by the Director of Loan Division (DLD) in his role as Area Manager.

The objective of the GRT is to:

- Ensure that all GM understand the philosophy, rules, and regulations of the loan program;
- That the Group Chairman and Group Secretary know their responsibilities to the group and to AIM;
- That the group volunteers to join AIM and knows their rights and responsibilities.

GEMINI Publication Series

GEMINI Working Papers:

"Growth and Equity through Microenterprise Investments and Institutions Project (GEMINI): Overview of the Project and Implementation Plan, October 1, 1989-September 30, 1990." GEMINI Working Paper No. 1. December 1989.

"The Dynamics of Small-Scale Industry in Africa and the Role of Policy." Carl Liedholm. GEMINI Working Paper No. 2. January 1990.

"Prospects for Enhancing the Performance of Micro- and Small-Scale Nonfarm Enterprises in Niger." Donald C. Mead, Thomas Dichter, Yacob Fisseha, and Steven Haggblade. GEMINI Working Paper No. 3. February 1990.

"Agenda Paper: Seminar on the Private Sector in the Sahel, Abidjan, July 1990." William Grant. GEMINI Working Paper No. 4. August 1990.

"Gender and the Growth and Dynamics of Microenterprises." Jeanne Downing. GEMINI Working Paper No. 5. October 1990.

GEMINI Technical Reports [Not for general circulation]:

"Jamaica Microenterprise Development Project: Technical, Administrative, Economic, and Financial Analyses." Paul Guenette, Surendra K. Gupta, Katherine Stearns, and James Boomgard. GEMINI Technical Report No. 1. June 1990.