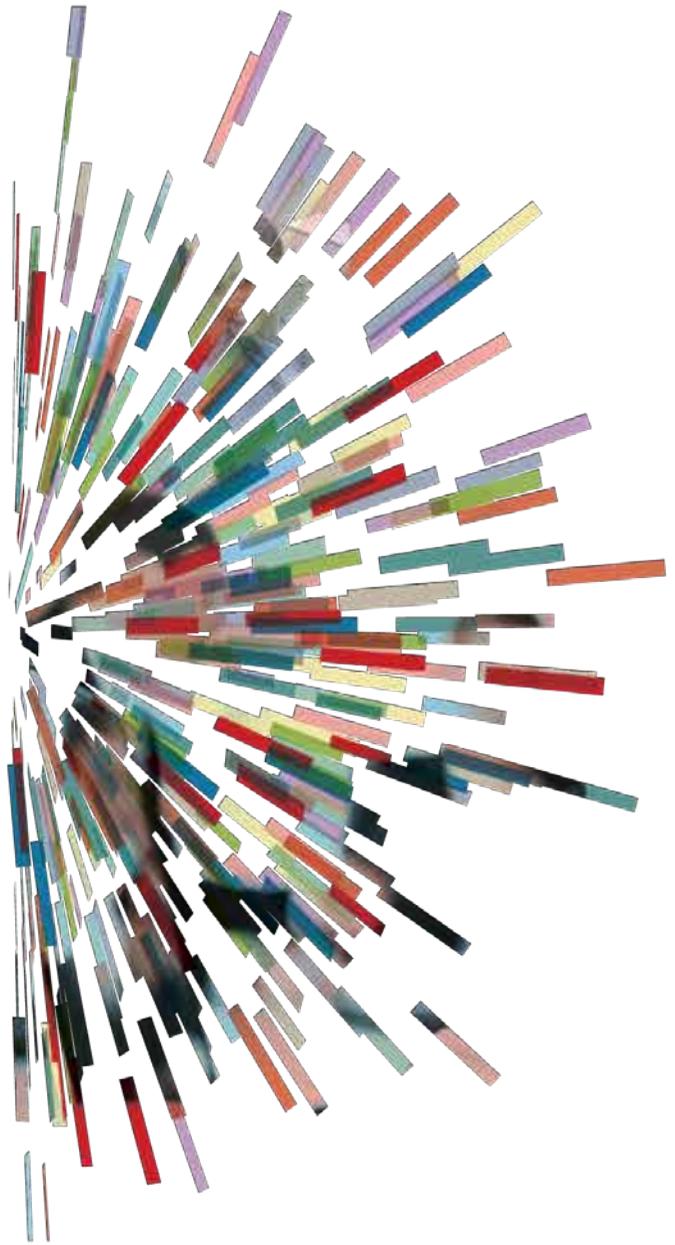


Aiming for Greater  
Financial Inclusion  
through Sustainable  
Development:  
The Story of AIM  
(Amanah Ikhtiar Malaysia)





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# AIMING FOR GREATER FINANCIAL INCLUSION THROUGH SUSTAINABLE DEVELOPMENT: THE STORY OF AIM (AMANAH IKHTIAR MALAYSIA)

## Breaking the Chains of Poverty

When Kamariah Udin first came to Amanah Ikhtiar<sup>1</sup> Malaysia (AIM) in 2001, she and her husband were struggling to get by. She was one of the many women constituting a significant proportion of poor fishing households in Kampung Pulau Salak, Sarawak<sup>2</sup>. Being a fisherman's wife, Kamariah was no stranger to a hard life and having it rough. But she was determined to reverse her misfortune and change her family's economic status for the better. With financing from AIM, Kamariah together with her husband, decided to start a fish farming business. This was the beginning of their transformational journey from leading a poor fisherman's life to that of a successful fish farmer. Today, they earn about RM2,000<sup>3</sup> a day from their fish farm compared to a mere RM30 previously. Together with their 3 children, they now live in a big house; a huge improvement from their previous wooden house on stilts. Now a long-time AIM client or better known as a *Sahabat*<sup>4</sup>, Kamariah is a shining example of how microfinance can serve as an effective tool to assist and empower the poor to work their way out of poverty.

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**Keywords: Financial Inclusion, Women Entrepreneurship, Non-performing Loans, Microfinance, Islamic Microfinance, Malaysia, Entrepreneurs, Poverty Alleviation**

<sup>1</sup> Amanah is a term that, in the closest literal English translation, means fulfilling or upholding trusts. Ikhtiar in the Bahasa Malaysia language means endeavour or initiative.

<sup>2</sup> Kampung Pulau Salak is a traditional fishing village located on the small island of Pulau Salak, which is 20 km from Kuching, the capital city of Sarawak. Sarawak is a state in East Malaysia. The village is only reachable by boat.

<sup>3</sup> 1RM = 0.3USD

<sup>4</sup> Henceforth, the word 'Sahabats' will be used to refer to participants, clients or borrowers of AIM.

## Amanah Ikhtiar Malaysia – Spearheading Microfinance

Kamariah isn't the only one; there are thousands of poor and low-income households in Malaysia who have improved their living conditions with the help of AIM's microfinance programmes. As Malaysia's largest microfinance institution, AIM has helped thousands of poor Malaysians to improve their lives by extending financing for them to start their own enterprises<sup>5</sup>. By 2013, more than 22% of *Sahabats* earn more than RM3,200<sup>6</sup> and more than 49,000<sup>7</sup> of them have reached the income threshold of RM3,500 a month and have graduated to become micro entrepreneurs. AIM is confident that by 2020, all of its *Sahabats* will graduate to this income level.

Established in 1987, AIM's main objective is to reduce poverty in Malaysia through the provision of interest free microcredit facilities to the poor and low-income households to finance income-generating activities and thus improve their standard of living.<sup>8</sup> Since its inception some 27 years ago as a private trust, AIM has grown to become a household name in the global microfinance industry. Today it boasts 347,907 active borrowers across 135 branches nationwide, making it the largest microfinance institution in the country<sup>9</sup> (see Appendix 1 and Appendix 2). By September 2014, AIM had cumulatively disbursed more than RM11.3 billion in financing to its *Sahabats*, a far increase from RM891,488 in 1990. AIM's market share of the microfinance industry stands at 40% in 2013 and is expected to increase to 50% in the next 5 years<sup>10</sup>.

AIM has a well-developed outreach network nationwide that is both broad in its reach and strong in its connections. Through its extensive network, AIM is able to serve the urban poor as well as expand its services to the rural poor in remote areas who otherwise have been having limited or no access to borrow money and, in some instances, to accumulate savings. Its branches are spread throughout the country, with the main concentration in the poorest states in Malaysia namely Sabah, Kelantan and Kedah; as is being reflected in the percentage of distribution of participants by states in Figure 1.

<sup>5</sup> Latest statistics released by the Department of Statistics Malaysia show that the number of poor households in the country has reduced by 52.7%, from 228,400 in 2009 to 108,000 in 2012.

<sup>6</sup> Buletin Sahabat Ikhtiar, 2013. "Kelansungan Organisasi Menjadi Keutamaan", Issue 2, p. 5.

<sup>7</sup> Islamic Finance Review, 2013. "Interview with Datuk Hajah Zabidah Ismail", Vol 3 Issue, pp 28-30.

<sup>8</sup> In Malaysia, poverty line income is set at RM750 per month for Peninsular Malaysia, RM960 for Sabah and RM830 for Sarawak. Low income households is defined as those earning less than RM2,500 a month.

<sup>9</sup> Other microfinance institutions operating in Malaysia include Yayasan Usaha Maju (established in 1987), TEKUN (established in 1998) and People's Credit Cooperation or KKR (a credit union co-operative established in 1974). These institutions are all subsidised and are receiving full financial support from the Malaysian government in terms of grants and soft loans.

<sup>10</sup> "Paving the way to inclusive growth", *Asian Link*, 2013.

**Figure 1:** Distribution of Participants by States in 2014 (as % of total number of Sahabats)



Source: AIM 2014

In recognition of its role as an agent of socio-economic change, AIM has been awarded several international accolades including The Asian Leadership Award on Rural Development and Poverty Eradication, Best Islamic Microfinance Award (for two consecutive years in 2013 and 2014 at the Global Islamic Finance Award) and Global Excellence in Management Award on Excellence in Corporate Governance. However, AIM's most significant achievement is its impressive track record of producing entrepreneurs amongst the poor.

As the premier and most successful microcredit institution in the country, AIM had definitely been a key player in alleviating poverty especially among women – its target market. However, the socio-economic situation in Malaysia has changed drastically in the last 27 years since AIM came into being. The overall incidence of poverty, measured as a percentage of households, declined significantly from 37.4% in the 1980s to 1.7% in 2012. This proves to be a double edged sword for AIM. While it had played a catalytic role in poverty eradication, at the same time AIM finds itself at a crossroad. With a drastic decline in the incidence of poverty, will AIM continue to be relevant? Could it still be part of the creation of higher-income-level AIM entrepreneurs?

## How it Began

It all began with an inspiration, which stemmed from great admiration. Two researchers from Universiti Sains Malaysia, Professor David Gibbons and Associate Professor Sukor Kasim were so inspired by Professor Muhammad Yunus' development of the Grameen Bank in Bangladesh that they decided to emulate its success here in Malaysia too. The two academicians started a pilot programme to explore whether microcredit can improve the social and economic status of the poor. The success of the project – known as the "Ikhtiar Project", proved that the poor are worthy of credit and that they honour their small loans.<sup>11</sup> This paved the way for the establishment of the first microfinance institution in Malaysia. In 1987, with support from Yayasan Pembangunan Ekonomi Islam Malaysia (YaPEIM)<sup>12</sup>, Asia Pacific Development Centre (APDC) and the Selangor State Government, AIM was launched as the first microcredit institution in the country. It was institutionalised as a Registered Private Trust, governed by its Trust Deed (see Table 1) and a Board of Trustees. Government institutions were represented as ex-officio trustees. With this establishment, the journey to greater financial inclusion in Malaysia had begun.

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<sup>11</sup> This project involved 373 poorest households to have received their first welfare loan. At the end of the two-and-a-half year project, at least 90% repayments were made including the loan capital and cost of financing.

<sup>12</sup> Yayasan Pembangunan Ekonomi Islam Malaysia (YaPEIM) loosely translated as the foundation for Islamic economic development in Malaysia is a foundation established by the Federal Government of Malaysia with the vision of becoming the major institution for socio-economic development to improve quality and dignity of the community by the year 2020.

**Table 1:** Instrument of Trust - Objective of the Trust Deed

“The AMANAH is established for the sole purpose of assisting the very poor, poor and low-income households to lift themselves out of poverty, primarily by means of benevolent financings to be used for financing income generating activities”; and “in pursuance of this objective, *Amanah* will engage in the following activities:

1. Identification and registration of very poor, poor and low income households;
2. Motivation of these households to take advantage of the opportunity offered by *Amanah* in striving towards increasing household income;
3. Organising representatives of these households into groups and centres.”

Source: AIM

As the largest Grameen Bank copy outside Bangladesh, AIM is a poverty-oriented microfinance institution that provides financing only to the very poor, poor and low-income households. But unlike Grameen Bank, AIM operates as an Islamic microfinance institution where microcredit provided by AIM is given out without interest.<sup>13</sup> Borrowers are however required to pay a management fee of 10%. “Poor households don’t qualify for normal bank financing either because they don’t have collateral or don’t meet other requirements set out by banks. AIM provides small financing without the need for collateral, guarantors or any legal action against defaulters,” explained Norsharizal Mashahrin, Chief Executive Officer of AIM. “We believe that the poor and low-income individuals are capable of lifting themselves out of poverty if given access to financial services.”

<sup>13</sup> Islamic microfinance or Shariah-compliant microfinance is the provision of financial services for low-income populations in which the services provided conform to Islamic financing principles and do not incur interest or ‘Riba’.

Exclusive focus on the poor entailed putting in place an effective mechanism to identify them. AIM had always been stringent in determining the eligibility of applicants. It had a well-developed strategy to identify very poor households i.e. a three-stage process of (1) deriving district-based estimates of household income based on data from the Statistics Department; (2) conducting 'house indexing' to identify the degree and density of poverty to prepare a preliminary listing of the estimated number of poor households based on the crude housing index; and (3) conducting a means test to further analyse income and poverty status. Currently, those with a household income below RM3,050 are eligible to apply for financing.

True to its pledge, AIM has alleviated many livelihoods across the country. From a nationwide survey involving 269,470 *Sahabats*, it was found that 94.7% of the respondents have been successfully lifted out of poverty.<sup>14</sup> Of these, 30% *Sahabats* earned monthly incomes of more than RM3,500. This is an impressive outcome given that these borrowers started with meagre incomes, mostly financially illiterate and majority of them clueless on how or what to do to improve their disposition. But AIM's success story doesn't end here. AIM also places great emphasis in the social dimension of its *Sahabats* by integrating social development programmes into its microfinance schemes. More often than not, gaining access to financial services is a critical stepping-stone in linking the poor to a broader economic life and in building the confidence needed to play a role in the larger community. Through economic empowerment, *Sahabats* experience improvement in health status, their children's education and subsequently their socioeconomic standing in the community.

### **The Amanah Ikhtiar Way**

Though the concept of microfinance is not new, the narrative of how financial services can help the poor lift themselves out of poverty continues to emphasise on the social dimension of poverty eradication. While other microfinance institutions focus primarily on microcredit, AIM focuses on additional types of entrepreneurial services for the poor to create sustainable change. This is a primary feature that distinguishes AIM from other microfinance institutions, making AIM's model distinct from the traditional microcredit model.

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<sup>14</sup> SME Annual Report 2012/2013.

After nearly three decades of operation, AIM has evolved and transformed itself as a leading microfinance institution creating micro-entrepreneurs amongst the poor and low income households. Taking on a client-centred approach to microfinance, AIM nurtures the profitability of *Sahabats'* businesses by creating an ecosystem that is conducive to the development of entrepreneurs amongst its borrowers. AIM not only offers financial products and services, but also a wide range of services including financial education, entrepreneurship training, value chain support and social services. The microfinance ecosystem developed by AIM serves a dual purpose – to reduce the *Sahabats'* vulnerability as a means of reducing the risk in lending to them and to groom them to become small and medium-level entrepreneurs.

Entrusted with the task of eradicating poverty in Malaysia, AIM receives strong financial and non-financial support from the Malaysian government and its agencies, which is critical to its sustainability. Financial support comes in the form of interest-free government financing, grants and soft loans through allocations made under various Malaysia Plans.<sup>15</sup> On 14<sup>th</sup> September 2013, AIM was given a government grant of RM300 million with the mandate to provide microcredit to 500,000 families by 2015.<sup>16</sup>

## Empowerment Beyond Finances

An inspiring example of the success of AIM in supporting and complementing the government's poverty eradication programme is exemplified in the story of Kamariah and her husband. Not only has their business expanded to include 40 fishponds currently, they have also employed three workers to help them at the farm. But what makes AIM unique is its emphasis on creating micro-entrepreneurs amongst its borrowers and its responsiveness to the evolving needs of its *Sahabats*. Unlike many microfinance institutions, AIM takes a more holistic approach of providing its services and unlocking entrepreneurship amongst the poor. AIM's success in alleviating poverty and enhancing financial inclusiveness can be attributed to its provision of a range of financial facilities, various support programmes for *Sahabats*, networking and strategic alliances, an effective delivery system and strong government support. This part of AIM's social mission – provision of a range of financial products and support programmes to its *Sahabats* – is an integral part of AIM's strategy for financial inclusiveness.

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<sup>15</sup> The Malaysia Plan is a five-year Malaysian government national development initiative. AIM has so far received allocations of RM77.1 million under the 6<sup>th</sup> Malaysia Plan, RM200 million under the 7<sup>th</sup> Malaysia Plan, RM300 million under the 8<sup>th</sup> Malaysia Plan, RM170 million under the 9<sup>th</sup> Malaysia Plan and RM491 million in the recent 10<sup>th</sup> Malaysia Plan.

<sup>16</sup> Source: Budget Speech 2014 by Prime Minister Dato' Seri Najib Tun Razak.

## Effective Delivery System

AIM's high repayment rate of about 99.6% is attributable to its effective credit delivery system as well as the group-based lending model (see Table 2). AIM's delivery system was designed to ensure inclusion by eliminating barriers for the poor to have access to microcredit, and also to ensure minimum default. Although financing is given to individuals; borrowers are required to form solidarity groups of five persons per group that provide mutual support to each other throughout the financing disbursement process. As such, guarantee of repayment is derived not through any contractual term, but rather through support and trust among the group members. This follows the Grameen bank model of joint liability group-based lending in which collective responsibility is taken for paying back financing and access to subsequent financings is dependent upon the commencement of repayment of prior financings.

**Table 2:** Features of AIM Delivery System/Financing Scheme

1. Financings have no collateral, no guarantor, and are not subject to legal action
2. To maximise the impact of operations, financings are brought to the poor in their respective villages
3. Simple procedures e.g. understanding of rules and regulations are tested orally
4. Participants form a compulsory group of five
5. Collective responsibility. Group members support and look out for each other
6. Financing amount is based on income and repayment records
7. Weekly financing repayments
8. Close monitoring and supervision by field officers and Sahabats
9. Sahabats as well as the *Pegawai Amanah* or Trust Officers are guided by the pledge which they recite at the beginning of all meetings.

Source: AIM

The collective responsibility also includes pooling funds to help advance money to members of the group who are unable to make the weekly financing payment schedule. This 'social collateral' and peer pressure within the group has led to high repayment rates as it encourages a culture of financial responsibility that provides a strong basis for encouragement, transparency and accountability. AIM also requires members of the group to be of the same gender and community, with no close family relationships and be of similar socio- economic status.

Before joining AIM, prospective *Sahabats* participate in a week long training programme to familiarise themselves with the rules, procedures and conditions governing the financing and its repayment. Following that, once they pass the group recognition test that is carried

out at the end of the five-day course, they are organised into centres with 2-12 groups to a centre. Centre meetings are held weekly; during which an AIM staff (also known as a Trust Officer) conducts transactions, perform weekly reviews of performance as well as other social services.

During these centre meetings, *Sahabats* empower each other by sharing success stories and discussing ideas for solving business and personal problems. At AIM, for example, many of these self-help groups have their own set of uniforms that are normally worn during group meetings, workshops or trainings (see Figure 2). This voluntary initiative on the part of the *Sahabats* is to clearly distinguish themselves from other groups but at the same time maintain a sense of equality among the women within the group.

**Figure 2:** Self-formed group of women dressed in their uniforms attending a workshop organised by AIM.



### **A Range of Financial Facilities**

AIM offers benevolent financing to its *Sahabats* together with a plethora of other *Shariah*\*-compliant financial products. Apart from basic microcredit products, *Sahabats* have access to various financing schemes that are specifically tailored to meet a range of changing economic and social requirements. Diversification of offerings benefit borrowers as it provides them with a range of financial products to suit their various needs. The

\* Islamic law based on the Al-Qur'an and the traditions of the Prophet (Hadith and Sunna)

scheme contains four basic services including microfinance products, savings, security and entrepreneurship development (Table 3).

Since becoming a *Sahabat*, Kamariah has borrowed a total of RM54,900 through eight separate financings. In line with business growth, she has also borrowed some RM17,000 through the i-Sejahtera financing scheme to purchase assets and repair her fish ponds. AIM's current offerings include seven financing schemes described in Table 4.<sup>17</sup>

**Table 3:** AIM's Product and Services

| Services             | Product                                  | Description  | Purpose   |
|----------------------|--|--|---|
| Microfinance         | Economic financing                       | <ul style="list-style-type: none"> <li>Initial financing amount is up to RM3,000; with a maximum of RM20,000.</li> <li>Subsequent financing is based on existing repayment records.</li> </ul> | To finance income-generating activities   |
|                      | Educational financing                    | <ul style="list-style-type: none"> <li>For members and their family (including children).</li> </ul>   | To develop skills and fund educational needs  |
|                      | Multipurpose financings                  | <ul style="list-style-type: none"> <li>House renovations/repairs, investments (fixed/liquid assets), household consumption</li> </ul>  | To increase the well-being of the <i>Sahabats</i>   |
| Savings              | Compulsory savings/group funds           | <ul style="list-style-type: none"> <li>From RM1 to RM15 weekly</li> </ul>  | To inculcate good savings habits and generate group funds. The savings are made into shares in KOOPSAHABAT (AIM Cooperative) which belongs to the <i>Sahabats</i> |
| Security             | Welfare and well-being funds (voluntary) | <ul style="list-style-type: none"> <li>RM2 monthly</li> <li>1% contribution deducted from economic financing</li> </ul>  | To compensate for unfortunate events including natural disasters, fire, hospitalisation charges, chronic illnesses, death   |
| Economic Development |  | <ul style="list-style-type: none"> <li>Entrepreneurship training</li> <li>Business development programmes</li> </ul>   | To develop 90% of active members into entrepreneurs.  |

Source: AIM

<sup>17</sup> All branches nationwide offer *tawarruq* financing and savings to all AIM's *Sahabats*. *Tawarruq* is a Shariah-compliant transaction where one party buys some goods on credit at a marked-up price and sells the same at a lesser value for the purpose of getting cash (i.e. the spot value of the goods). The purpose of this transaction is not the possession of the goods, but the attainment of liquidity.

**Table 4:** AIM's Financing Schemes

| Financing Scheme  | Limit (RM)                           | Payback Period  |
|---|--------------------------------------|---|
| <b>Economy</b>  |                                      |   |
| 1. i-Mesra<br>The basic scheme to all of AIM's financing initiatives aimed at financing economic projects that are believed to provide good returns to the AIM Sahabat  | 1,000-2,000<br>3,000-10,000<br>(max) | 12 to 50 weeks<br>12 to 100 weeks   |
| 2. i-Srikandi<br>The i-Srikandi Financing Scheme, based on a "fast track" concept, was introduced to those who have potential viable and successful projects  | 12,000-20,000<br>(max)               | 12 to 150 weeks   |
| 3. i-Wibawa<br>Known as "Ikhtiar Rezeki Wibawa Financing Scheme" offered to <i>Sahabats</i> who are taking the i-Mesra or i-Srikandi financing scheme. This scheme was introduced to provide soft financings to <i>Sahabats</i> , who require additional capital to carry out seasonal projects or opportunities that come in short periods of time | 5,000 (max)                          | 6 months paid either on a weekly basis, monthly basis or full settlement. |
| <b>Others</b>   |                                      |   |
| 4. i-Sejahtera<br>Housing/multipurpose financing  | 1,000-2,000<br>3,000-10,000<br>(max) | 12 to 50 weeks<br>12 to 100 weeks   |
| 5. i-Bestari<br>Education financing   | 1,000-2,000<br>3,000-5,000 (max)     | 12 to 50 weeks<br>12 to 100 weeks   |
| 6. i-Penyayang<br>The financing is given to <i>Sahabats</i> who face problems in paying back caused by project failure, natural disaster or health problems   | 1,000 -2,000<br>3,000 -5,000 (max)   | 12 to 50 weeks<br>12 to 100 weeks   |
| 7. i-Emas<br>Financing scheme for people who are 75 years old and above   | 2,000 (max)                          | 12 to 50 weeks  |

Note: All financing assistances are covered by micro-insurance; except for i-Emas.

Source: AIM

### Support Programmes for *Sahabats*

Microfinance clients often lack entrepreneurial and financial management skills. As a result, they often fail to run their business efficiently and some even face difficulties in their financing repayments. More often than not, only a small percentage of these financings actually go into expansion of businesses. The vast majority of microfinance clients that are generally poor or low-income people have no prior business experience and little formal education. At AIM, access to good finance goes hand in hand with providing the appropriate skills and vocational resources to utilise the financing received by *Sahabats*. Through a host of entrepreneurial development programmes including training, business development and human capital development; *Sahabats* are given the appropriate skills and knowledge that they need to succeed (see Table 5). “Converting financings to income requires a unique set of skills. So we provide our *Sahabats* with vocational and business skills needed to improve their livelihoods,” said Khairul Amri Dato’ Amihamzah, Manager at the Centre for Entrepreneurship Development, AIM.

**Table 5:** Entrepreneurs Development Programmes Offered by AIM

|                            |   |
|----------------------------|---|
| Training Programmes:       | Developing the Entrepreneurial-Character<br>Basics of Entrepreneurship<br>Basic skills (Technical)<br>Business Enhancement Skills |
| Business Development:      | Business Transformation   |
| Human Capital Development: | Motivational Programmes<br>Leadership Skills<br>Social Skills.  |

Source: AIM

Based on research findings the impact of every two-fold opportunity for additional skills enhancement and amount of total funding would result in an improvement of as much as 27% towards the *Sahabats*' revenue. Similarly, each additional doubling hours of work put in would result in an increase of 24% towards the *Sahabats*' income.

That being said, there is the real need to provide the entrepreneurship and business development training currently being conducted and implemented by the Centre for Entrepreneurship Development (CED) at AIM (see Appendix 3). “CED programmes remain a very crucial consideration towards helping to raise the incomes of the *Sahabats*, apart from providing continuous funding as is AIM’s quest towards ensuring the growth of the *Sahabat’s* businesses,” as explained by Khairul Amri.

Kamariah herself has benefitted from the many training and vocational programmes offered by AIM. Another long-time *Sahabat* of AIM, Junainah Darini, attributes her business success to two things: upskilling herself and continuous support from AIM. “I have been attending various training programmes under the AIM banner and have learnt so much about how to sustain a business,” she said. Amongst these programmes or seminars are Halal<sup>18</sup> certification, product branding and marketing. Junainah who invented and produces ‘*tempe crunch*’<sup>19</sup> is confident that she is able to expand her business and market her products through the support received from AIM. “Microfinance is not just about access to money... it is also how money is utilised and invested by borrowers”, explained Khairul Amri.

AIM is working with local universities and departments of higher education under a programme called Women in Social Enterprise (WISE), where university students will be placed with *Sahabat* for a month. This is to facilitate knowledge sharing and to create student entrepreneurs. Students will also learn to appreciate the challenges in becoming an entrepreneur; some end up becoming marketing agents for their *Sahabat* mentors by selling their products. On the other hand, *Sahabats* can pick up skills such as preparing simple accounts from the students. “We have seen much success with this programme. The synergistic partnership has resulted in significant increase in *Sahabat’s* income, up to 30% in some cases”, revealed Norsharizal. In 2012, over 200 students were involved in this scheme and plans are already underway to increase this number due to an overwhelming response.

“AIM is continuously looking at ways to enrich the ecosystem in which we operate,” said Norsharizal. As part of this initiative, a memorandum of understanding was also signed

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<sup>18</sup> Halal originates from an Arabic phrase that means allowed or permitted by Islamic Law. When used in relation to food, it indicates the food item to be permissible to be consumed by Muslims.

<sup>19</sup> Tempe is a fermented soybean food. Tempe crunch is thin layer of fermented soybean that has been crispy fried to resemble potato crisps.

between AIM and the Credit Counselling and Debt Management Agency (AKPK)<sup>20</sup> to enhance financial literacy levels of *Sahabats*. “This MoU aims to help them (*Sahabat*) in building their financial skills and subsequently increase their income generating capability,” he explained.

### **Networking and Strategic Alliances**

Another source of success for AIM is the incorporation of networking into its programmes, both within the community in which it operates and with external agencies that can provide assistance to borrowers. Hence, *Sahabats* not only receive training on business skills but are also helped to identify and access new opportunities. Both Kamariah and Junainah received technical assistance from relevant government agencies through AIM’s networking. When she first started her fish farming business, Kamariah received the much-needed technical support from the Sarawak Fisheries Department. Similarly, the Selangor’s Department of Agriculture supplied Junainah with the equipment needed to start her business.

Working closely with government agencies, AIM is able to link *Sahabats* with various government agencies, thereby ensuring that they receive project-related technical assistance and access to experts. Several seminars and joint ventures conducted together with various government agencies to upskill *Sahabats* are the Manufacturing Transformation Programme by SIRIM, the Agropreneur and LKP Programme by MARDI, the Internet Entrepreneurship Programme by MDeC and a number of joint training programmes with community colleges around the country.<sup>21</sup>

In Keningau (a state in Sabah), *Sahabats*, who depended mainly on rubber-tapping had begun to diversify into producing handicrafts using beads, rattan and bamboo. This was made possible through AIM’s strategic alliance with the Sabah Foundation and Malaysian Handicraft Development Corporation (Kraftangan Malaysia). By leveraging on their core-competencies, these three organisations successfully conducted a three-month craft training (with sessions covering 5 days a week, 10am-5pm) for a total of 103 participants in six locations around Keningau. While AIM and the Sabah Foundation foot the bill for the training and equipment, Kraftangan provided trainers with the respective craft skills.

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<sup>20</sup> AKPK was set up by the Central Bank of Malaysia to provide financial counseling and debt management as well as financial education to help individuals take control of their financial situation.

<sup>21</sup> SIRIM or the Standard and Industrial Research Institute of Malaysia acts as the national organisation of standardisation and quality. MARDI is a statutory body which has been mandated to conduct research in agriculture, food and agro-based industries. MDeC or Multimedia Development Corporation is the lead agency that oversees the development of Malaysian ICT initiatives.

## Social Welfare Services

Microfinance borrowers both individually and as community members face a range of risks which include illnesses, deaths of family members and unexpected losses due to natural disasters. All these risks will have impacts on their ability to meet their repayment obligations. AIM provides a safety net to its *Sahabats* through a social welfare fund known as Tabung Kebajikan dan Kesejahteraan Sahabat (TKKS) [*Welfare and Well-Being Fund*]. Established in 2006, the fund is dedicated to supporting borrowers who are facing difficulties in their lives due to deaths, accidents, illnesses, chronic diseases or unexpected losses due to natural disasters. *Sahabats* voluntarily contribute RM2 a month while AIM contributes RM500,000 yearly to this fund, which can be drawn on in times of need. In April 2014, for example, AIM channeled a total of RM621,600 from TKKS to about 3,108 *Sahabats* who were affected by the devastating floods in the state of Sabah. As at October 2014, cumulative funds of TKKS stood at RM100.9 million.

## Different Times, Different Situations, Same Organisation

When Dr Zubir Harun was appointed to lead AIM in 2013 as the new Chairman, he was well aware of the challenges ahead of him. Not a new face to AIM, Dr Zubir had been instrumental in the development of the institution since he was appointed to the board in 2008. AIM is now operating under different conditions than those of 20 years ago. As an astute businessman and corporate planner, he underscored the importance of corporate strategy and the new landscape in which AIM is now operating.

“AIM is proud to have successfully complemented the government’s efforts in eradicating poverty in the country. Many of our *Sahabats* have graduated out of poverty. With absolute poverty now down to 1.7%, we are now expanding our target clients to include low income households,” explained Dr Zubir. A transformation plan was needed to strengthen AIM’s operations and services in light of national and global development. “A more holistic and structured ecosystem for AIM is inevitable if AIM is to continue to stay relevant in the long run. The basic idea behind the transformation was that excellence must be created, achieved and maintained in order for AIM to be sustainable and relevant,” he said. As a roadmap for its transformation, AIM changed its vision and mission statement, and outlined new initiatives and strategic thrusts, many of which had been rolled out in 2014 (see Table 6).

**Table 6:** AIM' s Current Vision and Mission, Initiatives, and Strategic Thrusts

**VISION**

"To be a blessed, dynamic and world-class microfinance institution which alleviates poverty to enhance the well-being of the *Ummah* (Community)"

**MISSION**

1. To be a strong, stable, independent and sustainable microfinance institution
2. To provide a shariah-compliant product range to low-income households
3. To provide a technological and support-system infrastructure in product and service delivery
4. To strengthen human capital by inculcating the culture of learning, entrepreneurship and continuous innovation
5. To champion the socio-economic wellbeing of the AIM community through a comprehensive eco-system to enable them to and to enhance their capacity to pay *zakat*, *wakaf* and *infaq*
6. To explore regional and international markets for Islamic microfinance
7. To inculcate a culture of volunteerism within the AIM community.

**INITIATIVES**

To improve the standard of living and socio-economic status of its target group, the following initiatives are proposed:

1. To strengthen AIM's financing system through offerings of diversified Islamic Microfinance products
2. To initiate the practice of Zakat of AIM staff and *Sahabats*
3. To empower the *Sahabats* through the establishment of *Koperasi Sahabat*
4. To strengthen AIM through the establishment of its subsidiary (AIM Sdn Bhd)
5. To create higher-income-level AIM entrepreneurs through *Networking and creating a new ecosystem*
6. To strengthen work culture and business models through the implementation of intensive decentralised supervision.

Source: AIM Internal Documents, 2014 (Translated by author)

## Corporate Restructuring

"Although AIM's portfolio-at-risk or PAR<sup>22</sup> is currently below 2%, which is in line with the international standard of portfolio quality for microfinance institutions, we cannot rest on our laurels. AIM needs to further improve and strengthen its four core areas – financing, operations, human capital development and capacity building development for our borrowers," emphasised Dr Zubir. Together with the management team at AIM, Dr Zubir sets out on a quest to transform his vision for a dynamic and progressive AIM.

<sup>22</sup> Portfolio-at-risk or PAR measures the outstanding balance of loans that are not being paid on time (normally 30 days) against the outstanding balance of total loans. This ratio is the most widely accepted measure of portfolio quality.

At the corporate level, AIM underwent organisational restructuring with a two-pronged move – transforming the minds of the staff, work culture and business model; and the AIM's ecosystem with greater focus on operational excellence. This strategic move witnessed AIM's expansion plans through the introduction of new entities namely Amanah Ikhtiar (M) Sendirian Berhad (AIM Sdn Bhd), Koperasi Amanah Ikhtiar Malaysia Berhad or Amanah Ikhtiar Cooperative (Koperasi Sahabat) and Centre for Professional Islamic Microfinance (CIPM). With these three new entities, AIM's business ecosystem is now a dynamic structure of organised business entities that is necessary for future sustainable competitive advantage. "It's imperative for AIM to improve its operational efficiency and at the same time ensure *Sahabats* receive the best quality service," explained Dr Zubir. He is also mindful that asset quality remains a key aspect of financial performance for any microfinance institution and is a key indicator of its financial viability.

Core to AIM's financial sustainability is the establishment of AIM Sdn Bhd as an investment arm responsible for managing AIM's assets as well as investing AIM's surplus financial resources through a diversified investment strategy. The role of Koperasi Sahabat is further enhanced under the transformation plan. Apart from collecting funds from the *Sahabats*, it is involved in large-scale investment activities including large-scale funding of between RM51,000 and RM300,000. "In keeping with our motto: From the *Sahabats*, to the *Sahabats*, for the *Sahabats*; the Koperasi mobilises funds and invest them in profitable business ventures," explained Mohd Syukri Abdul Majid, General Manager, Koperasi Amanah Ikhtiar Malaysia Berhad.<sup>23</sup> The cooperative concentrates on investing in hospitality, food production and packaging and agro-based industries. The move toward diversification of its activities has been driven by the needs to improve its recurring income stream.

To date, Koperasi Sahabat has acquired a hotel, two shop houses, a food-packaging factory, an oil palm plantation; and now is in the midst of building a network of Islamic pawnshops (known as *Ar Rahnu*)<sup>24</sup> nationwide. "We had recently launched our first Ar Rahnu branch in Pasir Tumboh, Kelantan, one of the eastern states in Peninsula Malaysia. There is huge market potential for the segment and we are optimistic the business will become a significant contributor of revenue to the Koperasi," Mohd Syukri added. Koperasi Sahabat is also working closely with several banks in the country to offer debit and credit card services to eligible cooperative members.

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<sup>23</sup> Buletin Ikhtiar, Issue 1, 2014.

<sup>24</sup> Ar-Rahnu is an Islamic pawn broking scheme based on Shariah principles whereby gold or jewelry is used as collateral against credit.

## High-Income Level of *Sahabats*

Another aspect of the transformation relates to uplifting the income level of *Sahabats* in tandem with Malaysia's aspiration to become a high-income nation by 2020. Among others, the transformation plan sets a target of no less than 50% of *Sahabats* with a minimum monthly income of RM2,000 and up to 30% of *Sahabats* with 'high income' of more than RM3,500 per month. But to achieve these targets, greater involvement of *Sahabats* in Koperasi Sahabat via shareholding and savings is a necessary condition. As at August 31, 2014, Koperasi Sahabat has a membership populace of 129,921 members and investments worth about RM76 million. "We are making waves with our strategic business ventures to bolster profits and we are looking at safe investments to bring in more income for our members. We expect to pay between 6% to 8% dividends to our members this year," Mohd Syukri said.<sup>25</sup> Participation in Koperasi Sahabat also has the effect of facilitating activities of *Sahabats* as well as generating job opportunities for the second generation of *Sahabats*.

In recognition of its role in creating entrepreneurs, AIM was mandated by the government to develop 4,000 female entrepreneurs under the Economic Transformation Programme<sup>26</sup> to support women's economic participation and raise the living standards of low-income households. The aim is to empower women, promote gender equity and improve household well-being as people increasingly recognise the contribution that women can make in helping Malaysia to build a sustainable economy. In fact, almost 100% of entrepreneurs created under the AIM financing scheme are women, with a focus on single mothers and housewives with no fixed income. Working together with the Women, Family and Community Development Ministry, AIM has been actively conducting programmes to train women entrepreneurs under the National Key Results Area of the Government Transformation Plan. AIM has exceeded their target thus far, enabling these women entrepreneurs to consistently earn RM3,500 a month. Under the new transformation programme, AIM strives to increase the number of women entrepreneurs to 6,000 by the end of 2014.

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<sup>25</sup> "Koperasi Sahabat to boost recurring income stream", *New Straits Times*, July 27, 2014 (<http://www.nst.com.my/node/18069>)

<sup>26</sup> Economic Transformation Programme or ETP is Malaysia's roadmap to becoming a high-income nation that is both inclusive and sustainable.

## **A Change in Mindset and Work Culture**

Any successful transformation programme hinges on the willingness and commitment of employees to carry the corporate strategies forward. Without the full support and cooperation of employees, even a foolproof strategy can go awry. Taking a back to basic approach of returning to the original mandate of AIM, Dr Zubir is a firm believer in fostering a sense of ownership amongst employees to drive increased participation in the organisation. During many of his field trips visiting various AIM's branches throughout the country, Dr Zubir would call on the staff to translate the vision and directives of the leadership to provide the best services to customers and to excel in their work. "Awareness, involvement and engagement mark the beginning of changing of the mindsets," he emphasised.

To move AIM forward to the next growth level, a change in the mindset and work culture among the staff is one of the thrusts identified in the transformation plan. As most staff work in the field to provide convenient access to financing for the *Sahabats*; a high level of skill, commitment and integrity is required. "Working life at AIM is challenging and requires a specific set of skills, high dedication and commitment," explained Rozita Muhamad, Head of the Southern zone. Hence, continuous and quality staff training is an important part of the AIM's ecosystem.

The effectiveness of microfinance depends largely on the skills and understanding of the personnel administering the microfinance programme given the unbankable nature of microfinance clients themselves – low literacy level, having no or little knowledge about business, and having no tangible assets. "For AIM to achieve economic and social transformation, skills sets of its workforce must be sharpened around the nature of our *Sahabats*," she said. "AIM staff must be able to self-regulate and capitalise on social skills. They must also be strong in spirit with sincere commitment towards raising livelihoods of the poor." As such, various training and incentives had been designed to build these skills among the AIM staff.

For Rozita, a major challenge remains in finding candidates who fit all the required competencies and attitude. This is critical as Trust Officers multi-task and do work such as conduct surveys, training sessions, manage weekly meetings and collect payments. As frontline officers, they are the ones who come into daily contact with the *Sahabats*. More often than not, they become counsellors to the borrowers and are expected to provide all kinds of business and social advisory services to them. “The challenge has always been to find someone (a frontline officer) who is not only the best in his or her respective field but has strong marketing and sales skills besides having high emotional intelligence,” Rozita said.

### Spearheading Efforts in Human Capital Development

For Dr Zubir, AIM’s transformation success depends a lot on the success of the newly set up Centre for Professional Islamic Microfinance (CPIM). Within the business ecosystem, CPIM spearheads efforts to enhance the competencies of AIM staff, its *Sahabats*, second-generation *Sahabats* and the public at large. Ms Mazanah Abdul Ghani, the Director who oversees CPIM, the Centre for Entrepreneurship Development (CED), and Centre for Research, Development and Innovation (CRDI) was tasked to put in place strategies that would ensure the success of the transformation plan (See Table 7).

Mazanah was fully aware that financial inclusion is not an ‘in’ or ‘out’ situation where people are either included or excluded from the financial sector. Financial inclusion is a continuum from fully-banked, a situation where one has the ability to access, understand and utilise a wide range of financial products or services through the mainstream banking system, to unbanked, where they have limited or no access to the formal banking sector.

**Table 7:** The Functions of the Three Centres

| Component | Function  |
|-----------|---|
| CED       | Assist the AIM community members especially the <i>Sahabats</i> and their families to upgrade skills, entrepreneurial knowledge and other areas of development to improve quality and competitiveness |
| CPIM      | Manage professional training in Islamic Microfinance  |
| CRDI      | Identify new fields in highly-demanded industries through research, developmental programmes and innovation centres   |

Source: AIM Internal Documents (Translated by author)

So issues surrounding financial inclusion often crossed her mind. Is AIM's outreach exhaustive? How much has AIM been able to tap into the non-Bumiputera<sup>27</sup> and non-Muslim market? As it stood, she felt that there was already a caste within the current system – from the absolute poor to the *Sahabats* who had crossed the poverty line and a few had even made their millions. Would it be beneficial for AIM to create one instrument to cater to all customer needs? While she knew that the tasks ahead could be daunting, Mazanah was confident that the three centres would be able to chart a brighter future for AIM. Indeed AIM has come a long way but it was time to create a new strategic growth plan.

## The Entrepreneurial Challenge

AIM's transformational plan drafted in 2013 had included the creation of higher income entrepreneurs. To propel AIM forward in line with Malaysia's aspiration to become a high income nation was a daunting task. AIM had shown sterling performance in helping the nation to alleviate poverty. However, Mazanah was seriously contemplating a suitable business model for the emerging breed of the *Sahabats*. Was it time for a new game?

The transformation plan also involves upskilling *Sahabats*. "We want to upskill our *Sahabats* with 4 to 5 skills so that they can diversify their sources of income," explained Norsharizal. The major constraints for the poor have always been the dependence on a single economic activity and the lack of skills to diversify their sources of income to supplement their livelihoods. "Because of vulnerability to external shocks such as natural catastrophes, the poor are often pushed further into poverty when they are unable to meet their repayment obligations," he added.

In 2013, two new programmes to increase the number of entrepreneurs were launched, namely i-Usahawan and the Get Malaysian Business Online (GMBO). The i-Usahawan scheme was set up to cater to the evolving needs of AIM's *Sahabats* who had up-skilled themselves from micro-entrepreneurs to the status of entrepreneurs and offers financings ranging from RM30,000 to RM300,000 (see Appendix 4 for criteria for application).

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<sup>27</sup> The Malay term Bumiputera refers to ethnic Malays and other indigenous people in Sabah and Sarawak.

The GMBO, placed under the 2013 government budget, aimed to provide aid for 50,000 micro-entrepreneurs especially women to encourage them to enlarge their market through the online platform. Coordinated by the Malaysian Communications and Multimedia Commission, this GMBO programme aimed to instill awareness among SMEs on the importance of Information and Communications Technology (ICT) as a business enabler. More business development training programmes are lined up to cater to these two new categories of *Sahabats* including customer service, customer relations, effective communication, effective sales techniques, event management, effective leadership and supervision, accounting and basic management courses.

## The Road Ahead

Being a national success story, at least in terms of outreach and cumulative financings disbursed, AIM's future success is of interest to many. A trendsetter in microcredit, AIM is poised to be a major player in the Islamic microfinance industry. In nearly three decades of serving the poor while maintaining their financial viability, AIM has now created a new sustainable ecosystem that would contribute significantly to Malaysia's aspirations towards becoming a high income, advanced nation by 2020.<sup>28</sup> AIM had not only provided financial access to the poor, it had successfully transformed the social orientation of its targeted clients to make them efficient users of the financial assistance they received. By unlocking entrepreneurs amongst the poor, AIM is now paving the way to inclusive growth.

Nonetheless the question that needs to be explored would be what lies ahead for its various stakeholders – the institution, the poor households, the chairman, the directors, the managers, the *Sahabats*, the government and the public at large? Will AIM's growth and development be progressive? Can it weather the storms faced by many microfinance institutions and combat the major causes of failures such as methodological flaws in credit technology, systemic fraud, uncontrolled growth, and suffocating levels of government intervention? Can AIM provide additional services to *Sahabats* efficiently and cost effectively? Indeed, only time can tell.

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<sup>28</sup> A high-income economy is defined by the World Bank as a country with a gross national income per capita above USD12,746 in 2013.

## Appendix 1

### Number of *Sahabats*

| Year  | Number of Branches | Number of <i>Sahabats</i> |
|-------|--------------------|---------------------------|
| 1990  | 27                 | 3,220                     |
| 1995  | 35                 | 39,401                    |
| 2000  | 61                 | 61,839                    |
| 2005  | 69                 | 154,614                   |
| 2010  | 97                 | 253,631                   |
| 2011  | 115                | 286,105                   |
| 2012  | 123                | 332,059                   |
| 2013  | 123                | 346,245                   |
| 2014* | 135                | 347,907                   |

\*Figure for 2014 is as at September.

Source: AIM, 2014

## Appendix 2

### Total Cumulative Funds Disbursed by Area as at 30<sup>th</sup> September 2014

| Area                  | Amount         | Percentage (%) |
|-----------------------|----------------|----------------|
| Northern Kelantan     | 1,416,370,860  | 12.48          |
| Southern Kelantan     | 1,201,159,748  | 10.58          |
| Kedah                 | 1,959,323,110  | 17.26          |
| Perak                 | 1,396,867,640  | 12.31          |
| Western Sabah         | 514,676,450    | 4.54           |
| Central Sabah         | 353,520,310    | 3.12           |
| Eastern Sabah         | 461,149,340    | 4.06           |
| Terengganu            | 1,478,784,155  | 13.03          |
| Pahang                | 679,767,570    | 5.99           |
| Johor                 | 238,016,570    | 2.10           |
| Southern Sarawak      | 422,357,230    | 3.72           |
| Northern Sarawak      | 402,131,220    | 3.54           |
| Selangor/Kuala Lumpur | 503,493,570    | 4.44           |
| Melaka                | 321,110,820    | 2.83           |
| Total                 | 11,348,728,593 | 100            |

Source: AIM

## Appendix 3

### Appendix 3: Objectives of the CED Programme

- i. Entrepreneurship Training Programme: This Entrepreneurship Training Activity provides and equips the *Sahabats* with knowledge, skills and entrepreneurial characteristics so that they would become both forward-looking and competitive. Programmes covered in the entrepreneurship training include training courses, practical training, seminars, workshops all aimed at providing exposure, knowledge and skills with the objective of inculcating a culture of entrepreneurship, and at producing entrepreneurs as well as to upgrade and strengthen them as per being organised by AIM with the cooperation of other agencies such as by the Community Colleges (Kolej Komuniti).
- ii. Manufacturing Community Transformation Programme: To upgrade the quality of the *Sahabats* into becoming more competitive and forward-looking.
- iii. Sewing Community Transformation Programme: To set up groups of new Sahabat entrepreneurs in the Small-Middle Industry (SMEs) such that garments produced would be able to penetrate bigger markets like MYDIN hyper-markets.
- iv. Homestay Transformation Programme: Generating income and development of local inhabitants.
- v. Restaurant Transformation Programme: Improving restaurants owned by *Sahabats* so as to boost sales and become transformation prototypes for other restaurants to follow.
- vi. Sahabat Ikhtiar Product Branding Programme: Aimed at commercialising products and services of *Sahabats* under the auspicious Sahabat Ikhtiar brandname.
- vii. Halal Programme: Exposing the interests and needs related to Halal utilisation as well as clarifying procedures and requirements pertaining to the Malaysian Halal Certificate (Sijil Halal Malaysia) to be fully beneficial to consumers, producers, entrepreneurs and the community; and to make available a platform for purposes of sharing of experiences amongst the entrepreneurs so that they can give motivation and confidence to other entrepreneurs that the halal industry gives bountiful returns to producers and should be explored by all parties concerned.
- viii. GMP Programme: To enhance knowledge and implementation of GMP interests, to create networking and to open existing doors of opportunity to developers of food premises and to enhance confidence amongst AIM's *Sahabats* on the products being produced thereby helping the industry in expanding their market bases.

## Appendix 4

### i-Usahawan Scheme – Criteria for Application

1. Aged 75 years and below
2. Not declared a bankrupt
3. A member of Amanah Ikhtiar Malaysia Berhad Cooperative
4. *Sahabat* of Amanah Ikhtiar Malaysia
5. Satisfactory attendance for compulsory meetings
6. Project is in good progress and previously funded by AIM
7. Has collateral and guarantor
8. Has a registered business
9. Compulsory to deposit savings in compulsory savings
10. Has settled payment for first i-Wawasan financing
11. Priority is given to members whose business accounts are handled by a qualified company secretary.





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