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Session 3: Successful Models of The Existing Islamic Social Banks and Social Finance

Lessons From Amanah Ikhtiar Malaysia (AIM)

Prof Dr Engku Rabiah Adawiah Engku Ali

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Successful Models of Social Finance Initiatives: Lessons From Amanah Ikhtiar Malaysia (AIM)

Prof Dr Engku Rabiah Adawiah Engku Ali
International Islamic University Malaysia

INTRODUCTION

Social finance refers to "an approach to managing investments that generate financial returns while including measurable positive social and environmental impact."[1] Rachel Kalbfleisch of the International Development Research Centre (IDRC) defines it as a collection of approaches to managing money that create value for society or the environment, often while producing a financial return. In other words, social finance is a movement that covers various ways of using finance, via socially responsible investments, micro-loans, community investments, and so on, to achieve a social or environmental impact.[2]

Based on the definitions above, it can be understood that one of the instruments of social finance is micro-loans or the wider term of microfinance. Microfinance simply refers to "the provision of financial services to low-income people."[3] Initially the term was closely associated with microcredit, i.e. very small loans to unsalaried borrowers with little or no collateral. However, the term has since evolved to include a wider range of financial products, such as savings, insurance, payments, and remittances. Through micro-finance initiatives, low-income households have access to high-quality and affordable financial services to finance income-producing activities, build assets, stabilize consumption, and protect against risks.[4]

As for Islamic social finance, it is found that Islam has already provided a social-based financing or investment mechanisms which are not only able to benefit individuals but also the society at large.[5] Islamic social finance covers the traditional Islamic instruments based on philanthropy (such as *Zakah*, *Sadaqah* and *Waqf*) and cooperation (such as *Qard* and

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[1] https://www2.deloitte.com/global/en/pages/financial-services/articles/social-finance.html
[2] https://socialspacemag.org/understanding-social-finance/
[3] https://www.findevgateway.org/what-is-microfinance
[4] Ibid.
[5] Nor Razinah Mohd Zain and Engku Rabiah Adawiah Engku Ali, "Implementing Islamic Social Finance: Challenges and Proposed Solutions", ISFIRE, December 2018.

Kafalah);[6] as well as modern forms of Islamic financial services such as Islamic microfinance, Sustainable and Responsible Investment (SRI) *Sukuk* and *Takaful*.

One of the Islamic microfinance initiatives in modern time is that of Amanah Ikhtiar Malaysia. Amanah Ikhtiar Malaysia (AIM) is one of the earliest and long-standing Islamic micro-finance institutions in Malaysia, established more than 32 years ago. Its achievements have been recognised many times, where it had received numerous awards as the "Best Islamic Microfinance Institution" for five consecutive years (2013-2017) and again in 2019 by Global Islamic Finance Awards (GIFA). It is therefore appropriate for the paper to examine the Islamic microfinance initiatives of AIM, to highlight some of the lessons that can be learnt from its long and successful involvement in microfinance and social finance in Malaysia. In doing so, the paper will focus on the following:

- Brief history of AIM
- Main features and strengths of AIM's microfinance schemes
- Products and mechanisms of AIM's microfinance schemes
- Shariah compliance of AIM's microfinance schemes
- Shariah compliance of AIM's other operations: adoption of MS 1900
- Way forward for AIM

AMANAH IKHTIAR MALAYSIA (AIM): A BRIEF HISTORY

The history of AIM is closely connected to that of Grameen Bank of Bangladesh. In fact, AIM's microfinance model was said to have replicated the Grameen Bank model,[7] which successfully extended credit to the poorest of the poor in rural Bangladesh, without requiring collateral. The model reversed conventional banking practice by removing the need for collateral and created a banking system based on accountability, mutual trust, creativity and participation.[8]

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[6] Islamic Social Finance Report, 2015.
[7] Grameen Bank was established on 2 October 1983. Grameen Bank and its founder, Professor Muhammad Yunus, were jointly awarded the Nobel Peace Prize in 2006.
[8] https://www.grameen-info.org/about-us/

The Grameen Bank model has allowed for financial inclusion of the otherwise un-bankable poor, through a group-based credit approach which utilizes peer-pressure within the group to ensure credit discipline.

The idea to try the Grameen Bank model in Malaysia was originally initiated by Professor David Gibbons and Associate Professor Sukor Kasim from the Centre of Policy and Research of Universiti Sains Malaysia in 1986, as an action research project named, "Projek IKHTIAR". The project attempted to test the Grameen Bank approach in alleviating poverty amongst the rural poor by extending micro-credit facilities to the poor households in Malaysia. The project was initially funded by Yayasan Pembangunan Ekonomi Islam Malaysia (YaPEIM), Asian and Pacific Development Centre (APDC) and the State Government of Selangor.[9]

The pilot "Projek IKHTIAR" was implemented in the Northwest area of Selangor for a duration of 30 months. It involved the giving of loans to 373 poorest households in the area, consisting of 232 male participants and 141 females, warmly identified as "Sahabat". The loans given were said to be interest free, though a 10% management fees were also imposed, purportedly to cover actual administrative costs incurred. This project was completed in 1988, yielding promising results.[10] At least 90% of the loans were repaid inclusive of the principal and the management fees. This proved the viability of the project that provided micro-financing for a diverse range of economic activities of the participating Sahabat, including sundry shops, eateries, traders at the local farmer's market, vegetable and padi (rice) plantation, as well as rearing of livestock.[11] The project also confirmed that the poor are capable of making productive use of capital and are able to pay back their loans. These two characteristics make them highly bankable.[12]

At the end of June 1988, a study was conducted on the participating Sahabat in the pilot Projek IKHTIAR to identify the performance and impact of the projects. The findings are interesting. Apparently, the female Sahabat performed better, with higher repayment rate of 95%, compared to male Sahabat who scored 75% only. Impact measurement study also

[9] https://www.aim.gov.my/sejarah-awal/
[10] Gibbons, D. S. and Kasim, S. "Banking on the Rural Poor in Peninsular Malaysia". 1990; and https://www.aim.gov.my/sejarah-awal/
[11] Ibid.
[12] Gibbons, D. S. and Kasim, S. "Banking on the Rural Poor in Peninsular Malaysia". 1990.

indicated more significant increase in income among the female Sahabat with additional income of RM136 per month, compared to only RM65 per month for the male Sahabat. The findings boost the confidence of the founding committee to expand the Projek IKHTIAR to other states with high poverty levels in the country. The findings of the study also showed noticeable difference in the discipline of male and female Sahabat, where only 60% male Sahabat attended the weekly Central Meeting, compared to 85% attendance of the female Sahabat. Based on these findings, Projek IKHTIAR made a policy that women should be preferred as the main recipients of subsequent micro-credit facilities, as opposed to men.[13]

The Projek IKHTIAR was institutionalised into the formal establishment of Amanah Ikthiar Malaysia (AIM) on 17 September 1987 under the Trustee (Incorporation) Act 1952 [Act 258], that was being scaled up to cover the whole of Malaysia.

MAIN FEATURES AND STRENGTHS OF AIM MICROFINANCE SCHEME

The main purpose of AIM's establishment is to provide closely monitored microfinancing to members of the poor households so that they can conduct productive economic activities to improve their household income. The targets were originally households living below two-thirds of the government's poverty line. Currently, to be eligible, the household income must not be more than RM3,855 or RM838 per capita.

AIM expressly declares that its vision is to become the best microfinance institution that is blessed by God, through realising the following objectives:

i. Reduce poverty in poor and low-income households in Malaysia via provision of microcredit to finance income generating activities
ii. Produce entrepreneurs among poor and low-income families
iii. Provide financial facilities, guidance and trainings to entrepreneurs among poor and low-income families

The main objective of AIM is to help its Sahabat escape from the claws of poverty through consistent provision of micro financing. Since its establishment, AIM has registered a number of success stories in its micro-credit initiatives. Most notably, it has recorded a high

[13] Ibid.

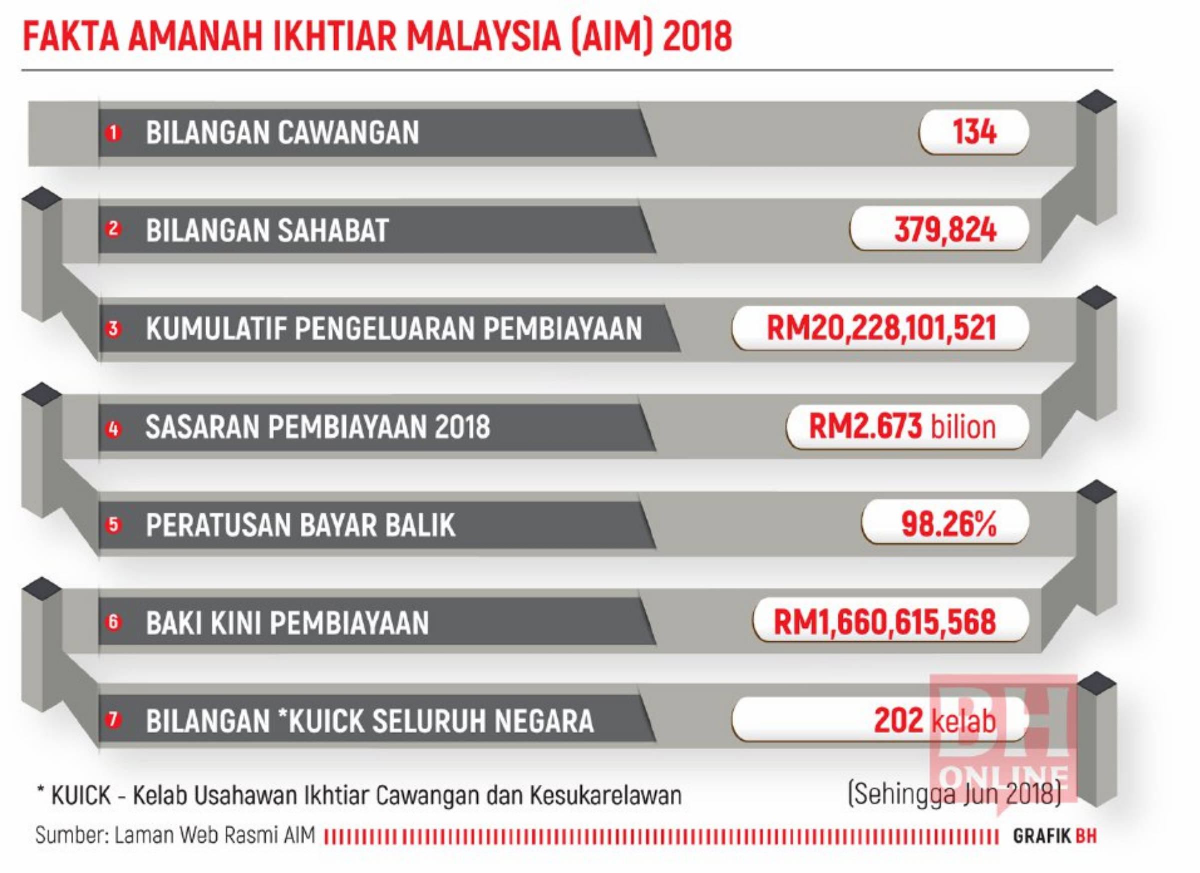
repayment rate of more than 98% from the 377,380 facilities it offered to its members since its inception more than 3 decades ago. To be more exact, as of June 2019, the institution recorded 304,569 active credit users with 98.71% repayment rate. To date, AIM has 136 branches in a total of 30 districts across the country. AIM is now targeting 400,000 credit users by year end, to benefit from the RM2.5 billion allocation this year, which includes an additional RM300,000 compared to the previous year. As of mid-2019, there was still a balance of RM1.69 billion from the total allocation, and this is still open for women members with a household income of not more than RM3,800, who are generally categorised as the bottom 40% of the society (B40).

Under AIM's micro-credit schemes, the financings are taken to the poor in their village. The financing facility is practically brought to their door-step, with suitable conditions, simple procedures, supported by group and collective responsibility. The financings are disbursed in small amounts during the weekly public meeting, known as the "Mesyuarat Pusat" or Central Meeting. An adult from eligible households, typically a female Sahabat would take the financing as a member of a five-person group, but she uses the financing amount in her own capacity. The eligible Sahabat typically comes from very poor households, and must not be discriminated against on the basis of race, religion and political belief.

To determine income level, AIM conducts a survey as well as interview of potential Sahabat in the identified locality. Confirmation and verification of such information is done through word of mouth from friends, relatives and the local community. Upon joining AIM, and after obtaining the first financing, AIM monitors the status of project and income generated on a scheduled basis. A full report is then tabled by the group chief and the centre chief during the weekly meeting, which is attended by AIM's field staff.

The growing microfinance industry goes along with the government policy in addressing the less privileged 40% of the population. For example, in 2012, 2.4 million households have income less than RM2,300 per month. At the time, AIM managed around 40% of the microfinance business in Malaysia. This percentage continuously increases over the years. In 2011 alone, AIM has brought in about 60,000 new members, bringing the total members then to 320,000. Since inception till 2012, more than RM6.8bil has been disbursed to about

320,000 borrowers. This number continues to increase and by 2018, AIM has expanded more, as illustrated in the Figure below:



The success of AIM is mainly attributed to its pragmatic and relatively comprehensive approach towards microfinancing of the rural poor. This approach gives a holistic ecosystem for the micro-financing initiative to be workable and sustainable in the long run. Details of the strengths of AIM is discussed in the following:

First: AIM gives credit to the poor based on five principles: no collateral, no guarantor, no legal action to collect repayment, no interest, and any remaining loan of good members will be written off in the case of their death.[14] The flexible approach in extending the micro-financing allowed better inclusion of the otherwise un-bankable. This is proven by the fact that by mid-2004, as many as 94,000 Sahabat had joined AIM as members.[15]

[14] Gibbons, D. S. and Kasim, S. "Banking on the Rural Poor in Peninsular Malaysia". 1990; and https://www.aim.gov.my/sejarah-awal/
[15] https://www.aim.gov.my/sejarah-awal/

Second: AIM puts in strategies to ensure timely repayment of the financing. For example, the repayment is staggered over weekly instalments that are more manageable for the rural poor. The financing is intentionally kept at small amounts in order to ensure regular weekly repayments. AIM also adopts the Grameen Bank group-based credit approach which utilizes peer-pressure within the group to ensure the Sahabat follow credit discipline and pay the financing on time. Thus far, the financing is largely given to very poor households who used them for various income-generating activities. The recovery rate of the financing has been phenomenal, reaching levels of almost 100%. Women appear to have benefited particularly from the programme, where they have lifted their families out of poverty by using their own skills in their own projects. This confirms the view that women are potentially productive but they are typically limited by a lack of access to credit.[16]

Third: AIM puts in necessary support systems to facilitate the micro-financing and provide timely monitoring and guidance. For example, 7 to 9 field assistants, known as “Pembantu Amanah” (PA) are allocated at every branch to locate and identify poor households. They conduct eligibility tests, prepare household well-being improvement plans, and provide the poor with the necessary capital to undertake income-generating economic activities. The economic activities undertaken by the Sahabat will be jointly monitored and managed by the PAs. Most importantly, the PAs must ensure that mandatory Central Meetings are held weekly to evaluate, monitor and guide the Sahabat in their respective business endeavours to assure their success.

Fourth: AIM has been receiving adequate funds to sustain its ability to extend the micro-credit facilities to its members, where a major part of this funding comes from the Malaysian government. However, in the long run, AIM may have to search for alternative source of funding in order to be more sustainable and financially independent.

Fifth: AIM’s success story is also attributable to the sheer hard-work and discipline of the Sahabat themselves. Many of the poor women who joined the micro-credit schemes offered by AIM are earnest in their efforts to up-lift their families’ well-being and economic condition. They show strong sense of responsibility and keen interest in grabbing the opportunities that

[16] Gibbons, D. S. and Kasim, S. “Banking on the Rural Poor in Peninsular Malaysia”. 1990.

came their way. Their high motivation and hard-work, coupled with the leadership and support provided by AIM, led to the success of many of the micro-credit schemes.

Sixth: AIM has a specialised credit delivery system that is supported by a reasonably adequate ecosystem. Despite delivering credit without collateral and a declared commitment that there will be no recourse to legal actions against defaulters, AIM's default rate had been consistently low at approximately 0.4%. The factors contributing towards this good performance in term of repayment include:

- There is a strong inculcation of the basic value in the participating Sahabat that every user of credit is responsible to pay her/his debt accordingly.
- The existence of a peer pressure group further strengthens this commitment and discipline to pay. A Sahabat must have a peer group consisting of at least 3 members to qualify for a credit facility. Each group must have weekly meetings (known as "mesyuarat kumpulan") to discuss issues, problems and other matters. These meetings are normally held just before the weekly Central Meetings where they are expected to make the weekly repayments.
- The short maturity of the financing period that ranges between 6 months to 3 years (depending on the actual financing amount); where repayment will be made in weekly instalments, motivates and disciplines the Sahabat to work hard towards making the project successful so that they can repay the financing according to schedule.
- In addition to that, a micro-takaful system is also in place to cover genuine situations of inability to pay. For example, if a micro-credit user or spouse dies, the family need not pay the outstanding balance because all debts are covered under a credit takaful scheme, known as "Tabung Khairat Hutang" (TKH). Under this scheme, a Sahabat who receives micro-financing will have to agree to participate in the credit takaful by contributing an agreed percentage of the amount approved for her/him under the financing into the TKH. The TKH provides credit takaful cover for death, permanent disability or chronic disease suffered by the participating Sahabat.

- AIM also has its own welfare fund known as Tabung Kebajikan dan Kesejahteraan Sahabat (TKKS). The TKKS are funded via donations by Sahabat. Under this arrangement, all Sahabat who received financing (except for one scheme known as i-Penyayang) will donate 1% of the financing amount to the TKKS. TKKS will then provide financial contribution to Sahabat who are sick, hospitalised or whose projects are affected by natural disasters.

- Special considerations will be given to genuine cases of hardship faced by Sahabat. For example, deferment of repayment will be allowed for projects affected by natural disaster, fire and prolonged sickness. AIM may also consider providing a special credit facility to those who want to continue with their projects, despite the calamity that befalls them. A new repayment schedule may also be negotiated for acceptable cases.

Seventh: Governance structure. As a registered trustee corporation, AIM must follow certain governance requirements as prescribed by the law. Hence, AIM is governed by a Board of Trustee consisting of government representatives from the Economic Planning Unit (EPU), Coordination and Implementation Unit of the Prime Minister's Department, Ministry of Finance, Ministry of Rural Development, representative from the State Government of Selangor and a number of other members who are appointed in their personal capacity. The Board of Trustees are supposed to responsibly monitor proper and transparent governance of AIM, and prevent abuses; hence, instilling confidence and trust in the institution. Although the history of AIM did show some incidences of (alleged) abuse and conflicts of interest, the governance structure allowed for detection of the abuses, followed by actions taken by the relevant authorities to stop and remedy the damage done.

PRODUCTS AND MECHANISMS OF AIM'S MICROFINANCE SCHEMES

AIM is committed to channel its microfinancing schemes through simple mechanisms that suit the intended recipients. The continuous flow of financing is expected to provide opportunities for the Sahabat to expand their business and develop effective entrepreneurship skills within themselves. Through the capital made available in the microfinance schemes, new, bigger and more diversified business ventures can be developed. Additionally, AIM strives to operate its microfinance schemes in the most cost-effective manner so that it can optimise its operational ability to reach out to the widest number of Sahabat and generate positive impacts on the poorest members of the society.

Currently AIM offers two main categories of financing: economic and others. Table 1 below illustrates the various types of financing schemes in each category together with the financing limits for each scheme.[17]

Table 1: Types and Amounts of AIM Microfinancing Products

NO.	FINANCING SCHEME	FINANCING LIMIT (RM)
1	**ECONOMIC**	
1.1	i-Mesra	1,000 – 5,000
		5,001 – 10,000 (max)
1.2	i-Srikandi	10,001 – 20,000
		20,001 – 30,000
1.3	i-Wibawa	3,000 (max)
		5,000 (max)
2	**OTHERS**	
2.1	i-Sejahtera	1,000 – 5,000
		5,001 – 15,000 (max)
2.2	i-Bestari	1,000 – 3,000
		3,001 – 5,000 (max)
2.3	i-Penyayang	1,000 – 3,000
		3,001 – 5,000 (max)
2.4	i-Emas	2,000 (max)

[17] The information in the table is based on the latest status as of April 2019.

The economic financing is meant for improving the income of the Sahabat. The financing must be used for income generating economic activities only, including, to start a new project, revive an old project, or expand an existing one. The financing can be utilised individually by the Sahabat or collectively with her family member(s), such as, a spouse or son/daughter who are staying in the same household. However, the responsibility to repay the financing amount rests with the Sahabat. Common business sectors ventured under the economic financing are:

- Retail, wholesale and trading business
- Agriculture, aquaculture and livestock business
- Services, transportation, tourism and recreation
- Production and manufacturing business

There are 3 types of economic financing schemes, and they are as follows:

i. i-Mesra: this is the most basic scheme offered to all Sahabat as their entry level financing scheme, with a maximum limit of RM5000 for first time user. Sahabat who repeats the financing for the second time can get up to RM10,000 financing amount
ii. i-Srikandi: this scheme is only allowed for Sahabat who had previously taken i-Mesra financing; and is subject to the Sahabat’s track record in repayment, good credit discipline and good prospect of the project
iii. i-Wibawa: this scheme is offered to the Sahabat who needs additional capital to undertake seasonal projects or short-term business opportunities, such as, trading business during fasting month or festive seasons, or short-term projects with good rate of return via one lump sum payment. The scheme is only offered to Sahabat who had completed i-Mesra financing for the first time.

The other financing schemes are to cater for the other needs of the Sahabat, in terms of place of business, accommodation, education, and other contingencies in their life. There are 4 schemes under this category:

i. i-Sejahtera: this scheme is for socio-economic well-being of the Sahabat, such as, financing of home repair, improvement of business premise, purchase of additional assets, investment financing (equities, gold) and additional capital for income generation

ii. i-Bestari: this scheme is to finance training, upskilling and education for the Sahabat or her family member(s), such as to pay for courses, education fees, purchase of books, computers, etc.

iii. i-Penyayang: this scheme is meant to rehabilitate the Sahabat who suffered from failure in their economic or business ventures due to natural disasters, economic crisis, family problems, etc.

iv. i-Emas: this scheme is specially meant for elderly Sahabat of more than 75 years of age. This is normally given to long-term members who have been loyal to AIM, to meet some of the financing needs in their life.

The access to financing under the schemes above is subject to certain rules to monitor each member's individual debt liability so that it is manageable and will not overburden the Sahabat financially. Table 2 below illustrates the rules on eligibility of access to the various financing schemes offered by AIM.

Table 2: Eligibility of Access to Financing

FINANCING SCHEME	Financing Cycle				
	1st Time (RM)	2nd Time (RM)	3rd Time (RM)	4th Time (RM)	5th Time & Beyond (RM)
i-Mesra	below 5,000	Up to 5,000	Afterwards: only up to 10,000 (max)		
i-Mesra	5,000	10,000			
i-Srikandi			Up to 15,000	20,000	30,000
i-Wibawa		3,000	5,000	5,000	5,000
i-Sejahtera	5,000	10,000	15,000	15,000	15,000
i-Bestari	3,000	5,000	5,000	5,000	5,000

In addition to the above rules on access to the various financing schemes, there are other general requirements that need to be fulfilled in order to be eligible to participate as a Sahabat in AIM. These general requirements are summarised in Table 3 below.

Table 3: General Eligibility Requirements

NO.	ELIGIBILITY REQUIREMENTS	EXPLANATION
1	Valid member (Sahabat) of AIM	Financing is only extended to persons who have been registered as valid members (Sahabat) of AIM
2	Activity/Project/Business	Financing can only be given to finance activities that are legal and compliant to Shariah Islam
3	Nationality	i. Malaysian nationality with MyKad ii. Non-Malaysian & with no Mykad are not eligible to be a member of AIM (since 2014) iii. Old members who are non-Malaysians – must get any family member who is Malaysian to be registered as Sahabat of AIM
4	Bank Account	i. Must have personal bank account ii. If do not have bank account (due to bankruptcy, etc) – allowed to use bank account of family member, e.g. spouse, son, etc)
5	Age Eligibility	i. Must be 18 years old or more ii. Full repayment period must not exceed 75 years of age iii. For Sahabat who is above 75 years old – eligible for i-Emas scheme only
6	Support/Financing Approval	All financings must go through a support and tiered approval process, i.e. at group, central and AIM levels: i. Group approval: all applications for financing must be approved by the group in its Group Meeting held before the Central Meeting ii. Central approval: all applications must be approved in Central Meeting iii. AIM's approval: a. All applications managed by AIM are subject to Ikhtiar Financing Scheme Management Procedure, with 20 working days approval period for normal branches and 28 working days for mini-branches/stations/islands b. Actual financing amount approved is subject to AIM's final decision
7	Group Membership Requirement	i. Eligibility to get financing is based of 20% weightage for every group member <u>Example of calculation</u>: Financing eligibility x number of group member x 20% RM15,000 x 4 members x 20% = RM12,000

		ii. All types of financing are only for Sahabat with a group of at least 3 members iii. Groups with 2 members or less lose their eligibility to get financing

Based on the above, a person who wants to participate as a Sahabat of AIM must establish a group of 3 to 5 persons who are staying in the same locality but are not family members, and are mutually trusting and responsible. The Sahabat are also required to:

- Create a group savings fund that they contribute to on a weekly basis
- Establish a centre
- Attend the weekly Central Meeting
- Repay the financing at that weekly Central Meeting.

Other than the general requirements, there are other special requirements that must be agreed upon by the Sahabat. These special requirements are summarised in Table 4 below:

Table 4: Special Requirements with Consent of Sahabat

NO.	SPECIAL REQUIREMENTS	EXPLANATION
1	Undertaking	i. All Sahabat must understand and abide by all rules and requirements of financing, as well as the Oath and Pillars of AIM ii. All Sahabat and spouse/children/family agree to be responsible for the financing and its repayment terms iii. The undertaking must be filed in the Sahabat's personal file
2	Tabung Kebajikan & Kesejahteraan Sahabat (TKKS) (Welfare & Well-being Fund)	All Sahabat agree to allow the deduction of 1% of all approved financing (except for i-Penyayang) as donation/contribution to the TKKS
3	Tabung Khairat Hutang (TKH) (Credit Takaful Fund)	All Sahabat agree to protect the financing via TKH according to the specified rate. This specified rate shall be deducted from the approved financing amount. The TKH will cover the financing settlement in the event of death, permanent disability and chronic illness of the Sahabat or her second participant
4	Security for the Financing	i. All financings are based on a social guarantee by the Sahabat Groups and the Central Body;

		as has been agreed upon in the Oath and Pillars of AIM; as well as the mutual support and approval specified from time to time ii. No collateral or guarantor is required iii. No legal action will be taken to recover the debt iv. All financings will be covered by TKH at the specified rate v. Must agree to the terms of the financing Undertaking vi. All Sahabat must understand the terms and conditions to be agreed by them in the contract before signing the document(s)
5	Compulsory Savings	i. All Sahabat must make compulsory savings according to the amount approved for Economic Financing (minimum RM1 – maximum RM33) on a weekly basis, starting from the 1st week of their attendance at the Central Meeting ii. For Sahabat who is not taking any financing, the compulsory savings remain at the last savings made. The Compulsory Savings Fund is kept under the responsibility of Koperasi Sahabat AIM iii. All compulsory savings can be set off with the financing balance, subject to the Group Fund Procedure iv. Withdrawal of compulsory savings can be made in the following situations: a. Savings more than RM2,000 for financing below RM20,000 b. Savings more than RM3,000 for Sahabat who intends to apply for financing at RM20,001 – RM30,000. At least RM3,000 must be retained in the Compulsory Savings Account v. For financing of RM20,001 and above, Sahabat must maintain savings in any saving account (including the Compulsory Saving Account) at an amount of at least 10% of the financing amount applied

There are also other requirements imposed on the Sahabat to inculcate credit discipline and ensure better management of the risks involved in the financing activities. Table 5 below summarises the said requirements:

Table 5: Other Requirements

<table>
<tr><th>NO.</th><th>OTHER REQUIREMENTS</th><th>EXPLANATION</th></tr>
<tr><td>1</td><td>Sahabat Attendance Requirement (Discipline)</td><td>All financing applications are subject to Sahabat’s discipline as reflected in their attendance status at the Central Meetings. The requirements are as follows:

i. Sahabat who applies for financing:
a. Must attend the Central Meeting when her application is being presented
b. Attendance rate of Sahabat in the past 50 weeks must be at least 70%
c. If attendance is less than 70%, special application may be presented to the District Manager with supporting proofs for consideration and approval of the District Manager
ii. Group: attendance of each group member is compulsory during presentations except for the following reasons:
a. Attending course(s) approved by the Central Body
b. Attending funeral of close family member with notice/verification
c. Maternity leave
d. Chronic illness or accidents; being hospitalised; or critical circumstances verified by the Central Body
e. Performing hajj/umrah
iii. Central: The rate of attendance during presentations for an active Sahabat must be at least 70%</td></tr>
<tr><td>2</td><td>Status of Payment at Risk (PAR)</td><td>Financing approval is subject to the status of PAR of Sahabat individually or at Centre level, as follows:

i. A Sahabat who has payment in arrears is not allowed to apply for new financing, except for i-Penyayang; or until she settles the balance outstanding on her previous financing
ii. For Centres that are free from PAR problems, approval of financing is allowed at branch level, for up to RM20,000. However, financing above RM20,001 requires approval at the district level.</td></tr>
<tr><td>3</td><td>i. Incomplete use of capital (less than 51% - 79%)
ii. Misuse of capital (including the use of less than 50% capital)</td><td>i. If utilisation of capital is incomplete, the Sahabat is penalised by having the subsequent financing to be limited up to only half of the previous financing amount.</td></tr>
</table>

		ii. If capital is misused, the Sahabat is penalised by having the subsequent financing (for 2 times consecutively) to be limited to half of the previous financing amount or not more than RM5,000 iii. A Sahabat is not allowed to give the financed capital for another person's use, except for approved users iv. A Sahabat is not allowed to use another Sahabat's name to apply for financing
4	Ghost Financing	Ghost Financing includes: i. Financing that is not used by the applicant, or the capital is fully used by another party ii. Financing that is made without the knowledge of the Sahabat All Sahabat is strongly prohibited from allowing the financing to be used by another party; and any Sahabat who allowed this to happen shall be liable to repay the financing amount
5	Number of Financing Scheme	Eligibility for financing at any given time is as follows: i. A Sahabat can make simultaneous financing or 'twin financing' under any of the schemes but is subject to the terms and conditions of each financing; as well as the status of the project that determines the ability to make repayment ii. However, a Sahabat is not allowed to take i-Mesra and i-Srikandi financings simultaneously iii. A Sahabat who is taking i-Penyayang and i-Emas financings is not eligible for other schemes until full settlement of the said financings first
6	Financing Contract	All financings are on the basis of Tawarruq
7	Profit Rate for the Financing	Profit rate is fixed at 10% per annum
8	Ibra' (Rebate)	A Sahabat who settles the debt early is entitled to receive a rebate. The rebate will be credited into the account of the Sahabat and it can be withdrawn or refunded to the Sahabat when she stops from AIM membership
9	Start of Repayment Period	A Sahabat shall begin repayment of the financing after 2 weeks of the payment instruction of the financing amount into the account of that Sahabat

10	Application Forms and Supporting Documents	i. All financing applications must use the prescribed set of forms, and all of the required information must be given in full ii. Required Supporting Documents include: a. Photocopy of identification card b. Bank Account details c. Quotation for purchase of asset above RM1,000 d. Relevant and valid business licences e. Offer letters f. Etc.

Other than the above, the Sahabat must also follow a basic course, spanning over 5 days (1 ½ hours/day) to give them the necessary knowledge and skill set to deal and manage the financing in their businesses.

SHARIAH COMPLIANCE OF AIM'S MICRO-FINANCE SCHEME

a. Shariah Compliance Governance in AIM

From day one, the initial Projek IKHTIAR made it clear that one of its basic tenets was that all its loans would be interest free. The same was adopted by AIM, where they expressly mention that their micro-credit would have no interest, and in some documents, they called these loans as *qard hasan*. However, they did charge a management fee that was meant for covering actual administrative costs incurred by AIM in operating the micro-credit scheme.

Initially, it was not that clear from the records, as to who verified the Shariah compliance of the micro-credit scheme offered by AIM, in particular, whether the loans were actually interest free and that the management fees were representing actual costs. It seems that there was no independent Shariah Panel in the first 10 years of AIM's establishment (1987-1997). Nonetheless, it was clear from the very beginning that AIM was supposed to conduct its business and operations in a manner that does not contradict the requirements of Islam. To facilitate this, the first Board of AIM consisted of some individuals with exposure and experience in Islamic economics and Islamic finance.[18] They were supposed to guide AIM on

[18] They include Prof Dr Syed Othman Alhabshi (who was the Deputy Chairman of YaPEIM at the time) and Haji Ismail bin Basri (who was the Managing Director of YaPEIM at the time).

the Shariah compliance of their financing, where interest free loan (*qard hasan*) was used for AIM's micro-financing, but with management fees to cover administrative costs.[19]

Based on information gathered from senior staffs of AIM, the first record on the existence of a formal and separate Shariah Panel to advise AIM was in 1997.[20] According to that document, there were at least 5 members in that Shariah Panel, with 3 members who had background in Islamic studies/Shariah, plus a representative from the Board of Trustees who was an expert in Islamic economics, and the Managing Director of AIM himself. The document also mentioned that the frequency of Shariah Panel meeting was 4 times per year. If there were urgent matters to be discussed, they would have special meetings to look into those matters.

The said Shariah Panel typically deliberated on the operations of AIM and among others, they discussed on the allowable rate of management fees that were charged on the *qard hasan* given under the micro-credit scheme. The Shariah Panel did check that the management fees truly represented actual costs incurred, where there were approved methods of calculating the said costs. Because of that, the rate of management fees was subjected to ups and downs based on the calculation of actual costs at the given time.

The Shariah Panel also deliberated on other matters related to the implementation of Shariah compliant micro-credit schemes at AIM; as well as a pilot project to implement Shariah compliant sale and purchase system at a branch of AIM at the Lower Perak District. The decisions of the Shariah Panel were communicated to the Board of Trustees in the Board meetings. Unfortunately, there was no clear provision that the management must follow the decisions of Shariah Panel. However, there was some kind of understanding that the Shariah Panel decisions would be given due consideration by the Board and the management.

Regrettably, due to some issues in the management of AIM, and some alleged political interferences around the year 2000, there were resignations by some members of AIM's Board of Trustees. Following this, the Shariah Panel became inactive and was no longer functioning between the period 2001 until 2009. Hence, during this period, there was no

[19] The management fees at the time was said to be 5%, which was to cover the actual administration costs (telephone conversation with Datuk Dr Syed Othman Alhabshi, 26 October 2019)

[20] Reference is made to the working paper to reactivate the Shariah Panel of AIM, "Kertas Kerja Meaktifkan Semula Ahli Jawatankuasa Panel Syariah Amanah Ikhtiar Malaysia", 7 January 2009.

formal or proper Shariah governance in place to assure Shariah compliance of AIM's operations.

Later, in 2009, the management of AIM decided that they wanted to revive and reactivate the Shariah Panel in AIM. They felt that this would boost the confidence of all levels of AIM's stakeholders regarding the Shariah compliance of its operations; and would also be in line with AIM's vision and mission to be the best micro-finance institution, where all its activities are for the sake of God and to get His blessings. Hence, a new Shariah Panel consisting of 5 members were selected and appointed in 2009. The Panel had 3 members with Shariah background (including the Chairman), and the other 2 with finance and accounting backgrounds respectively. The Shariah Panel was to be responsible for:

- Advising the Board of AIM on Shariah matters related to all business activities of AIM to ensure that they are compliant to the Shariah principles at all times;
- Approving a Shariah Compliance Manual for AIM. The Manual would detail out the processes and procedures for proposing or seeking advice from the Shariah Panel, the Shariah Panel meetings and compliance to the Shariah Panel's decisions;
- Approving and validating relevant documents. For example, Shariah approval is required for the following:
    - Terms and conditions in the forms, contracts, agreements or other legal documentations in transactions conducted by AIM
    - Product manuals, marketing materials, sale illustrations and brochures used to explain AIM's products
- Giving relevant Shariah advise to related parties. Related parties, such as, legal advisors, auditors, or consultants appointed by AIM may seek advice on Shariah matters from the Panel, who is expected to assist them to ensure full compliance with Shariah principles in those matters.

At the same time, the management of AIM were made responsible to:

- Refer all Shariah issues to the Shariah Panel. AIM must refer all Shariah issues in its business operations to the Shariah Panel for advice. All applications for Shariah advice and any decision must be made in a comprehensive manner to ensure effective deliberation by the Shariah Panel. This includes clear explanations on the processes involved, the documents to be used and other necessary information;

- Adopt and apply the advices given by the Shariah Panel. AIM must adopt and apply the advices of the Shariah Panel; and take necessary steps to ensure their implementation;
- Ensure that all product documents are duly approved. AIM must get the approval of the Shariah Panel for all product documentations;
- Have a Shariah Compliance Manual. AIM must ensure that the Shariah Compliance Manual is duly endorsed by the Shariah Panel;
- Give access to relevant documents. AIM must facilitate the Shariah Panel in the performance of their responsibilities, where access must be provided to records, transactions, manuals or other relevant information required by the Panel;
- Provide adequate resources. AIM must provide adequate resources to the Shariah Panel, such as, budget allocation, consultation with independent experts, reference materials, and training. AIM must also familiarise the Shariah Panel with its operations and businesses.

The Shariah Panel is considered as a sub-committee of the Board. Each Shariah Panel meeting must also be attended by Managing Director of AIM to represent the management. AIM also must appoint an officer who is qualified in Islamic studies or Shariah as a secretariat to the Shariah Panel. This officer shall be assigned to the Documentation and Quality Management Unit of AIM; and would be responsible for all secretarial work of the Shariah Panel.

b. Review of The Micro-Credit Facilities Offered by AIM

Among the first few things that the revived Shariah Panel did was to review the micro-credit facilities offered by AIM. In its meeting on 22 July 2009, the Shariah Panel decided that AIM should study again its microfinancing schemes using the contract of *qard hasan;* and the possibility of replacing it with other more suitable contracts, such as *murabahah, mudarabah* and *musharakah mutanaqisah*. In general, the Shariah panel had concerns on the reasonableness of the calculation of actual administrative costs that were to be charged as management fees on the *qard hasan* financing. At the time, the management fees were 10% of the financing amount. Pursuant to this, a technical committee on development of financing products was established on 18 January 2010 to explore alternative financing contracts apart from *qard* and then propose a suitable contract for the purpose of AIM's microfinancing.

c. Transition from *Qard Hasan* to *Tawarruq* / Commodity *Murabahah*

The technical committee later identified *tawarruq* cum commodity *murabahah* as the suitable arrangement to be used for AIM's microfinancing products. On 17 December 2010, the management committee of AIM approved the appointment of Bank Islam Malaysia Berhad (BIMB) as the consultant to advise AIM on the implementation of *tawarruq* arrangement in its microfinancing products. Following this, the BIMB team prepared the transaction structure and process flow for the proposed *tawarruq* financing and presented them to the Shariah Panel. The Shariah Panel approved the said structure and process flow in their meeting on 5 May 2011.

Subsequently, AIM was officially registered as a 'Commodity Trade Participant' (CTP) with Bursa Malaysia Islamic Services (BMIS) starting on 1 July 2011, subject to the rules prescribed by BMIS. In the 4th quarter of 2011, AIM, in consultation with BIMB's product development team, started to:

- draft a *tawarruq* product manual and procedures; as well as
- develop a Shariah compliant information technology (IT) system to cater for the *tawarruq* financing product.

AIM's IT Unit started to develop an IT system for *tawarruq* financing according to the 'guideline' given by BMIS. A compatibility test was then conducted on 19 October 2011. However, a number of technical problems was identified and must be solved before the installation could be made at the selected branches. By April 2012, the IT system was up and ready, and was made compatible to the BMIS system. At the same time, the first draft of the Manual on *Tawarruq* Working Instructions and Procedures was also prepared.

Following this, a pilot project was identified to test the implementation of *tawarruq* financing at 3 AIM branches in Kelantan, i.e. in the districts of Bachok, Kota Bharu and Tumpat for a duration of 3 months. Workshops were held to train relevant personnel on the implementation of *tawarruq* to ensure smooth and proper implementation of the pilot project.

After the completion of the pilot project, a study on its implementation was conducted by the Research and Development Unit of AIM between September to October 2012. Based on the findings of the study, a number of improvements had been proposed. This included improvements to: the procedures and process flow of the *tawarruq* financing; responsibilities of the personnel involved; financing application procedure; and the forms related to the *murabahah* contract, including for the dual agency contracts.

In addition, a Shariah review was also conducted (between November to December 2012) on the 3 branches where the pilot projects were implemented by the product development team of BIMB, as part of their consultancy job with AIM. The Shariah review findings were later presented in the Shariah Panel Meeting No. 1/ 2013, together with the *tawarruq* product and financing documents. The Shariah review concluded that the process and transaction of *tawarruq* financing by AIM were compliant with the requirements and principles of Shariah; and this was further endorsed by the Shariah Panel. The Shariah Panel Meeting further evaluated the level of compliance, and explored on the elements that could lead to potential non-compliances. The meeting also deliberated on certain recommendations for further improvements in the process and transaction structure.

Based on the recommendations made by the study on the pilot project and the related Shariah review, revisions had been made to the Manual on *Tawarruq* Working Instructions and Procedures; and by March 2013, the improved and complete Manual was eventually finalised. In addition to that, a number of improvements were also made to the IT system, between January to March 2013, to overcome the issues identified during the pilot project and in the Shariah review. This allowed for:

- the installation of the improved IT system at all AIM branches in the Kelantan region by the IT Unit of AIM;
- the standardization of *tawarruq* application in the whole of Kelantan region using the revised and improved Manual.

After the success of the pilot project in Kelantan, and subsequent finalisation of the Manual on *Tawarruq* Working Instructions and Procedures as well as installation of the related IT system, AIM moved on with its plan for overall implementation of *tawarruq* financing nation-wide for all microfinancing products under AIM. It started with AIM officially launching its Financing Contract on the basis of Tawarruq in May 2013. This was followed by a series of transformation trainings[21] at all districts of AIM between June to July 2013 by the Financing Division of AIM, in collaboration with Product Development team of BIMB. The full implementation of *tawarruq* financing throughout all AIM branches started in October 2013. There would be monitoring of the implementation of *tawarruq* financing at the branches and districts to ensure Shariah compliance. The monitoring covers the filling/usage of forms for *wakalah*, procedure to buy and sell commodities at the regional level, as well as the understanding of the staff members and Sahabat about what constitute Shariah compliant *tawarruq* arrangements.

SHARIAH COMPLIANCE OF AIM'S OTHER OPERATIONS: ADOPTION OF MS 1900

In its effort to ensure Shariah compliance, AIM applied the MS 1900 Certification Standard, which is a Shariah-Based Quality Management System in Malaysia that specifies requirements for a Shariah compliant Quality Management System. The Standard ensures that appropriate universally accepted values are incorporated into the quality management processes of the organization, including halal aspects of delivering products and services. According to the MS 1900, the top management of AIM has to identify, create, document, implement, monitor and evaluate the value system of the organisation. Pursuant to that, AIM decided that its value system is based on the following attributes: trustworthy, wise, just, transparent, firm, fast, efficient, accurate and cooperative. All of these are documented as the institutional value statement of AIM, which is then communicated to all members in the organisation so that they can understand, appreciate and live up to those values until those values become part of AIM's corporate culture.

[21] These included basic trainings on tawarruq financing conducted based on "Train the Trainer" concept.

As part of the processes under the MS 1900 Standard, AIM has identified a number of areas where Shariah compliance management is to be implemented. One of the areas identified is related directly to the actual microfinance operation. This includes:

- Ethical conduct in dealing with Sahabat and potential Sahabat. This is to be observed especially in outreaching to the public, handling of Central Meetings, and monitoring and evaluation processes
- Shariah compliance management of financing related matters, in particular:
    - Financing application
    - Rescheduling of financing
    - Refinancing
- Management of financing repayment by Sahabat. The matters that may require Shariah compliance management include:
    - Paying on behalf of a Sahabat who has payment obligations in arrears
    - Management and treatment of defaults/ payment in arrears
    - The granting of *ibra'* when there is full settlement of financing at an earlier date
    - Payment that did not comply with the required procedures

Apart from the direct microfinance related operations, AIM also has other general finance related operations that require Shariah compliance deliberations. These include:

- AIM's source of income
- AIM's source of fund
- AIM's current accounts
- Preparation of financial statements

In relation to AIM's sources of fund, they are from:

- Government grants & financing
- Contribution from government agencies or corporations
- Financial Institutions
- Financing from Koperasi Sahabat (Cooperatives of the Sahabat)

Among the main Shariah compliance concerns regarding AIM's sources of fund are, ensuring that all the contracts related to the funding of AIM are compliant with the Shariah principles; and properly documented as such. Subsequent to the revival of AIM's Shariah Panel in 2009, Shariah reviews had been conducted on some of the older transactions by AIM in relation to its funding. Based on the reviews, it was found that some of those transactions had not been executed properly. For example, money had been flowed and disbursed between the funder and AIM, but the contractual relationship between them had not been clearly explained, nor was the contract properly executed. Hence, the Shariah compliance of these transactions are strongly suspect. These improper transactions might be due to the fact that during the period between 2000 – 2009, there was no active Shariah Panel advising AIM. These flaws were later remedied by AIM by properly drafting and executing new contracts for the funding transactions, with the guidance and advice from the Shariah Panel. Apart from that, continuous Shariah compliance management is also recommended in order to comply with MS 1900. In particular, attention must be given to the following:

- AIM Management must prioritise the timely payment of all AIM's liabilities to the funder as per the agreement
- Ensure all sources of fund and their mechanisms are free from *riba, gharar, maysir* dan other prohibitions
- All procurements, income and funding must be properly reported in the financial report

Another important aspect of AIM's operations is its management of the various funds created to provide a supportive ecosystem for the microfinance schemes offered by AIM. As can be seen from the previous sections, the Sahabat are required to contribute to a number of funds, such as the Compulsory Saving Fund, Welfare Fund (TKKS) and Credit Takaful Fund (TKH). It is therefore pertinent to look at how these funds are being managed, especially in term of Shariah compliance.

Firstly, in relation to the management of the Sahabat's Welfare and Well-being Fund (TKKS), a number of issues need to be managed in term of their Shariah compliance:

a. Source of fund

b. Scope of the benefit

c. Claim of the benefit

d. Payment of the benefit

e. Management/ investment of the fund (if any)

Secondly, in relation to the management of Sahabat's Compulsory Savings, a number of issues need to be managed in term of their Shariah compliance:

- Conditions for the savings
- Collection of the savings (through agent)
- Savings products

Thirdly, in relation to the management of the Credit Takaful Fund (TKH), a number of issues need to be managed in term of their Shariah compliance:

- Contribution
- Eligibility to contribute
- Benefit

- Claim of the benefit
- Management/investment of the fund under TKH
- Selection of the operator
- Scope of the benefit
- Claim processing

WAY FORWARD FOR AIM

a. Better Outreach and Expansion

AIM had in the past been reasonably aggressive in promoting its services through the media, (electronic and print), television and radio as well as direct involvement with the community. AIM also had active and strategic collaboration with government departments and related agencies, banks and financial institutions and non-governmental organisations.[22] However, for better traction, AIM needs to innovate new ways to reach to bigger number of the population. The physical geographical landscape of some parts of Malaysia can be quite challenging, especially the remote areas of Sabah, Sarawak and even some parts of Peninsular Malaysia. A lot of capital and manpower are needed to reach out to people at these locations. It is therefore good to explore the use of technology, like mobile apps and the internet of things (IOT) to reduce the costs of its operation in these remote areas.

b. Diversification of Source of Funding

The continued expansion of any microfinance initiative is highly dependable on the availability and stability of the funds. As for AIM, the consistent outreach programs meant that financing facilities are continuously on demand. The growing financing size also add further to the requirement for more funding. The current sources of fund that AIM enjoys are reasonably stable because the main bulk comes from annual grant by the government, who until now is committed to empowering the B40 of the society. However, in the long run, it is suggested

[22] Interview with the then Managing Director of AIM, Datuk Zabedah Ismail, reported in The Star newspaper and website on 23rd June 2012.

that AIM also tap into a more diversified source of funds, like zakat, waqf, SRI Sukuk and other socially responsible investments or social outcome initiatives.

c. Improved Management of Operational Risks

With such a large network of districts and branches, AIM is obviously subject to a lot of operational risks, including mismanagement, security breach, fraud, Shariah non-compliance and sometimes pure human error. Technology, such as digitalisation, automation and blockchain can be used to improve the management and mitigation of these operational risks.

d. Leadership and Corporate Culture

The unique value proposition of AIM needs to be understood and fully embraced by its leaders and workforce. Competent and honest leaders who appreciate AIM's original vision and mission will ensure that AIM keeps to its core business objectives and is not diverted to other irrelevant ventures to satisfy the personal agendas of some interested parties. An effective leader with the correct leadership quality can contribute towards the creation of positive and appropriate corporate culture in AIM. The corporate culture should be built upon AIM's value system and must be driven by real socio-economic outcome and impact.

e. Competent and Conscientious Workforce

The specialised credit delivery system used by AIM requires competent and knowledgeable staff who understand the system and aspects of its operation well. Not only that the workforce must be competent, they must also respect and value the raison d'etre of AIM and always be conscientious in the performance of their jobs.

f. Law and Governance

As an entity established under the Trustee Act, AIM is largely regulated by its own trust deed. There is no specialised regulatory body to supervise microfinance institutions per se. Nonetheless, due to the trust put in AIM to play the role of providing Islamic microfinance services to the poorest segments of the society, it goes without saying that sound regulations and governance are essential to sustain the trust in AIM's ability to fulfil its role effectively. This is especially true when AIM is highly reliant on government grants as a major source of fund. Therefore, the highest level of accountability, integrity, transparency and proper governance is indispensable for AIM, moving forward. In addition, the regulatory and governance framework for AIM should also incorporate Shariah compliance governance and adequate risk management requirements and processes.