

## **Challenges in Micro Financing and Introduction of Mosque Based Ijarah Financing Model for Micro Enterprises Using Cash Waqf in Selangor State**

*Cabaran dalam Pembiayaan Mikro dan Pengenalan Model Pembiayaan Ijarah Berasaskan Masjid untuk Usaha Mikro Menggunakan Wakaf Tunai di Negeri Selangor*

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**Keywords:**

*Micro enterprises;  
Cash waqf; PWS;  
Mosque based Ijarah  
model; Islamic  
Finance*

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**ABSTRACT**

*Micro enterprises are one of the key sectors of economy of Malaysia. The Sector contributing significantly to the Gross Domestic Product (GDP) and providing employment opportunities to majority of workforce in the country. Despite its contribution towards the enhancement of wellbeing of the society and the continuous efforts from the government, micro enterprises are struggling with several prolonged issues. Considerable number of them are facing difficulties in obtaining financing as they rated as a market segment associated with high risk. Current economic recession as result of COVID-19 pandemic and various phases of continuous lock downs created huge negative impact on small businesses including micro*

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*enterprises. As a result of that there is a need arise for special forms of innovative financial tools to serve the capital requirements of micro enterprises. This study suggests a mosque based sustainable model for financing micro enterprises using cash waqf with a significant feature of involving mosque-based administration committees (AJK) to intermediate between the Waqf Corporation of Selangor (PWS) and micro enterprises at village level. Using the Selangor state as the case study, this study employed quantitative approach by conducting a survey from 270 respondents based on Theory Planned Behaviour (TPB) to test the acceptance of the proposed model using SPSS. The results of Pearson correlation analysis found attitude, subjective norms and perceived behavioural control of micro entrepreneurs significantly influence the intention to use the suggested model. The model suggested by this study may be helpful in addressing challenges in financing inclusion faced by Micro enterprises and further improving welfare of the Muslim society by better usage of cash waqf. Contributions of this study may enlighten Islamic financial institutions, waqf administrators and policy makers for their strategic planning activities in designing Islamic microfinancing tools.*

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**Kata Kunci::**

Perusahaan mikro;  
Wakaf tunai; PWS;  
Model Ijarah  
berasaskan Masjid;  
Kewangan Islam

**ABSTRAK**

Perusahaan mikro merupakan salah satu sektor ekonomi utama Malaysia. Sektor ini memberi sumbangan besar kepada Keluaran Dalam Negara Kasar (KDNK) dan memberi peluang pekerjaan kepada majoriti tenaga kerja di negara ini. Meskipun besar sumbangannya terhadap peningkatan kesejahteraan masyarakat dan usaha berterusan dari pihak kerajaan, perusahaan mikro tetap menghadapi beberapa masalah yang berlarutan. Sebilangan besar dari mereka menghadapi kesukaran untuk mendapatkan pembiayaan kerana mereka dilabel sebagai segmen pasaran yang berisiko tinggi. Kemelesetan ekonomi akibat wabak COVID-19 dan pelbagai fasa penutupan yang berterusan memberi impak negatif yang besar terhadap perniagaan kecil termasuk perusahaan mikro. Oleh itu, timbul keperluan untuk membentuk alat kewangan inovatif khas untuk memenuhi keperluan modal perusahaan mikro. Kajian ini menunjukkan model lestari berasaskan masjid untuk membiayai perusahaan mikro menggunakan wakaf tunai di mana penglibatan pentadbiran Ahli Jawatankuasa (AJK) masjid untuk menjadi perantara antara Perbadanan Wakaf Selangor (PWS) dan perusahaan mikro di peringkat kampung sebagai ciri penting. Menggunakan negeri Selangor sebagai kajian kes, kajian ini menggunakan pendekatan kuantitatif menerusi pengendalian tinjauan daripada 270 responden berdasarkan Teori Perancangan Terancang (TPB) untuk

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menguji penerimaan model yang dicadangkan menggunakan SPSS. Hasil analisis korelasi Pearson mendapati bahawa sikap, norma subjektif dan kawalan tingkah laku oleh pengusaha mikro mempengaruhi intensi untuk menggunakan model yang disarankan. Model yang disarankan oleh kajian ini dapat membantu mengatasi tantangan dalam membiayai inklusi yang dihadapi oleh perusahaan mikro seterusnya meningkatkan lagi kesejahteraan masyarakat Muslim dengan penggunaan wakaf tunai yang lebih baik. Sumbangan kajian ini dapat membantu institusi kewangan Islam, pentadbir wakaf dan pembuat dasar dalam penambahbaikan perancangan strategik mereka untuk mencipta alat pembiayaan mikro Islam.

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## **INTRODUCTION**

Micro enterprises are growing as a key economic sub-sector to economy of Malaysia as it contributes significantly to gross domestic product (GDP) and providing job opportunities to millions of workforces of the country. The development of the Micro enterprises is important as it ensures evened growth and shared prosperity in the process of the nation's transformation into a high-income earning economy. The Small Medium Enterprises (SME) sector play an important role in poverty alleviation and uplifting the social wellbeing of poor masses and micro enterprises account for more than three fourth of total SMEs in Malaysia. However, obtaining finance for micro enterprises is a challenging task and the risks associated with this type of business were unavoidable. The Government of Malaysia continuously provide series of financial schemes and human capital development initiatives to support micro enterprises yet the sector struggling with series of unattended issues. According to the reports of series of studies, micro enterprises face problems in securing finance in the several states in the country. Large number of micro enterprises were not successful in obtaining from mainstream financial institutions as they rated as business entities associated with high level of risks. The non-availability of collaterals to s the financing facility, higher cost of financing, inability to provide a reasonable forecast of future cash flow of the business and lack of creative business plans to convince financier are among the factors that act as obstacle to them from obtaining finance from mainstream financial institutions. In general, financial institution has least concern to serve the micro enterprises or merely serve to fulfill the regulatory thresholds. An equitable income distribution among all individuals of the society is one of the important aims of the Islamic economics framework and this view is strongly emphasized by prominent religious scholars.

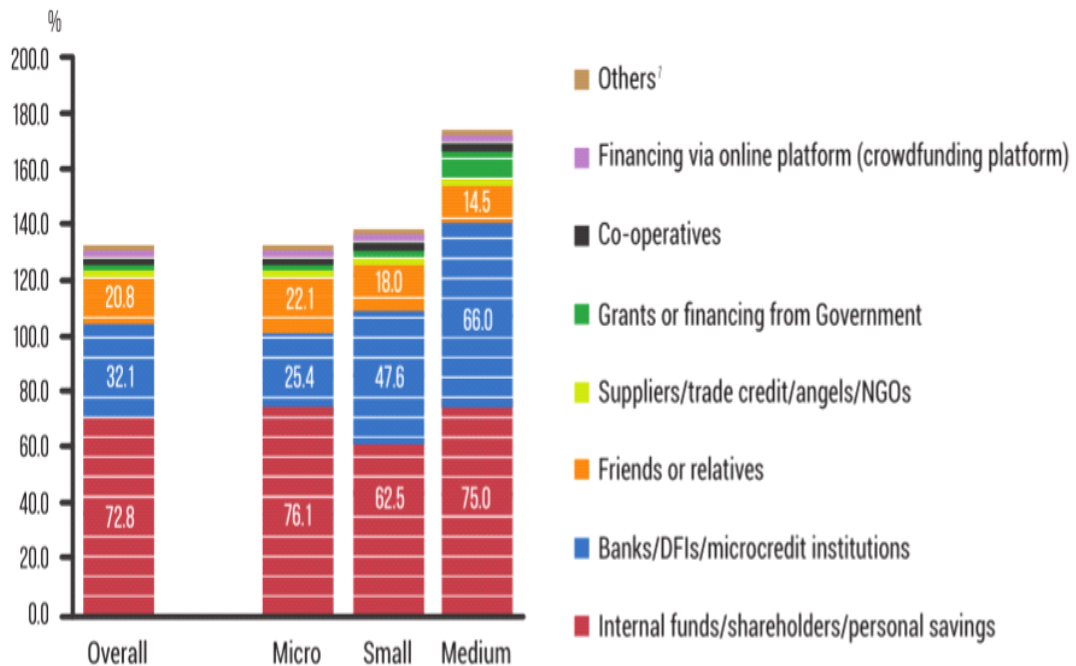
## **Statement of Problem**

Micro enterprises are important part of a nation's economy. The contribution of SMEs to the Malaysia's overall GDP is estimated to around 37.1 percent in year 2017. Nation's SMEs marked a substantial GDP growth for 2017 at 7.2 percent as compared to 5.2 percent recorded in 2016. Micro enterprises are accounted for 98.5% of total the business establishment of the country as at year 2015. The SME sector provides employment opportunities for 66.0 percent

of labour force of the country as at year 2017. The sector contributed to 17.3 percent of overall export of the nation in year 2017. (SME Annual Report, 2017/18) The government of Malaysia has allocated an amount of RM 14.3 billion to administer 158 SME development programmes targeting 599,301 SME entities across all economic sectors as of April 2018. (SME Annual Report, 2017/18). Malaysian government, its agencies and private institutions are actively involved in facilitating financing to SMEs. All of above institutes are conducting number schemes and programmes to finance SMEs in the country. The government initiated wide range of financial schemes and allocated funds for SMEs through various agencies, including the Bank Negara Malaysia (BNM). (SME Annual Report, 2017). Despite that, obtaining financing facilities for Micro enterprises from above institutions continue to be a challenging task. As presented in Figure 01, According to Economic censuses of 2016, own, internally generated funds was the major source of funding for Micro enterprises. 76.1 percent of financing from their own funds. Followed by from friends and relatives, 22.1 percent and only a 25.4 percent could be able to borrow form financial institutions. (SME Annual Report, 2017/18).

A series of studies highlighted those Malaysian micro enterprises face constrains in accessing to the finance. Majority of micro enterprises faced difficulties in obtaining external financing as they are rated as a market segment associated with higher risk (Duc, Marriot, & Marriot, 2008). According to Haniff, Akma, & Lee, (2017), the key concerns cited by financial institutions for denial of financing are substandard financial track records and unsatisfactory credit history recorded at the Central Credit Reference Information (CCRIS), due to record of defaults or delinquency, low capital contribution, record of continuous losses and higher leverage. Addition to above, failure to provide information such bank statements, income tax returns or management accounts to assess repayment capacity and credibility concerns such as record of misuse of firm's funds for personal use by owners were major concerns. (Haniff et.al, 2017). The requirement of collateral, higher cost of financing, difficulty in providing business operational details and lack of creative business plans is among the factors that act as barrier to them from obtaining finance (Aris, 2006). Similar to their conventional counterpart, majority of the Islamic financial institutions are reluctant to finance due to risks associated with such Micro enterprises. Lack of interest in serving micro enterprises by contemporary Islamic banks, could be due to several reasons such as economic non-viability, Limited availability of funding, lack of expertise in managing the business, lack of availability of collateral to securitize the facility, credit risk, uncertain nature of business and legal structure of business.

**Figure 1: Chart on Access to Financing (%)**

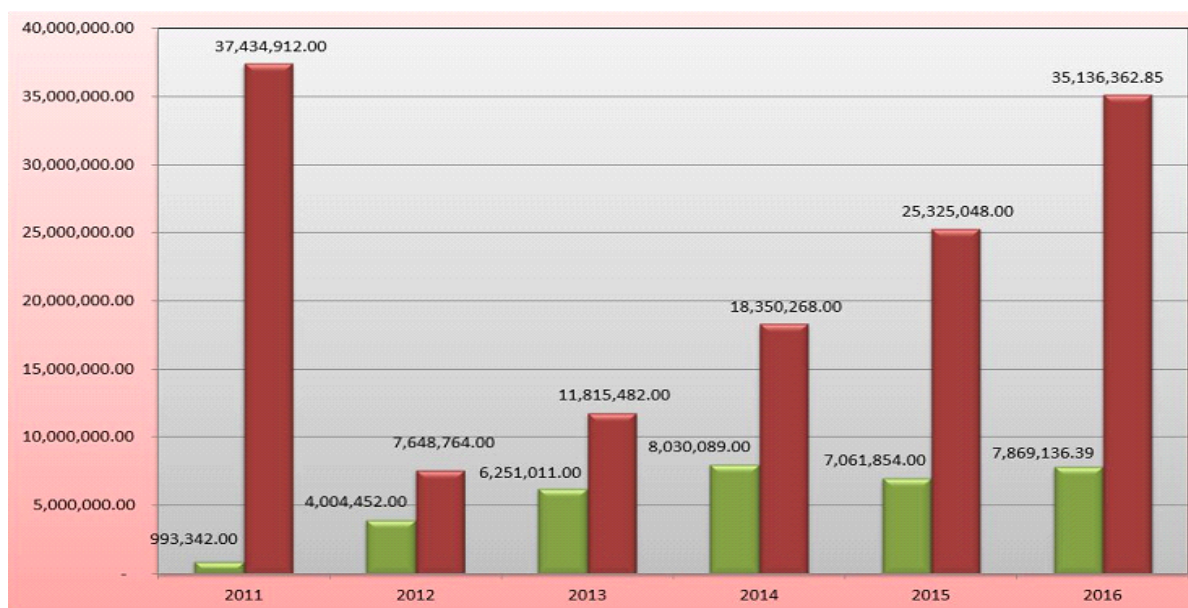


Source: Economic Census 2016, Department of Statistics, Malaysia.

Islamic banking sector would be considering broader objectives rather than focusing on a high-risk segment. These objective based reasons and risk averse phenomenon of contemporary Islamic bank arises for need of an Islamic microfinance institution to serve the financing requirements of Micro enterprises. There is a possibility of bringing in the *waqf* endowments into the Islamic microfinance framework to finance the Micro enterprises. Because *waqf* played a major role in providing social services to the society in Islamic state throughout the history. The primary objective of having a *waqf* system in the Muslim society is for sustainable and uninterrupted provision of religious based services (Including maintenance of Mosques), Islamic education (operating universities and religious schools), social welfare and socio-economic assistance to the needy and other sundry needs of the Muslims. Cash *waqf* as an innovative financial tool is, indeed, a new product in the arena of Islamic finance and banking sector.

As practiced in other parts of the world, Muslims in Malaysia also donated notable amount of assets as *waqf*, which are under the custody of respective State Islamic Religious Councils (SIRC). The *Waqf* Corporation of Selangor (PWS) has collected RM 7,061,854.00 in year 2015 and RM 7,869,136.00 in year 2016 as General-purpose cash *waqf* from various donors. Figure 01 depicts the amounts collected as cash *waqf* for the period from year 2011 to 2016. There is a gradual increase in amount collected as cash *waqf* by PWS. These amounts of cash *waqf* collected by PWS could be utilized to financing ME's. These investments will generate regular cash flows to PWS, and it can distribute such income on to beneficiaries.

**Figure 2: Amount Collected as Cash Waqf by Perbadanan Wakaf Selangor**



Source: [www.wakafselangor.gov.my](http://www.wakafselangor.gov.my) as at 28/02/2019. (In Maroon-Wakf Am, In Green Waqf Khas)

This study attempts to address above highlighted challenges in microfinancing by developing a mosque based sustainable model where the *Mutawalli* (*waqf* manager) will undertake financing needs of Micro enterprises. The model targets to develop Islamic financing instruments where *Mutawalli* (or duly authorized body to manage *waqf*) as a financier to undertake financing of Micro enterprises in a gainful manner while sustaining the perpetuity of the cash *waqf*. The model could be implemented based on mosques at village level by identifying the financial needs of Micro enterprises, verifying the project proposal/capital application, extending finance and collection of repayment. In Malaysia, *waqf* matters are under the administration of the State Governments (Negeri) government. State Islamic religious council-SIRC (*Majlis Agama Islam Negeri*) act as custodian of *waqf* assets in each state. In case of Selangor state there is a specialized entity called *Perbadanan Wakaf Selangor* (PWS-Wakaf Corporation of Selangor), incorporated as special corporate body to act as custodian of *waqf* assets under the Section 8 of the Islamic Religious Administration (State of Selangor) Enactment 2003, Amendment 2008.

Mosque is an important center for religious and other social, economic, and cultural activities of Muslims. Mosques are utilized for daily prayers, delivering lectures, conducting religious classes for minor and adults, organizing and coordinating developments programs of the village and various other services. Mosques are managed by group of trustees organized as an entity called as Mosque Administration Committee (*Ahli Jawatankuasa -AJK*). They are entrusted for administrating religious affairs and manage all activities of mosques. Appointment and operational activities of these AJK's are under the supervision of the SIRC. As *Mutawalli* of

*waqf* assets in the state, PWS could engage members of these mosques administration committees (AJK)'s as their agents to handle the administrative task of the process of mosque-based cash *waqf* financing model at village level in Selangor state. Directing certain administration and operational tasks of the model to mosque-based administration committee (AJK) will reduce the workload of PWS officials in tasks of identifying the finance needy Micro enterprises, post financing supervision of the business activities and collection of repayments etc. This will minimize the several types of risk associated to micro enterprises as the business is operating at village level and owners of micro enterprises are regularly interact with the mosque administration committee (AJK) officials on day-to-day basis. This strategy substantially reduces the operational costs of the *waqf* manager compared to other SME finance providers on tasks of post financing monitoring. Also, with the availability of modern online payment gateways, financing and repayments could be arranged via virtual means as well thus minimizing the role of handling cash transactions by Mosque administration committee (AJK) officials.

### **Research Objectives**

The general objective of this study is to develop a sustainable model to meet the financing needs of micro enterprises using cash *waqf* funds in Malaysia. This study wants to investigate the extent of current obstacles and challenges faced by Micro enterprises on accessing finance in Malaysia and to develop an alternative model that sustainably addresses the obstacles and challenges identified. Further to assess the factors of attitude, subjective norm and perceived behavioural control of micro enterprises can influence their intention to use the model suggested in the study.

### **Significance of the Study and Contribution**

This study will contribute in several aspects to the knowledge and literature in the field of *waqf* and Islamic finance and banking system and micro enterprises in Malaysia and global perspective. It is acknowledged that there are several studies are conducted in the field of *waqf*. However, the significant contribution from this study is, its attempt to articulate a model where existing and future *waqf* assets could be utilized in financing needs of Micro enterprises with the help of village level institute like mosque administration committees (AJK) in Malaysia. Also, this study will open a new area of how Muslims lives could enhance through proper utilization of *waqf* assets while sustaining its perpetuity. Also, this study will contribute to studies on eradicating of poverty, enhancing human wellbeing and so on.

### **Organization of the paper**

This section discussed about the overview of micro enterprises in Malaysia and the challenges in issues faced in obtaining finance. The statement of problem, research objectives and significance of study were discussed in detail. Organization of this paper will be followed by a review of literature highlighting the research gap. Thereafter proposed model, brief of methodology, empirical results and conclusions are presented.

## REVIEW OF LITERATURE

This chapter begins with the review of literature related to the present state of micro enterprises in Malaysia. The section starts with the definition of micro enterprise including its profile, contribution, and significance in the economic system of Malaysia. The subsequent section discusses the current status of financing micro enterprises in Malaysia and other parts of the world. The chapter concludes with suggestion of imperativeness of a mosque based alternative model.

Definitions of micro enterprises are varying among countries according to the macro-economic variables and level of economic growth. In Malaysia, definition of micro enterprises was developed and endorsed by National SME Development Council (NSDC). According NSDC as shown in Table 1 that Micro enterprises are defined the establishment with less than five employees or less than RM 300,000 of the sales turnover and whichever lower will be considered for threshold. Current definition is effective since 1<sup>st</sup> January 2014. (SME Annual Report, 2017/18).

**Table 1: The Definition of Micro Enterprises with Effect from 1st January 2014**

Sector	Sales Turnover	Employees
Manufacturing	<RM300,000	< 5 employees
Services & other sectors		

Source: SME Corp Malaysia, Annual Report 2017/18

### Profile of Micro Enterprises

According to the profile of Small and Medium Enterprises (SMEs) published in September 2017, which was based on the Economic Census conducted in 2016 by SME Corp., Malaysia, Micro enterprises make more than a three fourth of total SMEs of the country. As shown in Table 2 a total number of 693,670 Micro enterprise are operating and accounted to 76.5 percent of total number (907,305) of SMEs of Malaysia. While small and medium enterprises have 21.2 percent and 2.3 percent, respectively (Economic Census: Profile of SMEs, 2016). Also, Micro enterprises had accounted to 75.3 percent of total number (920,924) of business entities of the country. (SME Annual Report, 2017/18).

**Table 2: Number of Establishments and Percentage Share of SMEs by Firm Size**

	Micro	Small	Medium	Total
No. of establishment	693,670	192,783	20,612	907,065

Percentiles share to total SMEs	76.5	21.2	2.3	100
Percentiles share to total establishment	75.3	20.9	2.2	98.5

Source: Economic Census 2016, Department of Statistics, Malaysia

As depicted in Table 3 According to Economic Census 2016, there were 5,652,560 individuals are engaged in SME business entities. Out of above 34.3 percent (1,937,557) individuals are engaged in micro enterprises. Highest number of people engaged in micro enterprises are in Selangor State which is about 18.8 percent (364,580) followed by Federal Territory of Kuala Lumpur 12.7 percent (245,641).

**Table 3: Number of Persons Engaged in Micro Enterprises by State 2015**

State	Number of MEs	Percent
Selangor	364,580	18.8
W. P. Kuala Lumpur	245,641	12.7
Johor	222,111	11.5
Perak	170,086	8.8
Pulau Pinang	150,535	7.8
Sarawak	127,976	6.6
Sabah	117,737	6.1
Kedah	109,374	5.6
Kelantan	98,988	5.1
Pahang	87,634	4.5
Negeri Sembilan	79,845	4.1
Melaka	71,883	3.7
Terengganu	66,438	3.4
Perlis	16,620	0.9
W. P. Labuan	5,791	0.3
W. P. Putrajaya	2,318	0.1
<b>Total</b>	<b>1,937,557</b>	<b>100</b>

Source: Economic Census 2016, Department of Statistics, Malaysia

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## Current Status of Financing of Micro Enterprises

There are number of conventional, Islamic schemes and models of financing are available for micro enterprises in Malaysia. Financial requirements of micro enterprises depend on its scope, size of business, stage in the business life cycle and expansionary motives. Based on their stages in the business life cycle, micro enterprises will seek their financial requirements from different sources. Based on that there are several commonly available sources of financing for micro enterprises in Malaysia. Depend on the stages of business life cycle of micro enterprises, these sources of finance can be categorized namely: Commercial and Islamic banks, Islamic microfinance institutes and others. Each of these modes will be discussed in detail below.

### Commercial and Islamic Banks (Banking Institutions)

Commercial banks and Islamic banks provide financing facilities to Micro enterprises under various micro financing schemes including scheme named “Micro Financing Scheme” (*Skim Pembiayaan Mikro*). Under this scheme, participating commercial and Islamic Banks provide finance to manage their exposure to credit risk from strict measures of scrutinizing the viability of businesses and cash in flow patterns of micro enterprises. Further, amount of financing provided will be reviewed over period of time in line with micro enterprise’s repayment track records. (Haniff et.al. 2017)

However, financing applications successful rate of micro enterprises from these participating financial institutions (PFIs) remained around 50% throughout the period from 2011 to 2017. Table 4 depicts that number of applications for financing submitted by micro enterprises and its approval rate by PFIs for the above period. The data suggest that a large number of micro enterprises continue to struggle to meet the requirements of PFIs. There is no argument on a strict procedure for screening application by PFI’s. However, the point to highlight here is, there are large number of micro enterprises whom non accommodative for PFIs.

**Table 4: Application for Financing by Micro Enterprises and Approval Rate by Financial Institutions**

	Applied	Approved	Approval rate (per cent)
2011	42,406	20,075	47.34
2012	34,280	17,506	51.07
2013	33,751	15,862	47.00
2014	31,174	16,241	52.10
2015	33,455	17,489	52.28

2016	29,750	15,403	51.77
2017	31,641	15,974	50.49

Source: Access to finance report 2018, Bank Negara Malaysia

One of the major concerns of Micro enterprises is cost of the capital of the facility when they require an external financing. With due consideration of risks involved in financing Micro enterprises, commercial banks tend to charge a risk premium above the prevailing ordinary lending rates. Table 5 depicts the currently available financing schemes offered by financial institutions.

**Table 5: Rate of Return Charged by Participating Commercial and Islamic Banks under Micro Financing Scheme as of February 2018**

Financial Institutions	Tenure	Product Name	Financing Rates	
			As advertised by FIs	Annual effective rates
Alliance Bank	12-84 months	Cash First Personal Loan	9.28% to 14.78%	16.71 % to 26.25%
		Cash Vantage Personal Fin-i		
Am bank	1 - 5 years	"Am Mikro Plus"	24% to 30%	24% to 30%
CIMB Bank	6 months - 5 years	Xpress Cash Financing-i	21%	32.92%
Bank Muamalat	3 months - 7 years	SKIM MIKRO	3.75% to 6.50%	6.98% to 11.68%
		"Skim Micro Bazar Tok Guru"		
May Bank	1 - 5 years	Retail Micro Financing	24%	24%
		SME Micro Financing	10% to 12%	10% to 12%
Public Bank	1 - 5 years	PB Micro Finance	1.8% to 2.5% p.m.	21.6% to 30%
		Term Financing-i		

United Overseas Bank	1 - 5 years	“Easi” Cash	9.99% to 11.99%	11.47% to 13.70%
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Source: Comparative table on *pembiayaan mikro* product features 2018, Bank Negara Malaysia

According to above Table 5, Many PFI’s charge an Annual Effective Rate (AER) of 30 per cent or above on financing. Whereas other PFI’s charge less than 10 per cent. Minimum AER starts from 6.98 per cent and Maximum reaches up to 32.92 percent. Considering the current competitive business landscape, it is not viable for any micro enterprises to pay 30 per cent of their margins to an external financier. This might be a reason for higher rate of rejection of applications of micro enterprises because of inadequate cash inflow to service the facility (capital plus return).

### **Amana Ikhtiar Malaysia**

Amana Ikhtiar Malaysia (AIM) is first microfinance institution of the Malaysia and one of the important sources of finance for micro enterprises. The AIM was formed in 1987 as a non-government organization. AIM played an important role in extending financial assistance to micro enterprises (Mokhtar and Ashhari, 2015). AIM provides financing for micro enterprises owned by women for productive revenue generating activities under the scheme called “Ikhtiar Financing Scheme”. Financial facilities are provided to group of people rather than to an individual. This model has certain similarities to the “Grameen” group lending model practiced in Bangladesh. According to Ikhtiar Financing Scheme the minimum group size is set as five individuals. After initial approval of the facility, the group members are required to undergo a training programme on procedures and know-how of the financing model. (Amana Ikhtiar Malaysia, 2019). Because of AIM's group lending strategy which helped that to become the microfinance institute with highest loan repayment rate in the world which around 99.2 per cent by year 2010. (Al-Shami et.al, 2013).

### **The Economic Fund for National Entrepreneurs Group (TEKUN NATIONAL)**

The Economic Fund for National Entrepreneurs Group also known as micro finance institution under Ministry of Entrepreneur Development. It was officiated in year 1998 with the aim of providing hassle free and speedy financing facilities to *Bumiputeras* (inhabitants of the Malaysia) to start-up and expansion of existing businesses. Tekun National specifically focuses on small *Bumiputeras* and Malaysian Indian community entrepreneurs to meet their financial requirements. Financings granted from as low as RM 1000 up to a maximum of RM 100.000.00. (SME Annual Report, 2017). All financing schemes of Tekun National are *shariah* compliant and generally apply the Tawarruq financial contract.

### **Impact of COVID-19 Pandemic on Micro Enterprises**

Current economic recession as a result of COVID-19 pandemic begins in early 2020. Because of that business dimensions changes throughout globe. As result the various phases of

continuous lock downs, movement controls created huge negative impact small scale business because of loss of regular day to day business and increasing trend on online trading severely affected the small businesses including micro enterprises. Addition to demand side shock, meeting the existing financial commitments also became huge challenge.

Despite availability of several schemes there are several studies highlighted of issues arise in on obtaining financial facilities from formal financial intermediaries and this is further supported by the degree of operations of unauthorized loan sharks in country which an ultimate destination for micro entrepreneurs at a very high cost of financing with several moral and ethical issues. Therefore, requirement of a sustainable financial model is evident and timely.

### **Contemporary Mosques-based Models of Financing Micro Enterprises Around the World**

Wakaf Annur Corporation Berhad providing *qard hasan* (benevolent) loans to micro enterprises in Johor state in Malaysia under its “*waqf* through business” programme and it is entirely managed and supervised by Waqaf Annur Corporation Berhad with the help of volunteers of JCorp Berhad. Amongst the volunteers are *Imams* and *Muazzins* as well. Their basic tasks are to monitor on the performance of recipients. (Sanusi and Shafiai, 2015). “*Akhuwat*” is a mosque-centered microfinance mechanism developed and practiced in Pakistan and it dispenses small amounts of microfinance as benevolent loans (*qard al-hasan*) to poor. All of its activities are based in mosques thus the distance between community and microfinance institute is narrowed. According “*Akhuwat*” model all loans are disbursed and recovered on the premises based at the mosque and loans are extended on mutual guarantee. (Karim, Tarazi and Reille, 2008). Similarly, in Indonesia, A model practiced called “*Muamalat* Micro Entrepreneur Community Based on Mosque” (*Komunitas Usaha Mikro Muamalat Berbasis Masjid* (KUMMM)), operates under the patronage of *Baitul Maal Muamalat Indonesia* (BMMI). This project provides working capital financing for low-income micro entrepreneurs who actively involved in activities of mosque (Yumna and Clarke, 2011).

### **Introducing the “Mosque Based *Ijarah* Financing Model for Micro Enterprises using Cash *Waqf*” in Selangor of Malaysia**

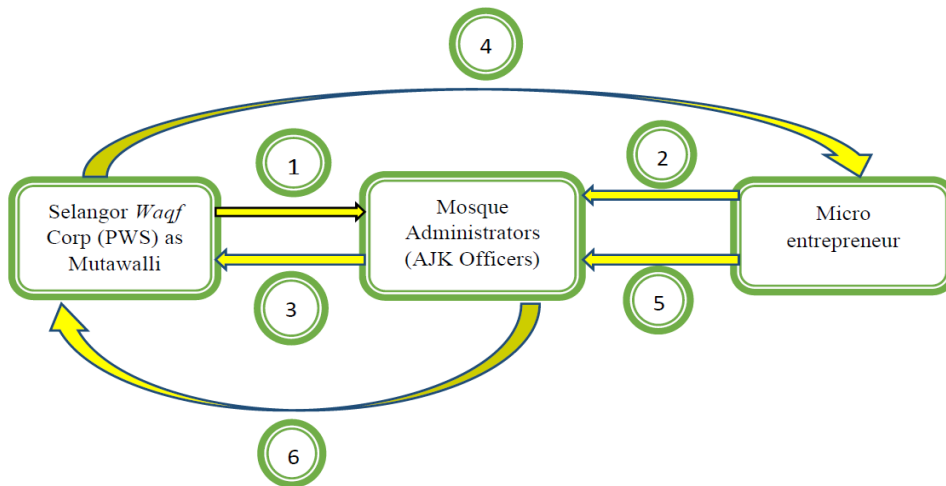
Considering above challenges and obstacles faced by micro enterprises, this study tries to formulate a *Ijarah* financing model for micro enterprises for using cash *waqf* as source of finance. This model intent to apply the Islamic financing principal of *Ijarah* based financing. In this case PWS will act as a Lessor and Micro entrepreneur act as lessee and rental installments to be paid by lessee on periodical basis. In this case weekly

According to this model the PWS will appoint a person or group of individuals from Mosque Administration committee (AJK) as agent of the *Mutawalli* and legitimacy for such agent appointments has provisions in *waqf* enactment of Selangor state. Micro enterprises within the vicinity of mosque may forward applications for *Ijarah* financing for use of assets for various business purposes through the appointed AJK officers (agent of *Mutawalli*). AJK officers will carry out the initial screening of application including verification on the prospects of the

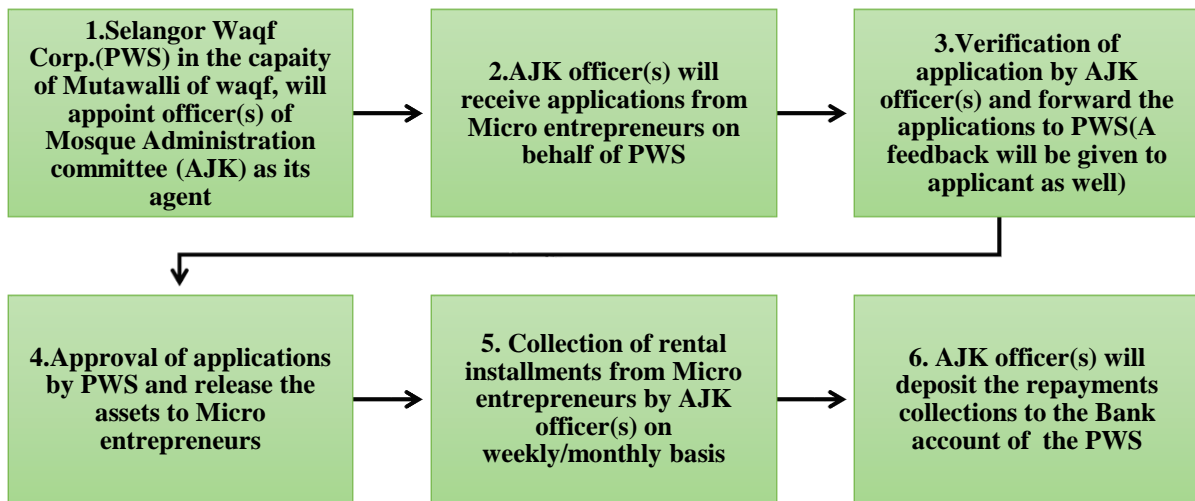
business, credit worthiness of the applicants and other moral factors. Thereafter applications will be forwarded to PWS with their recommendations. After reviewing the application and PWS will finally decide on the approval of financing. In case if the application is successful the *Mutawalli* will release the finance to the Micro entrepreneur from endowed cash *waqf* funds collected through the Selangor state cash *waqf* share programme. In return Micro entrepreneur should handover rental installments to appointed AJK officers at the mosque on weekly or monthly basis (i.e., after the noon prayers on every Friday or last Friday of the month). AJK officers will deposit the rental collections to the bank account of PWS. Further an appointed AJK officers are entitled to an agency fee from the rental income of PWS. The all mosques in the Selangor state are eligible to participate in the proposed model.

The amount of the periodic rental payment will be decided considering the anticipated life span of the asset. This will include a depreciation premium plus a reasonable mark-up to cover all operating costs and yield a return. Depreciation premium will be maintained in a sinking fund. The pricing mechanism is setup with anticipation with at the end of the tenure, the sinking fund in a position, where it would be able to replace the existing asset with a new asset. According *Ijarah Munthahiyah Bittamlak* (IMBT) arrangement, while during cause of or at the end of the financing tenure, micro entrepreneur will be some of options regarding the ownership of the assets. Following Figure 3 and Figure 4 explains the process follow of the model.

**Figure 3: Mosque Based Sustainable Financing Model for Micro Enterprises Using Cash Waqf**



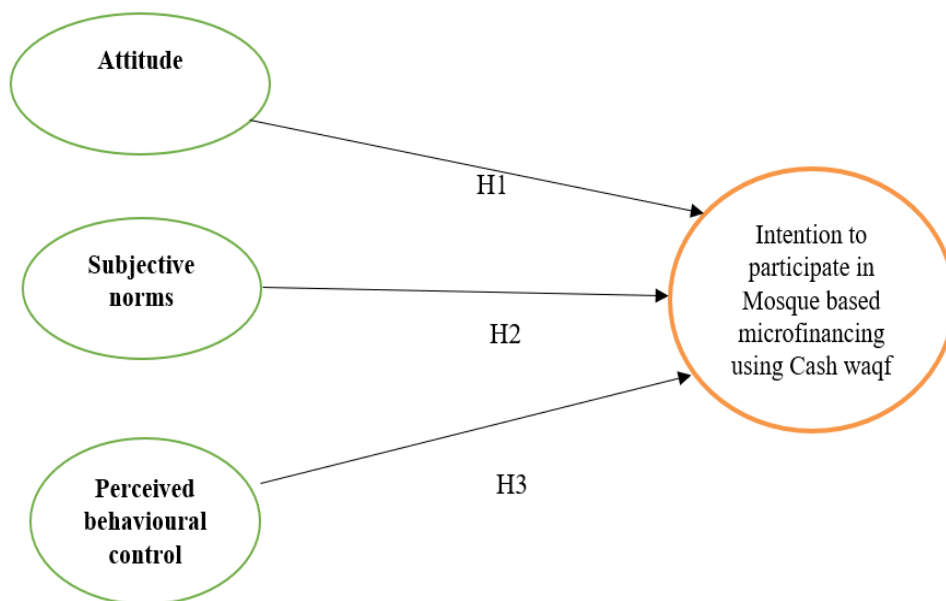
**Figure 4: Process Flow of the Model**



**RESEARCH METHODOLOGY**

This section discusses about the methodology adopted in this study. The study applies the Theory of Planned Behavior (TPB) to assess the intentions of micro entrepreneurs to use the suggested model. Based on TPB following framework is conceptualized. Figure 5 depicts the conceptual framework of the study.

**Figure 5: Conceptual Framework**



Based on above framework following hypothesis were developed.

H1: Favourable attitude towards using cash *waqf* based Islamic microfinance should positively affect participating in cash *waqf* based Islamic microfinance.

H2: Subjective norms about using cash *waqf* based Islamic microfinance should positively influence participating in cash *waqf* based Islamic microfinance.

H3: Positive beliefs about perceived behaviour control should positively influence participating in cash *waqf* based Islamic microfinance.

### Data Collection and Sampling Method

In order to test the above hypothesis a survey was conducted in the Selangor state using A items questionnaire with 50 items. Data collected from various type of micro enterprises operating in all districts of Selangor state. According to Table 2, In total there are 364,580 micro entrepreneurs operating in the state and out of which 1 % selected as sample(n=365). However only 270 responses were effective and useable for further analysis. Sample were collected on random sampling method means mostly micro entrepreneurs who were actively involved in business. Data analysed using SPSS 25.0 software. Pearson correlation analysis conducted to assess the degree of relationship between variables.

### EMPIRICAL RESULTS

According to the analysis of primary data collected from 270 respondents from Selangor state following results were found. A detail demographic analysis of respondents as follows.

**Table 6: Demographic Information of Respondents**

Gender					Male	Female	Total
Number					133	137	270
Percentage					49.3	50.7	100.0
Age		Below20	21-30	31-40	Above 40	Total	
Number		31	153	42	44	270	
Percentage		11.5	56.7	15.6	16.3	100.0	
Marital Status		Single	Married	Divorced	Widowed	Total	
Number		171	89	8	2	270	
Percentage		63.3	33.0	3.0	.7	100.0	
Race		Malay	Chinese	Indian	Other	Total	
Number		247	6	3	14	270	

Percentage		91.5	2.2	1.1	5.2	100.0	
Education	Primary	Secondary	Diploma	Bachelors	Postgraduate	Total	
Number	10	60	58	122	20	260	
Percentage	3.7	22.2	21.5	45.2	7.4	96.3	
Have you ever borrowed from financial Institution?				Yes	No	Total	
Number					80	190	270
Percentage					29.6	70.4	100.0
Micro Enterprise as main income source				Yes	No	Total	
Number					119	151	270
Percentage					44.1	55.9	100.0
No. of Years in business		Less than 2	2-5	5-10	Above 10	Total	
Number		140	79	24	27	270	
Percentage		51.9	29.3	8.9	10.0	100.0	
Daily Sales in RM		500 or below	501-1000	1001-2000	Above 2001	Total	
Number		188	59	14	9	270	
Percentage		69.6	21.9	5.2	3.3	100.0	

Total Number of Respondents (n)=270

Among the respondents 133 of them are males and 137 females. According to marital status 63.3 percent of respondents were single and 33 percent were married. In case of race majority of the respondents were Malays which account for 91.5 percent. Education qualification of respondents explains 45.1 percent of them graduated and 21.5 percent of them were diploma holders. Vast majority of respondents (70.4 percent) mentioned that they have not borrowed from any financial institution. Out of 270, 119 responded, micro enterprise as their main source of income which account for 44.1 percent and 151 responded as otherwise. Almost 52 percent of the respondents are in business for less than 2 years. There were 29.3 percent in business for between 2 to 5 years. Approximately 70 percent of respondent claimed they daily sales were RM500 or below. 22 percent claimed daily sales between RM501 to 1000.

After demographic analysis are person correlation analysis were conducted to find the correlation between variables.

**Table 7: Result of Pearson Correlations Analysis**

	Attitude	Subjective norms	Perceived Behaviour Control	Participation
Attitude	1			
Subjective norms	.547**	1		
Perceived Behaviour Control	.600**	.625**	1	
Participation	.486**	.616**	.671**	1

\*\* . Correlation is significant at the 0.01 level (2-tailed).

According to Table 7, Pearson product correlation between attitude and participation was found moderately positive and statistically significant. ( $r=.486, p<.01$ ). Hence H1 is supported, and it this shows higher the favourable attitude towards using cash *waqf* based Islamic microfinance lead to higher level of intention to participate in cash *waqf* based Islamic microfinance. Similarly, Pearson product correlation between Subject norms and participation was found moderately positive and statistically significant. ( $r=.547, p<.01$ ). Hence H2 is supported. In other words, higher level peer social group influence about using cash *waqf* based Islamic microfinance lead to higher level of intention participate in cash *waqf* based Islamic microfinance. Further Pearson product correlation between perceived behaviour control and participation was found moderately positive and statistically significant. ( $r=.600, p<.01$ ). Hence H3 is supported, and it this shows higher the level of beliefs about perceived behaviour control led to higher level of intention to participate in cash *waqf* based Islamic microfinance.

The results are consistent with several past empirical studies which adopted the similar models. Echachabi, Azouzi, and Aziz (2016) and Duasa and Thaker (2016) found attitude has significance influence on intention to participate. Similarly, studies of Amin and Abdul Rahman (2011) and Duasa and Thaker (2016) found subjective norms such as social influence has a significant impact on participation behaviour. Further Echachabi and Echachabi (2013) and Maulana et al., (2018) found Perceived behavioural control as predictor to intention to participate.

## CONCLUSIONS

Financing micro enterprises is a challenging task and involves many obstacles and concerns. Despite having various financing programmes and schemes been offered by the government and other institutes, there are several challenges act as barriers to micro enterprises to accessing finance from financial institutions. Denial of financing due to several factors such as not availability of quality financial track records and unsatisfactory credit history recorded at authorities, due to record of defaults or delinquency, low capital contribution from entrepreneur, record of continuous failures of businesses and higher leverage. Addition to above, failure to provide information such bank statements, income tax returns or management

accounts to assess repayment capacity and credibility concerns such as record of misuse of firm's funds for personal use by owners were major factors. The requirement of collateral, higher cost of financing, difficulty in providing business operational details and lack of creative business plans is among the factors that act as barrier to them from obtaining finance. After considering the challenges and issues, this study developed a model called Mosque based Ijarah financing model for micro enterprises using cash *waqf* in Selangor state. According to this model, the *mutawalli* of *waqf*, PWS will appoint member(s) of mosque administration (AJK) as their agent to intermediate with micro enterprises in vicinity. Engaging the AJK member in the capacity of agent will helpfully reduce the default and other types of risk involved in financing micro enterprises. Because AJK members interact with micro entrepreneurs on routine basis and will help to verify the credit worthiness of the applicant. Also, they will observe post finance behaviour of micro entrepreneurs and follow up for smooth repayment of the facility. The acceptability of the model to be tested among micro entrepreneurs using quantitative research methods and found the attitude, subjective norms and perceived behavioural control has significant influence in intention to participate in suggested Islamic micro finance model based on cash *waqf*. This model may have certain limitations as well. A continuous provision of funds is heavily depend on the cash *waqf* collection and correlated the generosity of the people of Selangor. Further risk of security of the asset could be minimized and couldn't eliminate at all. Nevertheless, suggested model may open a way for explore alternative methods of financing micro enterprises using cash *waqf*.

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