

# Mosque based sustainable financing model for micro enterprises using cash Waqf in Selangor state of Malaysia

Mohamed Noordeen Mohamed Imtiyaz,  
Dzuljastri Abdul Razak  
and Nor Azizan Che Embi  
*Kulliyah of Economics and Management Sciences,  
International Islamic University Malaysia (IIUM), Malaysia*

Salina Kassim  
*IIUM Institute of Islamic Banking and Finance  
International Islamic University Malaysia (IIUM), Malaysia*

## Abstract

Micro enterprises are emerging as an important sector in the economic system of Malaysia by contributing significantly to Gross Domestic Product (GDP) and providing employment opportunities to millions of workers in the country. Despite its importance in contributing towards the enhancement of the well-being of society and the continuous efforts from the government, micro-enterprises in Malaysia, are struggling with several issues. The majority of them are facing difficulties in obtaining financing for high risk. Hence, they face issues in obtaining financing from financial institutions which seek collateral and charge interest or fixed profit rate. Hence, this study proposes 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) (*Waqf* assets managing body of State Islamic Religious Council of Selangor (MAIS)) as Mutawalli of *waqf* and micro enterprises at village level. This study proposed a model for the Selangor state as the case study that may help address the financing constraints of micro-enterprises and further improve the well-being of Muslim society by better usage of cash *waqf*.

**Keywords** Cash *Waqf*, Islamic Microfinance, Mosques, Micro entrepreneurs, Policy makers

**Paper type** Research paper

## 1. Introduction

Micro enterprises are emerging as an important contributor to economic growth as it contributes significantly to Gross Domestic Product (GDP) and providing employment opportunities to millions of Malaysians. The development



of the micro enterprises sub-sector is significant in ensuring even growth and shared prosperity as the nation's transformation into a high-income earning economy. Small Medium Enterprises (SME) sector provides significant contribution in poverty alleviation. Because micro enterprises make up more than three fourth of total SMEs in Malaysia. However, securing finance for micro enterprises is a challenging exercise due to lack of collateral and instable financial position causes are high risks in doing their business. Despite the continuous efforts from the Government of Malaysia by provision of series of financial schemes and human capital development initiatives to support micro enterprises, the sectors are facing several financial issues. According to the outcome of series of studies, Malaysian micro enterprises face problems in securing finance. Considerable numbers of micro enterprises were unsuccessful in securing financial facilities as their business entities. The lack of availability of collaterals to securitize the financing facility, higher cost of financing, difficulty in providing a proper forecast of future cash inflow of the business and lack of business plans are among the factors that act as barrier to them from obtaining finance from financial institutions. In general, micro enterprise is a sector which banks are least concerned to finance. Equitable wealth and income distribution among each member of the society is one of the primary objectives of the Islamic Economic system and this view is strongly supported by scholars like Ibnu Haldun (Rahimaullah). Islamic financial institutions' major concern should not be restricted only into abstaining from interest phenomenon. It is a comprehensive social economic framework that targets on providing a positive impact to the achievement of the Islamic socioeconomic objectives in accordance with *Maqasid al Shariah* (the important objectives of Islamic law) as well as the Islamic economic doctrine of as Sheikh Ibnu Haldun (Rahimaullah). In light of above and considering challenges in financing options available to micro enterprises, this study suggests a mosque-based cash *waqf* based micro financing model.

### 1.1. 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 2017/2018) The government of Malaysia has allocated an amount of RM14.3 billion to administer 158 SME development programmes targeting 599,301 SME entities across all economic sectors as at April 2018. (SME Annual Report 2017/2018). Malaysian government, its agencies and private institutions are actively involved in facilitating financing to SMEs. All of the 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 2017/2018). 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 able to borrow form financial institutions. (SME Annual Report 2017/2018).

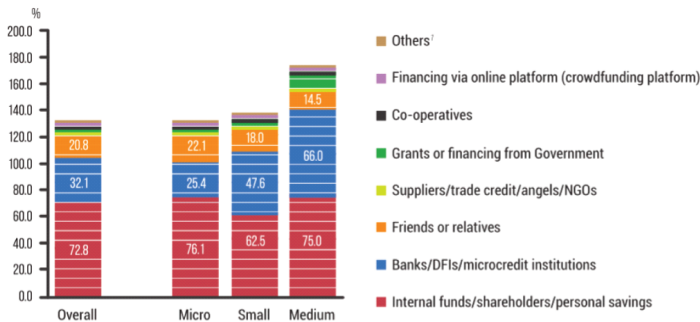


Figure 1. Chart on access to financing (%)

Source: Economic Census 2016, Department of Statistics, Malaysia

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 high risk (Duc, Marriot, & Marriot, 2008). According to Haniff, Akma, Lee, and Finance (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, delinquency, low capital contribution, record of losses and higher leverage. In addition to the above, failure to provide information such as 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, Akma, Lee, & Finance, 2017). The requirement for collateral, higher cost of financing, difficulty in providing business operational details and lack of creative business plans were 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 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 for collateral to securitize the facility, credit risk, and legal structure of business.

Islamic banking sector should be considering broader objectives rather than focusing on a high-risk segment. These objectives-based reasons and risk aversive 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 are, 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 02 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.

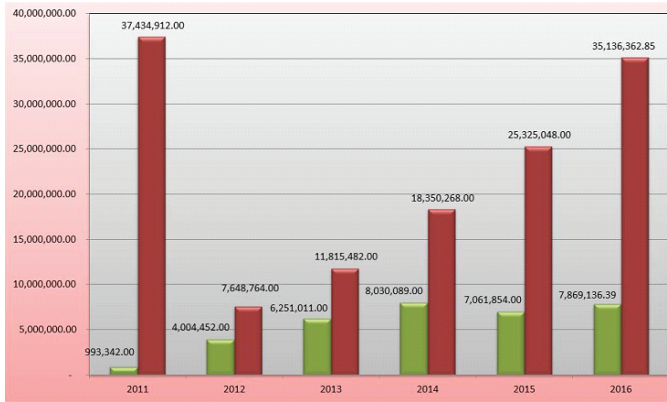


Figure 2. Amount collected as cash *waqf* by Perbadanan Wakaf Selangor  
Source: www.wakafselangor.gov.my as at 28/02/2019.

This study attempts to address highlighted challenges in micro financing by developing a mosque based sustainable model where the *Mutawalli* (*waqf* manager) will undertake financing needs for micro enterprises. The model targets to develop Islamic financing instruments where *Mutawalli* (or duly authorized body to manage *waqf*) as a financier undertake financing for 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 programmes of the village and various other services. Mosques are managed by group of trustees organized as an entity called as Mosque Administration Committee (*AbliJamatankeusa* -AJK). They are entrusted for administrating religious affairs and manage the 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 identifying in determining the financial amount needed. Micro enterprises, post financing supervision of the business activities and collection of repayments. This will minimize the risk default by micro enterprises as the business is operating at village level and owners of micro enterprises are regularly interacting with the mosque administration committee (AJK) officials on day-to-day basis. This strategy substantially reduces the operational costs of the *waqf* manager compare 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.

### 1.2. Research objective

The 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 will investigate the extent of current obstacles and challenges faced by micro enterprises in accessing finance in Malaysia and to develop an alternative model that sustainably addresses the obstacles and challenges identified.

### 1.3. 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 have been several studies conducted in the field of *waqf*. However, the significant contribution from this study is 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 bodies like mosque administration committees (AJK) in Malaysia. This study will open a new area of how Muslims lives could be enhanced through proper utilization of *waqf* assets while sustaining its perpetuity. It will also address issues on eradication of poverty and enhancing welfare of the society.

1.4. Organization of the study

This chapter discusses the overview of micro enterprises in Malaysia and the problems they faced in obtaining financing. The statement of problem, research objectives and significance of study will be discussed in details. Organization of this paper will be followed by a review of literature highlighting the research gap. Thereafter proposed model will be discussed and end with conclusion.

**2. 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 a mosque-based model as an alternative.

2.1. 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 1 a total number of 693,670 micro enterprises are in operations representing 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 2017/2018).

Table 1. *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
Percentile share to total SMEs	76.5	21.2	2.3	100
Percentile share to total establishment	75.3	20.9	2.2	98.5

Source: Economic Census 2016, Department of Statistics, Malaysia

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 2

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that Micro enterprises are defined as an establishment with less than five employees or less than RM 300,000 of the sales turnover, whichever is lower will be considered for threshold. Current definition is effective since 1st January 2014. (SME Annual Report 2017/2018).

Table 2. 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

According to Economic Census 2016, 5,652,560 individuals were 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
	1,937,557	100

Source: Economic Census 2016, Department of Statistics, Malaysia



### 2.2. Current status of financing of micro enterprises

There are number of conventional and Islamic schemes and models of financing 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. There are several 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 into six, namely: Commercial and Islamic banks, Islamic microfinance institutes, development financial institutions (DFIs), special government agencies, crowd funding platforms and other sources. Each of these modes is discussed in detail below.

#### 2.2.1. *Financial institutions*

Financial institutions are the one of main providers of financing facilities to micro enterprises in Malaysia. In year 2006, the Central Bank of nation, Bank Negara Malaysia (BNM) initiated a scheme known as “Micro Financing Scheme” (*Skim Pembiayaan Mikro*) under the patronage of National Sustainable Microfinance Framework. The scheme allows speedy and convenient access to financing for micro enterprises without collateral through participating financial institutions (PFIs), thereby minimizing obstacles arising from the lack of collateral and previous credit track records which usually hindered micro enterprises from accessing to financing facilities. The participating financial institutions consists Commercial banks and Development financial institutions (DFIs). According to this scheme, micro enterprises can obtain a financing facility for an amount up to RM 50,000 from participating financial institutions (PFIs).

#### *Commercial and Islamic Banking Institutions*

Commercial banks and Islamic banks provide financing facilities to micro enterprises under various micro financing schemes including “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, the amount of financing provided will be reviewed over period of time in line with micro enterprise’s repayment track records. (Haniff, Akma, Lee, & Finance, 2017)

However, the 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 PFIs. However, the point to highlight here is there will be large number of micro enterprises whom un-accessible to PFIs and could not match the requirement of the latter.

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 rate of return charged by PFIs.

Table 5. Rate of return charged by participating commercial and Islamic banks under micro financing scheme as at February 2018

Financial Institutions	Tenure	Product Name	Financing Rates	
			As advertised by FIs	Annual effective rates
Alliance	12-84 months	Cash First Personal Loan	9.28% to 14.78%	16.71 % to 26.25%
Ambank	1 - 5 years	Cash Vantage Personal Fin.-i	24% to 30%	24% to 30%
		Am Mikro Plus	Base Rate+ (4.35% to +4.60%)	8.15% to 8.40%
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	PBMicro 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%

Source: Comparative table on pembiayaan mikro product features 2018, Bank Negara Malaysia

PFI's provide amounts range from RM 3,000 up to maximum of RM 50,000 as financing for micro enterprises. There are conventional and Islamic financing facilities being offered. Most notable Islamic financing method used was *Tawarruq* based financing. According to above table, 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. Hence, this could 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).

*Development Finance Institutions (DFI)*

Government of Malaysia established Development Financial Institutions (DFIs) to promote key economic sectors that are identified as strategic importance to the macro socio-economic development goals of the nation. One of above identified strategic sector is small and medium enterprises (SMEs). The main role of DFIs to provide financial support and services that are not being provided by the ordinary banking institutions. Six DFIs are prescribed under the Development Financial Institutions Act (DFIA) 2002 and there are several DFIs in operation and not prescribed by DFIA act 2002 as well. DFIs provide Islamic and conventional financing facilities to micro enterprises under the "Micro Enterprise Scheme of BNM" as participating financing institutions. Financing are generally extended to the established micro enterprises for working capital and capital expenditure requirements. Table 6 depicts available schemes and rates of return charged by PFIs.

Table 6. Rate of return charged by participating development financial institutions under micro financing scheme as at February 2018

Financial Institutions	Tenure	Product Name	Financing Rates	
			As advertised by FIs	Annual effective rates
Agro Bank	3 months - 5 years	Modal Usahawan 1	7.92%	14%
		Malaysia-i (MUS1M-i)		
		Skim Pembiayaan Mikro-I -		
		Modal untuk Usahawan		
		Kecil (MUSK)		
Bank Rakyat	1 month - 5 years	Skim Pembiayaan Mikro-I –	8.25% to 14.55%	14.53% to 24.04%
		Individu		
		Skim Pembiayaan Mikro-I -		
		Tanpa Panel		
Bank Simpanan Nasional	1 - 5 years	BSN Micro / BSN Micro-i	6.38% to 11.26%	11.48% to 19.20%

Source: Comparative table on pembiayaan mikro product features 2018, Bank Negara Malaysia

According to above Table 6, participating DFIs provide financing ranges from 6.38 per cent to 14.55 per cent. Compare to commercial banks DFIs charge a lesser Annual Effective Rate (AER) on its financing. However, Bank Rakyat's AER is approximately 24 per cent and Bank Simpanan Nasional's (National Savings Bank) AER is around 19.20 per cent which is relatively higher than the average lending rates. Despite that application approval rate of DFIs for micro enterprises remains around 50 per cent (Refer to table 4) for the period from 2011 to 2017. However, certain requirements of DFIs limit the opportunity for micro enterprises. For example, the scheme "*Modal Usabawan 1 Malaysia-I*" (MUS1M-i) product of Agro bank stipulated a minimum sales threshold of RM 300,000 per annum for micro enterprises as eligibility criteria for approval of financing. Because of such factors, micro enterprises which are in early stage of business cycle would be excluded from above category of products.

### *BNM Fund for SMEs*

Further to above financing schemes and programmers, the BNM commissioned a special fund named a "BNM Fund for SMEs" to provide financial facilities to SME including micro enterprises through PFIs including all licensed commercial banks, development financial institutions (DFIs) and the Credit Guarantee Corporation Malaysia Berhad (CGC). The rates of financing are relatively cheaper than other available sources in the financial market so as to enable the SMEs to borrow from the fund. According to this fund, SMEs can access up to RM5 million financing facility with a payback period of five years. Since its launch until 2017, the Fund has extended financing facilities for around 77,000 SMEs (SME Annual Report 2017/2018). However, the primary focus of this fund is small and medium enterprises rather than micro enterprises.

### *Shariah Compliant SME Financing Scheme (SSFS) 2.0*

SME Corporation Malaysia has implemented a financing scheme named "Shariah Compliant SME Financing Scheme (SSFS) 2.0" with participation of 13 Islamic Financial Institutions. The PFIs includes Islamic commercial banks and DFIs. In order to operationalize this scheme, SME Corp. Malaysia has allocated a total amount of RM54 million with anticipation of serving 300 SMEs. This scheme extends financing facilities to suitable local SMEs whereby the federal government has undertaken the responsibility to pay 2.0 percent of the profit rate charged on the financing facilities extended by participating Islamic Financial Institutions (SME Annual Report 2017/2018). However, the number of beneficiaries is limited and raises

serious doubts for accessibility of micro enterprises to the scheme as program focus on SMEs.

### *Micro finance Institutions (MFIs)*

In line with financial inclusiveness programmes of Government of Malaysia, specialized micro finance institutes are in operation under its various agencies. These institutions are extending financial facilities to various requirements of micro enterprises operate in different stages of business cycle. MFIs such as Amanah Ikhtiar Malaysia (AIM) (2019) and The Economic Fund for National Entrepreneurs Group (Tekun Nasional) have contributed a significant role in extending financial facilities micro enterprises in Malaysia.

### *Amanah Ikhtiar Malaysia*

Amanah Ikhtiar Malaysia (AIM) is first microfinance institution of the Malaysia and one of the important sources of finance for micro enterprises. AIM was formed in 1987 as a non- government organization. AIM played an important role in extending financial assistance to micro enterprises. (Mokhtar & 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. 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, Majid, Rashid, & Hamid, 2014).

According to Table 7, currently AIM offering seven different financing facilities with amounts of principal ranging from RM 1000 to RM 20,000. In general repayments to be made in weekly basis and payback period ranges from 12 weeks to 150 weeks. These facilities are extended at zero profit rates with 10 per cent of annual administration charge. (Amanah Ikhtiar Malaysia, 2019). AIM provided a total of 3.7 million loans amounting to RM15.7 billion by 2016. (SME Annual Report 2016/2017). However, there are 186,930 women-owned SMEs operating in the country and accounted for about 20.6% of overall SMEs in the country (SME Annual Report 2016/2017). Because of this notion, the service provision of AIM limited

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only to a one fifth of total SMEs in the country. According to a study conducted by Nawai and Bashir (2009), AIM only able to reach 4% of the total poor in Malaysia.

Table 7. Details of financing schemes offered by AIM as at February 2019

Name of scheme	Financing amount (RM)	No. of Weekly Repayment Installments
Economical		
1. i-Mesra	1,000 - 2,000	12, 25, 35, 50
	3,000 – 10,000 (max)	12, 25, 35, 50, 75, 100
2. i-Srikandi	12,000 – 20,000 (max)	12, 25, 35, 50, 75, 100, 125, 150
3. i-Wibawa	5,000 (max)	12, 25 weeks or monthly for 6 months or one bullet payment
Others		
4. i-Sejahtera	1,000 – 2,000	12, 25, 35, 50
	3,000 – 10,000 (max)	12, 25, 35, 50, 75, 100
5. i-Bestari	1,000 – 2,000	12, 25, 35, 50
	3,000 – 5,000 (max)	12, 25, 35, 50, 75, 100
6. i-Penyayang	1,000 – 2,000	12, 25, 35, 50
	3,000 – 5,000 (max)	12, 25, 35, 50, 75, 100
7. i-Emas	2,000 (max)	12, 25, 35, 50

Source: Amana Ikhtiar Malaysia, 2019

### *The Economic Fund for National Entrepreneurs Group (Tekun National)*

The Economic Fund for National Entrepreneurs Group also known as micro finance institution under the 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, 2017/18). All financing schemes of Tekun National are *shariah* compliant and generally apply the Tawarruq financial contract.

Table 8 depicts the schedule of amounts financed, weekly repayment amounts and Annual Effective Rate (AER) of return charged on fund called “Teman Tekun Financing Scheme” by Tekun National. Data suggests borrowers of small amounts are subjected pay a higher rate of return compare to borrowers of larger amounts. In the case of RM 1000 financing, despite lower weekly installment amount AER is as high as 22.84 per cent

and it is well above the other financing rates in the market. Above AERs are in contrast to the claims of interest free loans and rates advertised as 4 percent as management fee and 5 per cent for savings pool by Tekun National. Further a study conducted by Mokhtar and Ashhari (2015), the category most benefited from the Tekun National programmes are within the non-poor borrower category. Further to the above according to Auditor General’s report 2016, several weaknesses of the fund were highlighted. Among that a notable fact is that repayment percentage of the borrowed funds back to Tekun National remains around 63.2 percent. Since these are government funded programmers, facts found in AG’s report raises serious concerns about the sustainability of the institute in long run.

Table 8. TemanTekun Scheme’s Annual effective rate of return (per cent) on financing

Total Financing	Payment Period	Weekly Payment Amount	Total repayment Amount	Annual Effective rate of return (percent)
RM1,000	2 Years	RM12	RM1,248	22.84
RM3,000	3 Years	RM25	RM3,900	18.25
RM5,000	3 Years	RM41	RM6,396	17.10
RM10,000	5 Years	RM56	RM14,560	16.06
RM20,000	5 Years	RM112	RM29,120	16.06
RM30,000	5 Years	RM168	RM43,680	16.06
RM40,000	5 Years	RM224	RM58,240	16.06
RM50,000	5 Years	RM279	RM72,540	15.90

Source: Tekun National, 2019

*Special government agencies*

Addition to financial institutions and microfinance institutions, there are several government agencies also actively involved in extending financial facilities to micro enterprises in Malaysia. Among that agencies role of Perbadanan Usahawan Nasional Berhad (PUNB) and Majlis Amana Rakyat (MARA) are notable in providing financial facilities solely for Bumiputera owned micro enterprises.

*Perbadanan Usahawan Nasional Berhad (National Entrepreneur’s Institute-PUNB)*

PUNB which is under the patronage of Bumiputera Investment Foundation, providing financial facilities for microenterprises to start-up and expansion of existing businesses. PUNB offers series of product for SMEs owned by Bumiputera retail entrepreneurs. Among the available schemes, most appealing to micro enterprises are scheme named “Proper Teras” and Prosper Usahawan Muda (PUMA). Notable facts about these schemes are

both are Shariah compliant schemes and financing are extended only to shariah compliant business activities. According to the Prosper Teras scheme amount of financing extended to micro enterprises is within the range of RM100,000-RM500,000 for individual businesses and up to RM100,000 for partnership businesses. The tenure of financing is limited to 10 years only. The scheme provides financing of existing businesses which are in operation for more than a year for the purposes of renovation of premises, purchase of fixed assets, working capital including purchase of stock. However, the number of recipients from these schemes will be limited as only a sum of RM30 million has been allocated targeting 128 SMEs for year 2018. (SME Corp Annual Report, 2017/18). Prosper Usahawan Muda (PUMA) scheme extended financing to prospective young Bumiputera entrepreneurs to start up their business. According to PUMA scheme, financing extended up to RM100,000 for businesses with sole proprietorship for the maximum tenure of 10 years. A further to that an additional sum RM 50,000 would be obtained after completion of one-year successful operation of business. However, Prosper Usahawan Muda (PUMA) was discontinued in year 2018 after changes of strategic policies.

*Majlis Amanah Rakyat (Council of Trust for Bumiputera-MARA)*

Majlis Amanah Rakyat (MARA) is a government agency operating under the Ministry of Rural Development. MARA extends financial facilities to SMEs including micro enterprises on variety of schemes to serve different finance requirements of entrepreneurs under the programme of “Penyaluran Pembiayaan Perniagaan”. Following the list of selected schemes offered under the Programme;

- Business Development Finance Scheme (Skim Pembiayaan Mudah Jaya-SPIM)
- Groom Big Financing Scheme (Skim Pembiayaan Groom Big -SPG)
- Business Financing for Differently able persons (Skim Pembiayaan OKU -OKU)
- Business Financing Scheme Post-IPMA (Skim Pembiayaan Lepas IPMA -SEMAi)
- Financing for Moveable Businesses in vehicles (Mobilepreneur)
- Women Entrepreneur Financing (Dananita)

Generally, these schemes are open to all Malaysian Bumiputera aged between 18 to 60 years old. Attracting feature of these schemes is screening of applications depends on the marks obtained by applicants in a psychometric examination sat. Amount of finance extendable is depending on the marks



obtained from the exam. (Majlis Amana Rakyat, 2019). The Penyaluran Pembiayaan Perniagaan Programme targets extend financing for 17,500 recipients during the period of 2016 to 2020. MARA has spent around RM396.7 million under the programmed for SME financing and other assistance for more than 3,900 enterprises in 2017. Also, the programme received an allocation of RM300 million from federal government to assist 3,085 SMEs in year 2018. (SME Annual Report 2017/2018) However the recipients of financing under the programme are very minimal number compares total number of micro enterprises operating in the country.

### **3. Contemporary mosques-based models of financing micro enterprises around the world**

Currently, Wakaf Annur Corporation Berhad is 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 Annur Corporation Berhad with the help of volunteers of JCorp Berhad. Amongst the volunteers are *Imams* and *Muazzins*. Their basic tasks are to monitor on the performance of recipients. (Sanusi & Shafiai, 2015). “*Akhuwat*” is a mosque-centred 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 the 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, & Reille, 2008). Similarly, in Indonesia, currently practiced a model 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 & Clarke, 2011).

#### **3.1. Introducing the “Mosque based sustainable financing model for micro enterprises using cash *waqf*” in Selangor of Malaysia**

Considering above challenges and obstacles faced by micro enterprises, this study attempts to formulate a financing model for micro enterprises by using cash *waqf* as source of finance. This model intent to apply the Islamic financing principal of Mudarabah based financing. This concept is in accordance with the Hanafie School of thought on movable *waqf* assets. In this case PWS will act as a Rabb al Mal and Micro entrepreneur and profits

will be shared on agreed ratios.

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 such agency appointment has provisions in waqf enactment of Selangor state. Micro enterprises within the vicinity of mosque may forward applications for financing 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 moral factors. Thereafter application 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 repayment 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 collections to the bank account of PWS. Further appointed AJK officers are entitled to an agency fee from the profits share of PWS. Following Figure 1 and Figure 2;

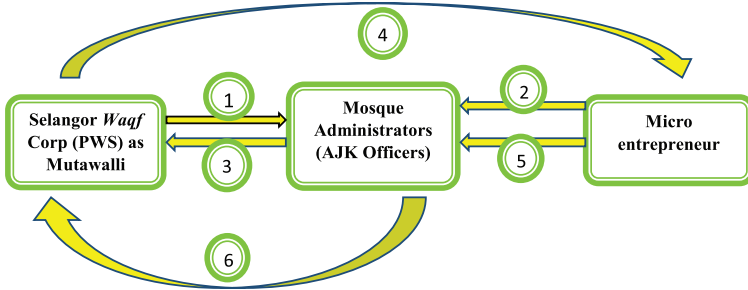


Figure 1. Mosque based sustainable financing model for micro enterprises using cash waqf

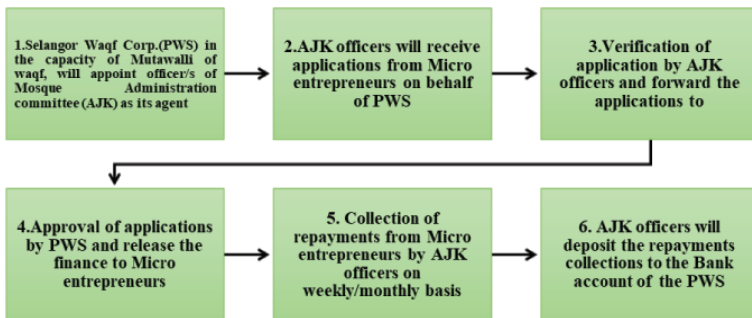


Figure 2. Process flow of the model

### 4. Conclusions

Financing micro enterprises is a challenging task and involves many obstacles and concerns. Despite having various financing programmes and schemes been offered by Government and other institutes still 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 sustainable financing model for micro enterprises using cash *waqf*. According to this model, the *mutawalli* of *waqf*, PWS will appoint members of mosque administration (AJK) as their agent to intermediate with micro enterprises in each village of Selangor state in Malaysia. Engaging the AJK member in the capacity of agent will be helpful to reduce the default and other types of risk involved in financing micro enterprises. Because these AJK members liaise with micro entrepreneurs with routine basis and will help to verify the credit worthiness of the applicant. Also, they will observe post finance behavior of micro entrepreneurs and follow up for smooth repayment of the facility. The applicability of the model to be tested based on qualitative research methods and acceptability of the model to be tested among micro entrepreneurs using quantitative research methods. This model may have certain limitations but nevertheless it may open a ways for explore mosque based methods for financing micro enterprises using cash *waqf*.

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**Corresponding author**

Mohamed Noordeen Mohamed Imtiyaz can be contacted at: [msfiiiiium@gmail.com](mailto:msfiiiiium@gmail.com)

