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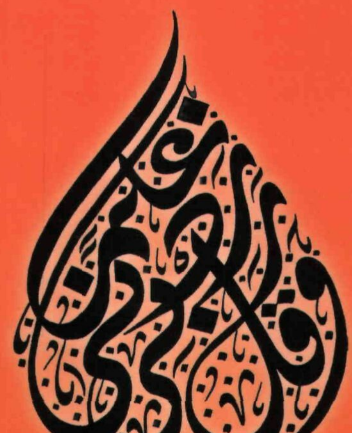

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CONTENTS

Altruism: It's Importance in Sustaining Microfinance Development

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ABSTRACT

Sustaining microfinance institutions is important in ensuring that the sources of capital of the smaller and micro enterprises could be maintained. This paper examined the important role of altruism in sustaining the progress and development of microfinance institutions. Using qualitative method of study, this article presents the relative importance of altruism in facilitating the development of Islamic microfinance. The practice of IMF in Malaysia and Indonesia was discussed comparatively to give an outlook on the importance of altruism in ensuring the sustainability of microfinance institutions. The study indicated that being aware and understanding this would help the policy makers and practitioners in designing fundraising strategies for this inherently less popular project.

Keywords: Altruism, Micro financing, Micro-Takaful

1. Introduction

Poverty crisis is persistently alarming in many parts of the world despite the tremendous significant progress and development in developing countries. Almost half of the 6.6 billion people in the world are living under subsistence level with many of them are malnourished and deprived. This scenario is not placed at the centre stage of many policy makers owing to the fact that the world economy is moving on with capitalistic philosophy where "one extraordinarily hot summer in Europe with its minor inconveniences triggers off 1,000 times more media attention than the 10 million children who silently die year after year in poor countries" (Leisinger, 2007, p. 316).

As literatures have indicated, microfinance is financing small amount of loan to the poor who are traditionally excluded from banking and financial services. Among the reasons for their exclusion were having high rating requirements for the loans, no collateral to support repayment ability, the absence of credit rating assessment for Micro and Small Enterprises (MSEs), lack of MSEs transparent and audited financial records and banks' favouring of large loans by larger firms (Garcia-Fontes, 2005). Gregory et al. (2005) attributed the problem of financing constraint to the discrepancy in the amount of information available on the MSEs. The reasons for the discrepancy were mainly: (i) micro and small firms are typically not publicly held and thus not subject to Securities and Exchange Commissions' public disclosure regulations, and (ii) micro and small firms often do not have audited financial statement, therefore, their financial standings are not disclosed. Hence, financing them would cause the funders to face higher potentials of financial risks which are often costly.

As a consequence, many destitute and poor segment of the society are marginalized in the commercial financial system since addressing them would mean to sacrifice the portion of profits of the stakeholders. This study would therefore delve into the matter by focusing more on the important role of altruistic behaviour that underpins the practice of Islamic microfinance in selected countries.

2. Altruistic Responsibility as a Holistic Concept

Islam is a divine system of life that emphasizes the importance of giving and sharing of the bounty bestowed by the Almighty Allah to mankind. The spirit of giving and sharing is enshrined from the very basic premise that all the resources are absolutely owned by Allah as the Creator of the whole universe. The resources are entrusted to men as *amanah* (trust) to be managed and utilized in a manner as prescribed by the Creator in the Qur'an and Sunnah. This is in line with the Qur'anic revelation "O believers, give of what We have provided for you" (al-Baqarah: 254) and Allah had promised that "and whatsoever good thing you spend, it will be repaid to you in full, and you will not be wronged (al-Baqarah: 272). It is also promised that voluntary giving away charity will be rewarded bountifully as mentioned in the verse "Verily, if you give thanks, I will indeed give you more" (Ibrahim: 7).

Indeed, Allah has reminded that a person is not considered to have attained the level of piety and God-consciousness (*taqwa*) until one spends his or her precious wealth to charity. In the Qur'an, Allah says to the effect: "You will not attain to piety until you spend of that which you love" (aali Imran: 92).

The bestowed wealth that Allah has given to men should be shared equitably by way of compulsory charity giving such as zakat and *nafaqah*, as well as recommendable donation such as waqaf and *sadaqah*. This is to ensure that wealth is circulated from the rich to the poor and not from the rich to the rich, so that it does not become something which circulates among the wealthy few (al-Hashr: 7). The basic idea here is that wealth must always be circulating amongst people and not be systemically siphoned off from the community into the hands of the rich to be accumulated for self serving interest.

In addition, Allah has created human kind and asked them to be useful to each other. In this regard, the Prophet Muhammad (PBUH) said: "God love the people whom help the poor and needy mankind". In another hadith, the prophet said: "God will only accept the praying of that prayers whom live moderately on and do not persecute animals and other creatures of God, don't persisted the sin and call God with the mourning, are kind with beggars, eroding love to the poor, passengers remained in the way, widows and classes of damaged".

Giving charity is indeed a universal value that is not uncommon to people irrespective of race and religion. In the US for example, an average of 2 percent of the total GDP is contributed by the citizen every year for charitable purpose and not surprisingly the largest bulk of contribution is for organizations that they are personally involved in, such as religion and education (Wright, 2002). A study on charity among Canadians implied that giving charity is common and the fact that the study highlighted religious determinant as motivation in giving away charity proved its importance (Bekkers et al., 2007).

3. Serving the Poor through Philanthropic Investments in Microfinance

Uplifting the economic status of the less fortunate people is one of the ways to achieve the Islamic goals of equitable distribution of income and wealth. In order to realize the goal, the less fortunate particularly the small and micro enterprises should be given particular attention in improving themselves economically. Among the essential means of economic improvement is an access to capital for entrepreneurial activities via microfinance.

Microfinance (MF) is a tool to gear up the standard of living of the less fortunate. There is a popular saying that if you provide someone with food you feed them for the moment, but if you teach them how to provide their own food they feed themselves for life. This saying is true in the case of MF. Many previous studies have shown that MF has positive impact to saving, farm expenses, crop productivity and asset formation, hence income improvement (Murdoch, 2002; Waheed, 2009).

The success of micro finance in helping the poor had been proven by the Grameen Bank project in Bangladesh. The project, introduced by Noble Prize winner Prof Yunos, is a group lending project whereby small amount of loan is disbursed to each member of the group to be used for income generating activities. Having group liability in Grameen had proven its success as study by Godquin (2004) showed that Grameen Bank had better loan repayment performance compared to other microfinance programmes in the country.

Grameen Bank, a unique financial institution, was established with the aims to help the poor and has replaced physical collateral requirements with group responsibility. It has shown the possibility to develop a viable and self-reliant credit programme for the poor. The Grameen model has been copied in more than 40 countries; it is the most widely cited development success story in the world; and its charismatic Founder-Director, Professor Muhammad Yunus, was awarded with the Nobel Peace Prize in 2006. By the end of February 2008 it had 7.4 million clients and an outstanding loan of $545 million. By any measure, it is an organization that has impacted greatly on the lives of many poor people and on ideas about microfinance, poverty reduction and international development. Grameen Bank approach also proves that financial intermediation is a viable device to fight poverty, and an excellent vehicle for community development (Hassan & Renteria-Guerrero, 1997: Wahid, 1999: Tinker, 2000). Since then, microfinance programmes have been part of the poverty alleviation policies and strategies. It became a popular approach, especially to reach the poor who would normally be excluded from the formal credit sector (Siwar & Basri, 2001).

The loan and the accrued interest are repayable in small weekly instalments over a period of one year. The bank also provides comprehensive investment advice to its clients and helps them to generate savings for themselves. The loan-collection rate of the Grameen Bank is nearly 98%, a rate that is far higher than that of any other conventional financial institution operating in the country (Wahid, 1999). The most distinctive feature of the Grameen Bank is that 95% of its borrowers are women. The bank provides loans to poor people who are unable to provide collateral and indoctrinated in Grameen social values, known as the sixteen decisions (Hussain et al., 2001). Grameen borrowers also vow to observe the bank's four basic principles, and they are the owners of the bank.

By organizing poor people into groups, it has created the social and financial conditions enabling them to receive loans; it has demonstrated that the poor are bankable, capable of making good business decisions in utilizing their loans and repaying them on time (Hassan & Renteria-Guerrero, 1997). Two elements are shared by the most effective antipoverty programs: community participation needs to be disaggregated by social groups, especially women, rather than being based on territory, and microenterprise programs can effectively support existing and new businesses with credit and technical assistance (Tinker, 2000).

The success of Grameen had prompted many to follow the footstep of Prof Yunos, leading to the replication of such model in other countries such as Indonesia and Malaysia. Nevertheless, dealing with the poor small and micro entrepreneurs is not catching the interest of commercially-operated financial institutions as the offering of micro finance products is perceived highly risky. In addition, offering such product is not profitable as the operation and management are costly and yet yielding insignificant income to the institutions. Previous studies have indeed proved the reluctance of financial institutions to cater the financial need of these lower-end segments of business community. Study by Holmes, Dunstan and Dwyer (1994) for instance indicated that smaller amount of loans are generally more costly to administer hence banks would rather discharge their money to less risky and less costly types of loans to larger enterprises.

A recent study by Lajovic (2012) highlighted the need for promoting the so called 'social entrepreneurship' as a way to fill in the flaws of market imperfection. Social entrepreneurship is defined as private organizations which do not operate for profit (not-for profit) and provide the goods or services that are directly related to their explicit goal to work for the benefit of the community. They rely on the collective dynamics created by several types of stakeholders in their governing bodies, and which highly value the autonomy of these enterprises and bear the economic risks associated with their activities" (Lajovic, 2012. p. 87), the model justified the need for mushrooming of micro-finance institutions on philanthropic basis.

4. Method of the Study

This study is qualitative in nature. In order to gather the required information on the actual practice of microfinance in Indonesia, a series of face-to-face interviews were conducted with the practitioners of the institutions offering IMF in the country. All the information were written in notes and recorded on tape during the interviews. This is important to preserve the preciseness of the data, apart from preventing biasness in the case of error in recalling from memory. The respective persons which have been interviewed were the Syariah Advisor of PT Haura Arzuda Media as representative of shariah advisory panels, member of Koperasi Bayt maal wa Tamwil, the President Director of Bank Pembiayaan Rakyat Syariah (BPRS) and the Head of Grameen-Model IMF. Relevant printed documents such as procedures, guidelines, certificate of policy and annual report were also scrutinized to get further details on the practice. In addition, a site visit to a group of IMF recipients in one remote village of Babakan Madang, Bogor was conducted to get the real picture of IMF practice. An interview was also conducted with the relevant officers of Amanah Ikhtiar Malaysia (AIM) to get the view on the similar practice in Malaysia. Few roundtable discussions on the same matter were also attended in getting the expert view relating to IMF practice and challenges.

5. Analysis of Finding

Data from the interviews were gathered and consolidated for analysis. Discussion on the providers of IMF in Indonesia namely Bank Pembiayaan Rakyat Syariah (BPRS), Koperasi Baytul Maal wat Tamwil (KBMT) and Gramen-Model IMF is elaborated in this section. Similar practice in Malaysia by Amanah Ikhtiar Malaysia (AIM) is also elaborated. These not-for-profit institutions and their roles in providing benefits to the low-income earners particularly IMF borrowers are discussed.

5.1 Practises in Indonesia

As the largest Muslim country in the world, Indonesia has good examples of microfinance and rural finance sector which has evolved over more than a century. There are three models of IMF in Indonesia namely Bank Pembiayaan Rakyat Syariah (BPRS), Koperasi Baytul Maal wat Tamwil (KBMT) and Gramen-Model IMF. These institutions are contracted with micro Takaful provider via an agent known as Takaful Mikro Indonesia or TAKMIN. These subsections explore each institution and their roles in providing benefits to the low-income earners particularly IMF borrowers.

5.1.1 Bank Pembiayaan Rakyat Syariah (BPRS)

Bank Pembiayaan Rakyat Syariah (BPRS) was set up by few thick-pocket shareholders who genuinely intend to help small entrepreneurs. Their main concern is facilitating the poor financially and profit earning is not placed a priory as the most they would aim is break-even. Most BPRS are privately owned, usually by one majority shareholder and several minority shareholders. In some cases, Islamic foundations, companies and local government are shareholders. Most owners are absentee owners, living in Jakarta or one of the provincial capitals. If there are many shareholders, their involvement in decision-making is small if not absent. In contrast, many owners of conventional BPR also act as general managers or president-directors.

Every BPRS has three boards: a sharia board that monitors the compliance if its operation with Islamic principles, a management board and a supervisory board. Members of the sharia board usually come from religious organizations like the local Majlis Ulama, from mass organizations and Islamic universities. The supervisory board of commissioners (*komisaris*) comprises representatives of majority shareholders and financial experts. There are usually three members on the sharia board and three on the supervisory board. It is rare that any member has a regular full-time or part-time position; most act perhaps one day a month or upon request. The management board usually comprises a director and a deputy director, who are both full-time employees.

Upon the directive of Bank Indonesia as the regulator, the management usually comprises one or two directors with banking experience. As Islamic banking is relatively new in Indonesian financial market and given that the country is facing shortage of trained bankers, very few BPRS managers have any experience in sharia banking. Most are retirees from conventional banking, who have received only some training in Islamic banking principles. This has resulted in a selection of older people, frequently from state banks, who perhaps lack the drive and innovativeness that one might expect from younger people that eager to experiment with new ideas in Islamic banking. Management is largely autonomous, sometimes indeed too much so, particularly in the case of absentee owners combined with management by retired state bankers experienced in enforcing bureaucratic rules rather than exploring new products and customer segments. No evidence was found of any conflict of interest between management, board and shareholders. This could be due to the way the decision-making is done, that is by consensus (*mushawarah*).

BPRS is the bank which has been established to provide business for micro and small enterprises (MSEs). Shariah Islamic principles enforced in the BPRS are built for financing transactions (savings and deposits) and financing (loans). BPRS manages its public funds by using profit sharing system *(mudharabah)*. By sharing system, public depositors will get the results that are highly dependent on fluctuation of BPRS' income. Any savings or deposits in the BPRS will receive assurances from Lembaga Penjamin Simpanan (LPS), so that people will feel safe to keep their funds in the BPRS.

The BPRS market segment covers the enterprising poor with existing enterprises, predominantly small traders. BPRS are open to all, irrespective of their religion. Under sharia banking, there are two models of client selection: (i) clients with existing businesses and successful operations for at least two years, and (ii) new entrepreneurs without previous business experience. The vast majority of clients fall into the first category, with an existing business and a good track record; they can be financed through such financial products as *murabahah*, *musharakah* and *mudarabah*, which involve some form of profit-sharing. New clients without a track record are considered very risky and represent a small minority of the total clients funded; they can be financed through *Qard Hasan*, soft loans without any charge or profit-sharing.

In a financing transaction (loan), BPRS provides financing to SMEs either with a purchase system *(murabahah)*, profit and loss sharing *(musharakah)* or lease *(ijarah)*. The choice of the Islamic system is dependent upon the type of financing proposed by the society to the BPRS. In addition, the BPRS can also practice Islamic pawnshop *(ar-rahn)* run by the Islamic system.

Even though the size of all BPRS is small, their performance should not be underestimated. That is shown by the level of deposits in Sharia Rural Banks. The rate of deposits per month in the BPRS can reach about 15 to 16 percent. This figure was much higher than the percentage amount by conventional banks. Many advantages possessed by the BPRS if compared to the commercial banks, especially in the customers or borrowers approach. BPRS approach was very personal and close to the borrowers. The simple procedures were applied, for example when customers want to make loan or financing, they do not need to fulfill the complicated requirement. Therefore, it will build up good relations and trust between banks and debtors.

5.1.2 Koperasi Baytul Maal wat Tamwil (KBMT)

Koperasi Baytul Maal wat Tamwil (KBMT) is a savings and credit cooperative that implements a profit and loss sharing approach. The first of its kind was established in 1994. KBMT's target is to promote the poor in the community to involve in business with a hope that in future it can eleviate their standard of living. In other words the mission to help the enterprising poor in the vicinity and to empower them economically. Their particular target market is very small micro-entrepreneurs including itinerant traders and food vendors (*kaki-lima*). *KBMT* actually evolved from the initial stage as Baytul Maal wat Tamwil *(BMT)* (pre-cooperatives or saving-and-lending institutions without a legal base), and it is an independent organizations recognized by the law as cooperatives. Having a legal status allows them to avail of limited support from government programmes.

The BMT is a variant of the Islamic microfinance system. It is a community-based microfinance institution that operates under the cooperative system and NGO domain. Structurally, it encompasses Baitul Tamwil and Baitul Maal. The Baitul Tamwil is designed to conduct financial intermediations through mobilizing deposits from member clients and financing commercial ventures. In addition, the Baitul Maal is dedicated to perform socio-religious roles by collecting charity donations from Muslims and helping the needy along with their spiritual lives. In other words, BMT is composed of two words, namely Baitul Mal (BM) which means the treasury house and Baitul Tamwil (BT), which means financing house. The treasury house is a place to collect and distribute the benevolence funds, while the financing house is a place that works to mobilize public funds to have rotated in the form of financing for business development. Thus, BMT can be defined as a group or institution of community organizations that raise funds from members, for both savings and *zakat* for distribution in the form of commercial and non commercial financing as an effort to strengthen and empower the people who are economically weak or marginal.

The root of BMT was developed in the 1980's by Muslim activists. Later on, the BMT has flourished since in mid-1990's, after the establishment of Bank Muamalat Indonesia, the first Shariah bank in the country. The latest available information reveals that there are about 3000 BMTs across the country, serving nearly 2 million savers and 1.5 million borrowers. In general, the BMT institutions have been initiated and led by leading Islamic organizations, Shariah banks, Islamic boarding schools (*pesantren*), respected clerics and Muslims patrons who have strong socio-economic and religious influences in the community.

As cooperatives, they are owned by their members. As a member in the organizations, they are given the highest power in the Annual Members' Meeting, which they can elect the Board of Directors and the Management. Board size and composition of BMT are not standardized. Internal control is generally in the hands of a supervisory board, which either meets monthly or on an ad hoc basis. Examples of BMT that exist in Indonesia are BMT Wihdatul Ummah, BMT Khidamatul Ummah, BMT Tadbiirul Ummah, BMT Nahdhatul Ummah and many others. BMT Wihdatul Ummah is a cooperative that collects funds in the form of *zakat*, *infaq*, charity and savings to be channelled for micro-enterprises. The small traders often find difficulty in obtaining capital, especially if they make the loan from the bank.

The rapid development of BMT in Indonesia is not followed by the development of reporting regulations and accounting standards. The precise definite legal status of BMT is somehow in doubt and there is no accounting standard specially made for BMT. The role of BMT in microfinance institution is not small. The number of BMT has risen from 300 at the end of 1995, to 1501 at the end of 1997, and to 2470 in 1998 (Timberg, 1999). While the definite number of BMT is hard to determine, currently there are more than 3000 BMTs all over Indonesia, with consolidated asset of more than IDR 1 trillion, employing more than 30,000 workers, more than 40% of which are women. BMT serves 2 million depositors and distribute micro credit to more than 1.5 millions micro entrepreneurs (Ersa, 2011).

BMT suffers from the same regulatory and supervisory neglect as the rest of the sector. After a period of rapid growth during much of the 1990s, they are now in decline, with perhaps no more than one-fifth in good health. Fresh money pumped into the sector without effective regulation and supervision will contribute to their downfall, as has been the case in the state-supported cooperative sector.

At the outset, the BMT initiative had strong political support. More recently, however, the BMT sector has attracted less government interest. The evidence show that there is only a small number of BMT registered by the regulatory body. Therefore, it is quite difficult to present the whole picture and position of this sector in the broader microfinance landscape. Lately, ample critics have been raised by public toward governance practices, modus operandi, products and services that are perceived to be too much like the secular programmes, rather than Shariah compliant, as well as to several BMT that favour more on profits and rent-seeking behaviours instead to promote its socio-religious objectives. In addition, there are many BMT, including those established under the government's programmes that have become insolvent and bankrupt due to lack of support and proper supervision from the authorized agency.

Regardless of these drawbacks, the above discussions clearly show that BMT model would be an excellent approach to alleviate the multi-dimensional poverty in the Muslim societies. There are a lot of advantages for the government using these community-based financiers as the driver for anti poverty and wealth distribution among the inhabitants, more importantly is to anticipate the gloomy prospect and the severe impact of economic crisis. The feasible suggestion is the government should embrace the BMT sector in the economic stimulus package that just approved by the parliament. The presence of BMT can be embedded in the financial access to micro, small and medium enterprises programmes particularly by involving as many as viable BMT institutions into the credit guarantee scheme and linkage programmes to strengthen their financing capacity and outreach. For the long run perspective, the government should pay more attention on the existence of BMT by providing clear regulation, supervision and technical assistance like its counterpart, the conventional microfinance sector.

5.1.3 Grameen Model IMF

Grameen Bank replication programme in Indonesia started in Bogor, West Java by Karya Usaha Mandiri (KUM) in 1989. This initiative was followed in 1993 by Mitra Karya East Java (MKEJ) in Malang, East Java. In Sumatra, Grameen Bank model was replicated by Yayasan Pokmas Mandiri (YPM) (Sarumpaet, 2005). In 2003, Mitra Bisnis Keluarga (MBK), or Family Business Partners was established which aims to provide working capital to low-income women in Java, Indonesia, in order to provide them access to formal financial services (financial inclusion), reduce their vulnerably, and raise their standard of living. Since then, MBK has now become the largest Grameen replication microfinance institution in Indonesia. The MIX Global 100 ranks MBK Ventura from Indonesia as the top performing MFI in 2009 for the second year in a row, in large part due to the MFI's highly efficient operations (Narayana, 2010). In line with strong demand for Islamic microfinance from the under privilege group UPK Ikhtiar, the first Islamic Grameen replication microfinance institution in Indonesia, was established. In Indonesia, the Grameen Bank replicators fall under the purview of Ministry of Finance or Ministry of Cooperative. The classification between these two ministries is based on nature of the establishment of Grameen Bank replicators.

As seen in other countries, the Grameen Bank replicators in Indonesia are operated unsubsidized. In fulfilling the needs for safekeeping among the low-income group they offer micro savings services as well as pension funds. It will be collected on the weekly basis. If the depositors wish to withdraw they have to borrow from the pool and make payment subsequently. On the financing side, the Grameen Banks replicators offer microcredit to the targeted group. In the precarious world of the poor, unwarranted event such as illness, death, fire or theft can cause improbable setbacks. Commonly, crises such as the death of a breadwinner or the hospitalization of a family member will not only move families to a lower economic level, but also leave them without the tools to recover from poverty in the absence of significant assets and other risk mitigation mechanisms, the poor lack the capacity to withstand the consequences of many shocks. As such, financing extended to low-income group is covered by micro insurance products offer by Grameen Banks replicators. Interestingly, the burgeoning of Islamic micro finance has given birth to micro takaful in Indonesia.

The Grameen Bank replicators in Indonesia are also targeting the poor women which organize into group. The formation of these groups has created the social and financial conditions enabling them to receive loans. Simulations of own and cross effects between participants provide further support for strong inter-dependencies at the group level in repayment outcomes.

In addition, Islamic Grameen replicators have inculcated the Islamic values among the low income group by organizing recitation of *Al-Quran* and *fardhu ain* classes. Such mutual support and renewed understanding of religion of Islam have given positive impact for poverty alleviation in Indonesia. Meanwhile, it was the respected figure in the society that also plays significant role in implementing the Grameen Banks Model. On top of that, the Grameen Banks replicators in Indonesia are blessed by dedicated staffs that ensure impartial delivery of services to the poor. Moreover, the advancement in technology does enhance the efficiency as well as reducing the operation costs for Grameen Banks replicators.

Feedback from interviews with all the respective MFIs in the region indicated their noble intention of assisting the poor people via micro-entrepreneurship financing. Their main aim of setting up the MFIs was not profit. They would be grateful enough if they could sustain a break-even in order to continue serving the poor.

5.2 Practices in Malaysia

The main provider of IMF in Malaysia is Amanah Ikhtiar Malaysia or AIM. This non-profit organization (NPO) was established in 1987 under the Trustees (Incorporation) Act 1952. The setting up of this NPO was a result of Projek Ikhtiar, conducted in the preceding year by Professor David S. Gibbon and Professor Sukor Kasim of Universiti Sains Malaysia in Serbak Bernam, Selangor. The research was funded by Yayasan Pembangunan Ekonomi Islam Malaysia (YaPEIM), Asia Pacific Development Centre (APDC) and Government of Selangor. It was carried out to measure the effectiveness of micro financing extended to the under privilege group which were expected to involve in income generating activities based on their respective skills which in turn will increase the household income. It is identified that the under privilege is often considered as the bankable group thus limit their access to the formal banking facilities.

Projek Ikhtiar replicated the Grameen Bank Model introduced by Professor Muhammad Yunus in Bangladesh. It involved 373 households, knows as *sahabat* (232 men: 141 women) for the period of 2.5 years. At the end of Jun 1988, the impact study was conducted to identify the status of the projects. It is found that the women repayment rate is higher (95 percent) as compared to men whom stood at 75 percent. In addition, the women was managed to increase the monthly income by RM136 as compared to RM65 for the men. The women attendant rates to weekly meeting also favourable (85 percent) as compared to 60 percent among men. Based on this finding the project was extended to other state and women have been identified as the right executor for this project.

AIM ability to penetrate and attracts new *sahabat* largely depend on its unique features that extend micro financing without collateral. As at 31 January 2014 AIM's *sahabat* stood at 345,053 with RM10 billion total disbursement amount and RM1.4 billion amount of financing outstanding. As the registered trustee body AIM is governed by the board of directors which members are from Economic Planning Unit, Implementation and Coordination Unit of Department of Prime Minister, Ministry of Finance, Ministry of Rural and Regional Development, Government of Selangor and individual appointed on their personal capacity.

Government of Malaysia is vehemently committed to alleviate poverty. As such, AIM also receives utmost support from the government especially in terms of funding for working capital. In fulfilling the multiple needs of its *sahabat* AIM offers 7 schemes which details are as follows:

Table 1. AIM's products

Scheme	Financing (RM)	Tenor (Weekly)
Economy		
i-Mesra	1,000 – 2,000	12, 25, 35, 50
	3,000 – 10,000 (max)	12, 25, 35, 50, 75, 100
i-Srikandi	12,000 – 20,000 (max)	12, 25, 35, 50, 75, 100, 125, 150
i-Wibawa		12, 25
	5,000 (max)	
Others		
i-Sejahtera	1,000 – 2,000	12, 25, 35, 50
	3,000 – 10,000 (max)	12, 25, 35, 50, 75, 100
i-Bestari	1,000 – 2,000	12, 25, 35, 50
	3,000 – 5,000 (max)	12, 25, 35, 50, 75, 100
i-Penyayang	1,000 – 2,000	12, 25, 35, 50
	3,000 – 5,000 (max)	12, 25, 35, 50, 75, 100
i-Emas	2,000 (max)	12, 25, 35, 50

Source: AIM website.

In addition, the *sahabat* also expected to contribute to the compulsory saving. It functions as sinking funds that will cover weekly repayment should the *sahabat* unable to do so. The amount of the compulsory saving is as follow:

Table 2. Compulsory saving

Financing Amount (RM)	Compulsory Saving (RM)	Financing Amount (RM)	Compulsory Saving (RM)
1,000	1	11,000	11
2,000	2	12,000	12
3,000	3	13,000	13
4,000	4	14,000	14
5,000	5	15,000	15
6,000	6	16,000	15
7,000	7	17,000	15
8,000	8	18,000	15
9,000	9	19,000	15
10,000	10	20,000	15

Source: AIM website.

In line with the aspirations of the *sahabat* AIM had introduced another service known as Welfare and Well-Being Fund in 2006. The projects that *sahabat* embark on are also subjected to natural disaster and other perils. Hence, the fund was designed to assist the *sahabat* to cope with the unexpected shocks. In addition, it will minimize the sahabat's dependant burden in any of the unwarranted circumstances. Among benefits of the fund are death benefits, hospital benefits, critical illness, fire, natural disaster, contribution to pilgrimage and contribution for children pursuing tertiary education. As at 31 January 2014 the funds had collected RM81.9 million and RM58.3 million was paid to the *sahabat* whom had endured the misfortune.

One of the essential requirements for success in microfinance is to reach the under privileged groups. This is due to the fact that these groups often resided in remote area that requires significant cost for travelling. In addition, minimum level of financial literacy reduces their willingness to approach the microfinance provider. Therefore, AIM has established headquarters in Damansara, Kuala Lumpur that monitor 12 state offices and 132 branch offices in remote areas nationwide. It is envisaged that the ubiquitous presence of AIM offices will encourage these groups to get involved in income generating activities, thus enable them to get rid of the poverty subsequently.

Apart from having scattered branches all over the country, a symbiosis between AIM and zakat institution is a positive step in realizing the objective of reaching the poor. *Zakat* has the built-in mechanism in redistributing the wealth from they have to they have-not. Those who are obliged to pay zakat are outline in Al-Baqarah: 267 while the eligibility of the recipients or *asnaf* is clearly mentioned in the at-Taubah: 60. The far-arching objectives of *zakat* are to clean the believer's soul and to eradicate poverty, thus in force the social justice in the economic system. Hence, central to the entire discipline of zakat is the discussion on who are obliged to pay zakat and the recipients.

Fakir and *miskin* are two of eight legitimate recipients of zakat. Normally, zakat will be distributed to them in the form of cash and kinds. Indeed, this is the most appropriate means to assist them. However, for sustainability, these groups should be encouraged to get involved in income generating activities. It was demonstrated that the under privileges' weakness are the vulnerability and scarcity (capital and knowledge) (Nasim, 2006; Khan, 2008; Hassan, 2010; Ismail & Bayu, 2013). These have limited their chances in climbing out the poverty trap. Therefore, microfinance institutions could be incorporated as a mechanism to deal with this matter.

Moving forward, the eligible *zakat asnaf* may be placed under AIM purview. With proven track records, comprehensive training and development and dedicated personnel AIM have what it takes to be the LZS strategic partner in developing these eligible *asnaf.* In doing so, the *zakat* funds could be distributed as the seed capital for the income generating activities of *fakir* and *miskin asnaf.* With these in place microfinance institutions may provide the technical know-how to develop their entrepreneurial skills and future needs of financing. In addition, this synergy has the potential to push the individuals to the level they are no longer regarded as "unbankable" by microfinance institutions (Obaidullah & Khan, 2008).

Hence, the positive impact of the strategic incorporation of microfinance into *zakat* will be seen in terms of human capital, education and skills development, better provision of physical capital, wider access to microcredit for the productive members and periodic stipend for the unproductive members (such as the elderly, handicapped, single-parent) of the poor (Rahman et al., 2013).

6. Conclusion

Microfinance achievements in poverty reduction, education improvement of the children of the poor, and creation millions of small businesses by becoming economically independent have been recorded around the globe. Recognition on its bold formalization and shifting from a grass-roots paradigm into inclusion in financial system has indeed become a national agenda. While the importance of micro finance in uplifting the life of the poor is undeniable, the inherent nature of the industry in dealing with the perceived high risk borrowers had somehow led the profit-oriented financial industry to shun away. In this regard, the presence of philanthropic funding is an alternative for the MSEs to resort to in order to avail themselves in getting the financing. Known also as the third sector economy, philanthropic funding in the form of profit and non-profit organizations had proven that their presence is a blessing to the needy.

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8. References

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