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## ENHANCING THE EFFECTIVENESS OF THE ISLAMIC MICROFINANCE PROGRAMME: EXPERIENCE OF LEMBAGA ZAKAT SELANGOR

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### Abstract

Many experiences round the globe showed that Islamic microfinance programs (IMP), based on Syariah and Islamic finance concept, have become more significant in creating new job opportunities and generating income for the purpose of increasing social and economic status of the poor and alleviating poverty. The integration of entrepreneurial concept, training and microenterprise into IMP also contributes in increasing the effectiveness of the program. 'Asnaf Entrepreneurs Development Program' (AEDP) conducted by Lembaga Zakat Selangor (LZS) is among the pioneers and most established IMP in Malaysia. The implementation of IMP, which was preceded by selection process of asnaf participant and also accompanied by training and good monitoring, is effective in developing asnaf entrepreneur and improving poor asnaf income. Asnaf entrepreneurs' development requires not only the provision of financing in an interest free-based system but it also needs the provision of other services. The purpose of this paper is to suggest a way to improve the effectiveness of IMP in Selangor. The approach used to measure and evaluate the effectiveness of the IMP in Selangor is based on changes in revenue levels shown by the participants of the program among the poor asnaf and then develop a concept based on the literature review, research findings and comparison with the most successful microfinance programs in Malaysia, namely Amanah Ikhtiar Malaysia (AIM). This paper shows how in the Islamic perspective, spiritual development is necessary in improving the effectiveness of IMP in Selangor.

**Keywords:** Islamic microfinance, asnaf entrepreneur, Islamic perspective, poverty alleviation

## **1. Introduction**

Although poverty is a phenomenon that still exists in any society, Islam strongly encourages Muslims to strive to overcome it. Ismail (2000) referred poverty in Islamic perspective as a phenomenon that must be overcome in order to avoid the slow development in Muslim communities. Huge income gaps are not recommended because Islam emphasizes social justice and equality (Patmawati, 2007). Basically, the factors affecting poverty, such as low levels of education, poor general health, and low income levels caused them to be unable to meet the basic needs such as food, clothing and shelter. As a result, the poor are always excluded from the formal financial system hence making it difficult for them to get financial assistance and funding to carry out productive activities such as running a small business to improve their household income (Sadeq, 2002).

Asyraf (2008) concluded that most of microenterprise entrepreneurs in Malaysia faced problems in starting and running the business due to the difficulty in obtaining financing from banks or financial resources from any other financial institutions. Basically they have no collateral or guarantor, business plans and perfect business track records for supporting their loan application.

Reluctance of formal financial institutions such as banks to finance the establishment and expansion of microenterprise business carried on by the poor is due to the traditional barrier known as 'asymmetric information' between financial institutions and customers (Hartarska & Holtman, 2006). Physical constraints caused by a lack of rural infrastructure such as the absence of perfect markets, roads and communication systems also exacerbate the problem of 'asymmetric information'.

The micro entrepreneur development programs among the poor in Malaysia focused more on microfinance programs in the form of micro-credit and micro capital assistance (Rahmah, 2001). Records showed that 77 per cent of SMEs in Malaysia are in the form of microenterprises (Malaysia, 2012). Hence the development of micro-finance program in Malaysia, such as AIM, is very important (Bank Negara Malaysia, 2007) in order to alleviate poverty and create more micro entrepreneurs among the poor. The role of microfinance programs as a tool for poverty alleviation is becoming increasingly important

in many developing countries, through microenterprise business conducted (Choudhury et al., 2008).

However, the micro-credit program has its own weaknesses where sustainability of the program in the future has always been the question. The micro-credit program is said to be highly dependent on donations from corporations and the government to allow the program to be implemented. Administration and management costs of the micro-credit program are also high as the program involves not only funding but also includes other forms of services such as the provision of training, assistance, business advice and monitoring. To meet the rising costs of administration and management, the usual service charges and certain interest rate will be imposed on participants. For example, TEKUN micro-credit program is highly dependent on the allocation obtained from the Malaysian government from the Seventh Malaysian Plan (7MP) through the Ninth Malaysian Plan (9MP) where only 44.2 per cent of total credit facilities that have been issued were recovered (Hamdino, 2011). Unsatisfactory total proceeds of repayment may affect the sustainability of TEKUN microfinance programs implementation in the future. In this case, the concept of welfare and prohibition of interest (riba) which is practiced by Islam is seen as a good approach to overcome the drawbacks of conventional microfinance programs.

Prohibition of interest (riba) in Islam is the best approach to avoid over exploitation of the weak (the poor people) and at the same time to promote social justice. Furthermore, Sheikh Ghazali et al. (2005) reveal that interest uproots the very foundation of humanity, mutual help and sympathy and creates selfishness in men. The rationale for the prohibition of riba is also based on fixed rate guarantees to lenders than borrowers who have to bear the entire risk of the business. In reality, Islam highly emphasizes justice and fairness in business activities. Justice demands that the financier shares risk with the borrower if he/she wishes to earn profit. Elimination of riba will also contribute to social justice. Thus, it is obligatory upon every human being to eliminate the element of riba from any kind of transaction as Islam establishes the spirit of brotherhood as the primary objective of transacting parties. Hence, the establishment of Islamic Microfinance Institutions (IMFI) is not only useful in liberating the society from riba system and establishing justice, but also be expected to become a bridging agent for asnaf entrepreneur development and poverty alleviation. As an effort to bring into reality the

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teaching of Islam, many Muslim countries now try to introduce IMFI in interest-free based system to provide capital for asnaf entrepreneur development.

Although various poverty alleviation strategies have been implemented in the form of preventative action until recovery, however, the concept of 'welfare' in Islam is considered to be a comprehensive multi-dimensional approach and effective way to alleviate poverty and to overcome the poverty problems especially extreme poor (Nasrin, 2009). The concept of welfare can be classified into several forms, namely 'compulsory welfare' such as *zakat* and *fitrah*, 'optional welfare' such as *sadaqah*, and 'periodicals welfare' such as *waqaf* (Sadeq, 1997).

Sources of *zakat* and *sadaqah* in Islam are a vital tool for the distribution of income and wealth through economic growth to the poor (Choudhury & Harahap, 2009). Furthermore, the source of *zakat* fund can also be used for integration of microfinance program in various ways, based on the concept of Shariah and Islamic finance. This approach aims to increase the income and poor people's involvement in productive activities such as microenterprise business (Hisyam & Zulkifli, 2006). Empirical evidence shows that Women Sewing Project (WSP) conducted in Bangladesh, used *zakat* funds to enable poor people running microenterprise business, thus managed to increase their income (Choudhury et al., 2008). While in Indonesia, *zakat* fund is used to finance the business carried on by the poor at morning and night markets and this approach was successful in increasing the income of the poor (Choudhury & Harahap, 2009). Similarly, the IMP in Bangladesh that is Al-Fallah, Noble and Rescue (Habib, 2002), also emphasized the importance of using *zakat* fund to finance the sustainability of microfinance programs offered to the poor to enable them to do microenterprise businesses.

In Malaysia, *zakat* centers and Baitulmal have been entrusted to receive, collect and distribute *zakat* funds to the poor asnaf. Hence, assistance and distribution of *zakat* funds are channeled in various forms, both for productive and unproductive activities.

In this case, LZS is the most innovative *zakat* institutions and a pioneer in Malaysia in the distribution of *zakat* fund to the poor asnaf and needy, who are eligible, in a highly productive form, through business capital assistance program (interest free based system) based on the concept of micro-

finance, Islamic finance and Shariah compliant. This approach is able to remove them from poverty to meet their daily needs such as health care, shelter and education for their children (Hisham & Zulkifli, 2006). Empirical evidence also shows that the AEDP program conducted by the LZS in the form of business capital assistance has managed to increase its income participants and release them from poverty (Hamdino, 2011). Based on Table 1, LZS has zakat funding sources are highly capable in improving access to IMP for productive activities (such as microenterprise business) to more of the poor asnaf in Selangor compared to other states in Malaysia. In 2011 the collection of Zakat in Selangor continued to increase to RM394.1 million (LZS, 2012a). AEDP program's success through zakat fund for microenterprise business depends on proper monitoring system, training and business assistance and sufficient capital assistance to start a business. Therefore the objective of this paper is to develop the concept of improving the effectiveness of Islamic microfinancing learned from LZS experience, through the implementation of AEDP.

**Table 1: Malaysia: Zakat and Fitrah Collection by State, 1999 - 2008**

| State          | 2008               | 2007               | 2006               | 2005               | 2004               | 2003               | 2002               | 2001               | 2000               | 1999               |
|----------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
|                | RM'<br>millio<br>n | RM'<br>millio<br>n | RM'<br>millio<br>n | RM'<br>millio<br>n | RM'<br>millio<br>n | RM'<br>millio<br>n | RM'<br>millio<br>n | RM'<br>millio<br>n | RM'<br>millio<br>n | RM'<br>millio<br>n |
| W. Persekutuan | 211.3              | 173.8              | 147.6              | 130.1              | 110.6              | 96.4               | 84.5               | 72.9               | 59.0               | 36.0               |
| Selangor       | 244.4              | 202.2              | 159.9              | 133.1              | 108.8              | 86.2               | 78.7               | 61.4               | 46.3               | 37.8               |
| Johor          | 100.7              | 73.3               | 54.7               | 49.4               | 38.1               | 34.0               | 29.7               | 31.5               | 20.8               | 12.5               |
| Terengganu     | 66.2               | 51.4               | 42.9               | 40.4               | 36.1               | 40.1               | 33.0               | 28.2               | 28.0               | 28.6               |
| Perak          | 57.0               | 41.3               | 33.8               | 27.5               | 25.7               | 21.7               | 20.8               | 20.5               | 16.4               | 15.7               |
| Pulau Pinang   | 41.7               | 37.1               | 30.6               | 28.0               | 23.3               | 21.3               | 20.1               | 17.5               | 14.8               | 10.4               |
| Pahang         | 58.0               | 41.5               | 36.0               | 31.0               | 22.9               | 20.6               | 18.4               | 16.6               | 14.4               | 9.4                |
| Kelantan       | 58.0               | 40.2               | 35.6               | 29.4               | 22.4               | 18.1               | 16.9               | 16.6               | 10.6               | 8.8                |
| N. Sembilan    | 37.4               | 29.4               | 25.8               | 23.1               | 19.0               | 16.5               | 15.1               | 13.2               | 11.9               | 8.4                |
| Kedah          | 53.2               | 36.7               | 35.2               | 30.2               | 22.2               | 18.6               | 18.3               | 12.5               | 15.7               | 9.5                |
| Melaka         | 26.9               | 22.1               | 19.5               | 17.7               | 14.2               | 13.0               | 12.3               | 12.0               | 8.4                | 7.7                |
| Sarawak        | 36.0               | 23.1               | 20.5               | 15.3               | 15.6               | 10.3               | 13.8               | 8.3                | 5.0                | 4.6                |
| Sabah          | 23.8               | 17.5               | 16.6               | 11.3               | 7.8                | 5.1                | 6.2                | 5.3                | 3.3                | 2.5                |
| Perlis         | 23.2               | 16.7               | 11.9               | 6.6                | 6.4                | 6.6                | 6.2                | 3.7                | 4.3                | 3.7                |
| Jumlah         | 1,038.0            | 806.3              | 670.6              | 573.1              | 473.3              | 408.4              | 373.9              | 320.4              | 258.7              | 195.5              |

Source : MAIWP (2008 and 2004)

## 2. LZS capital assistance and asnaf entrepreneur performance.

This research was conducted on 80 participants of the AEDP in Asnaf Market, located in Section 3 Wisma MAIS and TTDI Jaya Shah Alam, Selangor. The

respondents' list is based on the participants' list provided by LZS, who are still actively doing small business in Asnaf Market, Shah Alam, Selangor. Basically, 80 administered questionnaires were distributed to the respondents but only 50 respondents answered the questionnaires. The survey session was conducted beginning 21st September through 20th November 2012.

## **2.1 Background of capital assistance program**

To further streamline the implementation of AEDP, the LZS formed Asnaf Development Department (ADD) in 2005 for the purpose of coordinating, strengthening the management and implementation of business capital assistance to the poor and needy asnaf to run their own business as well as business projects that have been identified by the LZS management. In 2009, this function was given to the Mais Zakat Sdn. Bhd., a subsidiary of the Majlis Agama Islam Selangor (MAIS) (LZS, 2013).

Through the unproductive assistance, the poor asnaf and less fortunate people were assisted with emphasis on improving the unproductive aspects such as health, education and other basic factors. The next step is providing assistance for the purpose of increasing access to physical facilities and infrastructure, basic resources and employment opportunities (Patmawati, 2007). The last step accounts to providing assistance for the purpose of increasing income generation (Asyraf, 2008) to enable the poor to empower themselves and out of poverty without having to wait for the sympathy and subsidies in the future. Based on Table 2, most of the zakat was distributed by the LZS for unproductive assistance in the form of social assistance, courtesy, education and religion. Zakat-funded projects are in the areas of education, health, and social welfare, aimed at enhancing the productivity of the poor asnaf to meet their basic needs before being exposed to productive activities such as business. LZS productive assistance involved only RM5,014,859 in 2006 but increased to RM6,185,531 in 2011, accounting for an increase of 23.34 percent (LZS, 2012a).



Table 2 : Zakat Distribution by Program, 2002 – 2011

| Development Programme  | 2002 RM    | 2003 RM    | 2005 RM    | 2006 RM    | 2011 RM     |
|------------------------|------------|------------|------------|------------|-------------|
| Social                 | 25,700,975 | 41,575,596 | 55,734,837 | 42,927,138 | 131,034,613 |
| Human                  | 2,366,457  | 1,437,018  | 2,848,632  | 393,541    | 18,056,948  |
| Economy                | 200,461    | 1,874,408  | 5,790,978  | 5,014,859  | 6,185,531   |
| Education              | 9,921,392  | 14,009,349 | 14,708,618 | 36,326,936 | 110,995,862 |
| Religious Institutions | 12,815,390 | 14,451,528 | 18,133,584 | 42,503,987 | 57,917,8942 |

Source : LZS (2003 until 2011)

Table 3 shows the total distribution of capital assistance for economic activities among the poor and needy asnafs based on the Annual Report of LZS. It also shows that the amount of business capital assistance is the most important and most widely distributed capital assistance to the poor and needy asnafs for productive economic activities. As recorded, the total funds of business capital assistance allocated increased every year from just RM54,198 in 2000 to RM2.3 million in 2011. This situation reflects the high confidence of LZS on the ability of the AEDP program (through business capital assistance) in helping the poor asnafs to increase their income and relieve themselves from poverty.

Table 3: Total Distribution of Capital Assistance Programme, 2000 - 2011

| Type of Assistance | 2000 RM | 2001 RM | 2002 RM | 2003 RM | 2004 RM | 2006 RM   | 2007 RM   | 2008 RM   | 2011 RM million |
|--------------------|---------|---------|---------|---------|---------|-----------|-----------|-----------|-----------------|
| Business           | 54,198  | 247,549 | 148,640 | 318,650 | 509,816 | 818,890   | 878,623   | 1,424,130 | 2.3             |
| Fishery            | 32,350  | 32,644  | 6,000   | 0       | 74,100  | 251,800   | 140,238   | 61,663    | 0.5             |
| Agriculture        | 28,540  | 16,970  | 5,380   | 5,845   | 8,500   | 34,200    | 52,298    | 52,066    | 0.008           |
| Livestock          | 0       | 2,000   | 7,800   | 8,500   | 19,994  | 13,000    | 26,900    | 51,601    | 0.2             |
| Total              | 115,088 | 299,163 | 167,820 | 332,995 | 612,410 | 1,117,890 | 1,098,059 | 1,589,460 | 3.008           |

Source: LZS (2001 until 2011).



## **2.2 Business classification of AEDP participants**

Table 4 shows 49 AEDP participants involved with the 'business capital assistance program' (Hamdino, 2011). The study population consists of participants who are also poor asnafs involved with EADP microfinance program in rural areas of Selangor namely Sabak Bernam District, District of Kuala Selangor, Kuala Langat District, District of Hulu Langat and the District of Hulu Selangor. AEDP participants who received business capital assistance, involved with different business sectors, namely home-base industries (food and beverages), mobile and night market, permanent stall, services, and agriculture. However, the majority of participants involved with simple business activities in the form of permanent stall, mobile and night market and home-base food and beverages production.

## **2.3 The effectiveness of AEDP**

MAIS Audit Report 2007 shows that the percentage of participants who successfully maintained and grew their business was quite small, only 9 percent compared to those who failed to continue their business at 11 percent (Mais, 2007). The percentage of participants who are still in business but made no change in terms of business generated total income compared to the period before they do business is as much as 48 percent. For participants who have a high potential to successfully maintain and grow their business is about 32 percent.

**Table 4: Microenterprise Profile**

| <b>Business Classification</b> | <b>LZS<br/>(N=50)</b> |          |
|--------------------------------|-----------------------|----------|
|                                | <b>Total</b>          | <b>%</b> |
| <b>Business Classification</b> | 50                    | 100      |
| Food and beverages production  | 11                    | 22.4     |
| Permanent stall                | 16                    | 30.6     |
| Mobile Stall and night market  | 13                    | 26.5     |
| Services                       | 5                     | 10.2     |
| Agriculture                    | 5                     | 10.2     |

Source: Hamdino Hamdan (2011)

However, based on the 2011 Audit Report, the percentage of AEDP participants who received business capital assistance and manage to maintain and grow their business continued to increase to 27.6 percent, or 96 people out of 348 people who are poor asnaf in 2011 (LZS, 2012b). Table 5 also shows that AEDP access to poor asnaf increases with the number 356 and 348 poor asnaf in 2010 and 2011, where the average number of poor asnaf who receive capital assistance each year is of 350 poor asnaf (LZS, 2012b). In the year 2009 the cumulative number of poor asnaf involved with AEDP and have received capital assistance since 2002 is 1,600 poor asnaf (Hamdino, 2011). This indicates that the effectiveness of AEDP coincides with increased distribution of zakat to the business capital assistance program. This report has also shown that poor asnaf also are able to succeed in business by their own efforts through assistance and support from the LZS. If the IMP such as AEDP is conducted with proper management, training and monitoring, it will definitely give the expected results.

**Table 5: Number of Poor Asnaf Who Receive Capital Assistance and Managed to Get Out of Poverty**

| Type of Assistance | 2010                  | 2011                  |                               |
|--------------------|-----------------------|-----------------------|-------------------------------|
|                    | Assistance Recipients | Assistance Recipients | Managed to Get Out of Poverty |
| Business           | 356                   | 348                   | 96                            |
| Fishery            | 50                    | 49                    | 7                             |
| Agriculture        | 18                    | 6                     | 2                             |
| Livestock          | 11                    | 17                    | 5                             |
| <b>Total</b>       | <b>435</b>            | <b>420</b>            | <b>110</b>                    |

Source: LZS (2011)

**Table 6: Changes in Level of Income Before and After Program**

| Program               | N  | M         | SD      | df | t      | sig. p |
|-----------------------|----|-----------|---------|----|--------|--------|
| LZS (before-after)    | 50 | -1028.571 | 872.783 | 48 | -8.249 | .000*  |
| Before (allincome)    | 50 | 486.73    | 186.630 |    |        |        |
| After (income/profit) | 50 | 1515.31   | 895.138 |    |        |        |

Results of a study on Asnaf Market program participants through matched sample t-test (Table 6) shows that mean difference between both set of data are negative valued, big and significant that is -1028.571, where the p values are

less than 0.05. The negative value means that total income prior to the program is less than the total income after the involvement with LZS program. LZS program t value is also big and negative that is -8.249, because of the mean score value after involvement with LZS program is bigger compared to prior involvement. This means that LZS Islamic microfinance program in the form of business capital assistance have successfully increased the participants' income over the poverty line. The results of this study are consistent with studies of Hamdino (2011) and Patmawati (2007) that proved the support and AEDP assistance are able to meet the needs of poor asnafs to free themselves from poverty by their own efforts through microenterprise business conducted. Results of the study conducted by Hamdino (2011) and on Asnaf Market participants also prove that good method of participant selection, appropriate training and effective continuous monitoring can improve the effectiveness of the IMP, such as AEDP.

### **3. What can be learned from the implementation of AEDP.**

The findings show that the implementation of IMP such as AEDP integrated with the proper method of participant selection, appropriate training and continuous monitoring before and after the participants received capital assistance is important in helping to improve the income of asnafs and freeing them from poverty.

#### **3.1 The importance of a proper selection process.**

LZS has conducted the selection process of asnaf participants before they obtain the capital assistance (refer Figure 1). Poor asnafs who have been identified with the potential to be involved in productive activities such as business, will be called to follow a selection process that been done in the form of courses. LZS requires mandatory participation in basic training of management and entrepreneurship in order to qualify them to be involved with the IMP. In determining the course to be followed, the poor asnafs will be divided into two groups. The first group consists of poor asnafs who have never run a business. This group is given a course in the form of building self-esteem of the asnafs known as 'Kursus Hijrahku Bina Insan'. A personality test was designed to assess characteristics of credibility (honesty / morality); capability in running a business (skills) and other forms of working experience

and management experience in the asnaf themselves that can help them run and grow their businesses later. This step is important because Islam demands specific codes of behavior to be followed.

Those who are interested will be assimilated into the next course of entrepreneurship courses known as 'Kursus Hijrah Niaga (Business Migration Course)'. The course is divided into two parts, Suq al-Majinah and Suq al-Ukaz. The objective and brief information on both courses are specified in Table 7. The flow of required courses given to the poor asnaf for the purpose of selection of AEDP is shown in Figure 1.

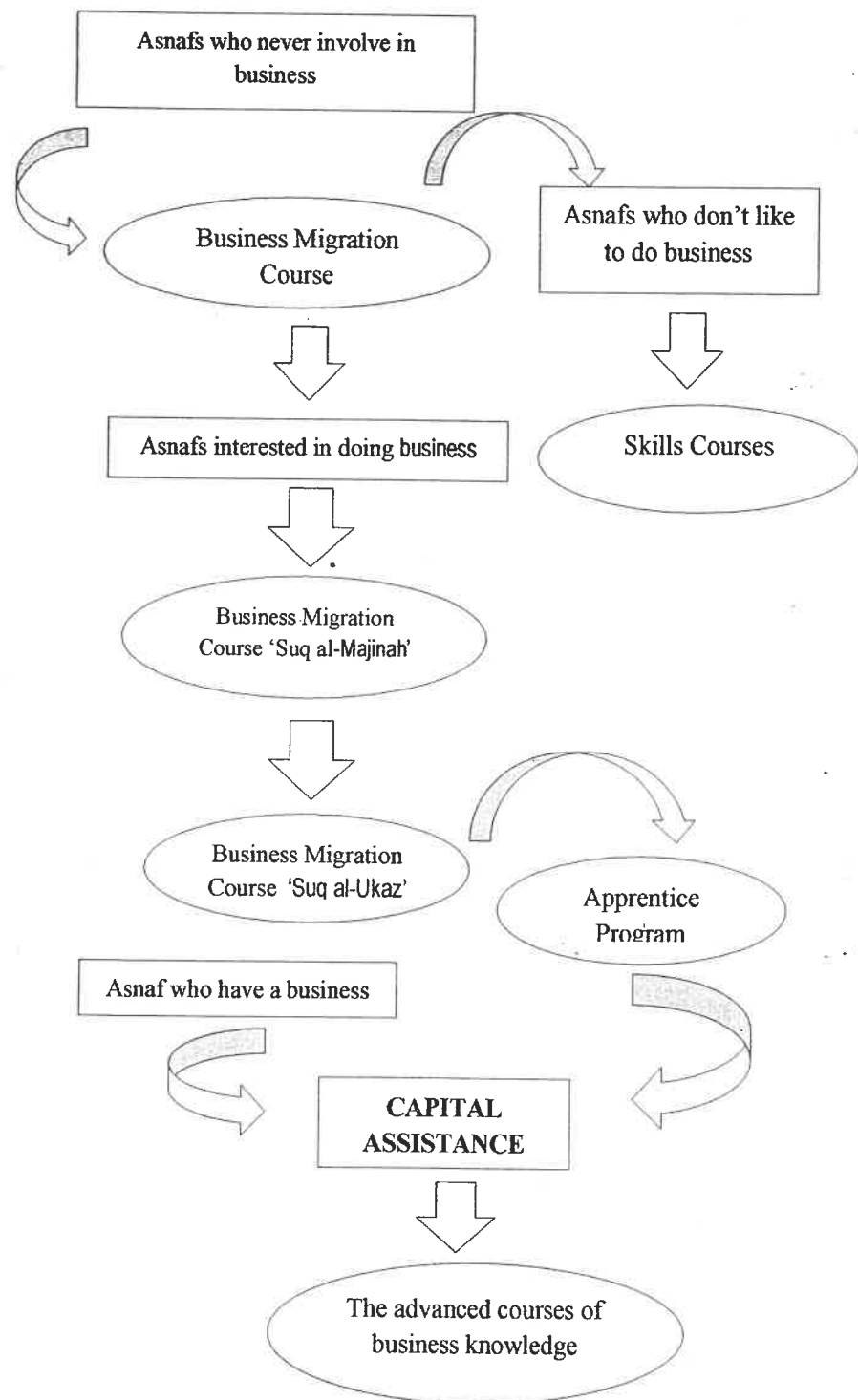
While for those who are not interested in doing business will be incorporated into courses such as cookery skills, sewing skills, and craft skills. This step aims to provide knowledge and skills to the asnaf in order to increase their income through employment or self-employment opportunities in the future. Next through an Islamic entrepreneurial training program, filling with Islamic entrepreneurial approach will be able to create awareness among the participants that zakat money allocated to them for the purpose of business is a 'trust and responsibility' to be used as much as possible to liberate themselves from the poverty. If the participant is able to increase their income and out of the poverty line, eventually they would be able to become zakat (tithe) payers and can refund the money previously received indirectly in the form of income zakat and wealth zakat payment.

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**Table 7: Selection of Participants through LZS Business Migration Training Course**

|                    | <b>Suq Al-Majinah course</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                        | <b>Suq Al-Ukaz course</b>                                                                                                                                                                                                                                                                                      |
|--------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| course information | <ul style="list-style-type: none"> <li>▪ Basic courses that provide exposure to the concept of entrepreneurship and how to become entrepreneurs</li> <li>▪ Throughout the program, participants will practice the cognitive skills, interactive and teamwork, creative thinking, problem solving and communication.</li> <li>▪ Suq al-majinah is the name of the market place at Mecca where entrepreneurs doing business on a small scale since the days of jahilliyah.</li> </ul> | <ul style="list-style-type: none"> <li>▪ Provide exposure to the recipients on how to operate the business in terms of management, accounting, marketing and so on.</li> <li>▪ This course consists of lectures and training sessions in the group.</li> <li>▪ Advanced course of 'Suq al-majinah'.</li> </ul> |
| Course objective   | Help shape the nature of a successful entrepreneur, creative, solve problems wisely and communicate well.                                                                                                                                                                                                                                                                                                                                                                           | Help participants to develop business plan to practice in the business.                                                                                                                                                                                                                                        |

Figure 1: Flow of Required Courses for Asnaf Entrepreneurs.



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According to *mudharabah* financing contract principles, *rabb-ul mal* (capital owners) have the right to select the best business partners (*mudharib*) who are desirable (profitable and believable). Sheikh Ghazali et al. (2005), suggest that in the context of partnership, choosing the right partners is needed, based on their piety as well as high morality and good behavior. In the case of *mudharabah* financing, the partners must have legal capacity to enter into contract (Mansuri, 2006). Capacity is a quality which makes a person qualified for acquiring rights and undertaking duties and responsibilities (Kharofa, 2004). Its include competence to develop a principal-agent relationship. Therefore in *mudharabah* contracts, the personal qualities and the characteristics of entrepreneur are vital criteria in relation to the decision by the provider of funds to accept or reject the project (Khalil et al., 2002). It is part of the Islamic system to select the believable business partner (*amanah*) hence, principles of justice. For this purpose the selection (screening) of the business partner (agent) is needed to ensure the success of the business.

After being granted with business capital assistance, LZS requires that these asnafts attend courses on how to conduct business. They were exposed to courses relating to accounting, marketing, communications, operations management, production and others to ensure that the business carried on will remain viable. In addition, LZS, they are also exposed to advanced entrepreneurial courses run by outside agencies such as MARDI, MARA, and EPU. Training is the process of transfer of knowledge, skills or attitudes to gear up individuals for productive activities or changes the method of work of individuals (Amha & Ageba, 2006). Providing training as a condition of receiving grant funding can help lenders and capital assistance providers filter the participants that really fit and have the potential to do microenterprise business (Brau et al., 2009).

### 3.2 Effective Monitoring.

Effective monitoring means the comprehensive monitoring before the participants involved with microfinance programs and after participants were engaged in micro-financing program until they successfully graduate (out of poverty) from the program (AIM, 2009). Hamdino (2011) and Sow (2006) suggest that group lending programs such as AIM have an effective monitoring technique in which monitoring is done in-house by members of their own group and also externally by MFI, officers through the weekly program



meeting. Even through weekly meetings, participants will indirectly be given guidance and entrepreneurship training. Thus help resolve any doubts and problems related to participant's microenterprise business.

Through continuous and effective monitoring cross check among the participants of IMP can also be conducted. In the case of mudharabah financing, the business control of asnaf participants can be conducted via periodical control of the business record and also direct visitation. It is useful to facilitate the process of continuous monitoring to check the progress and development of asnaf microenterprise. The study by Hamdino (2011) and another study on the Asnaf Market participants indicate that effective and continuous monitoring influence AEDP effectiveness in increasing income and liberate their participants from poverty. Hence to improve the effectiveness of monitoring on the AEDP participants, monitoring in the form of weekly group meetings as was done by AIM is an effective long-term approach. Such monitoring frequency will allow the participants to communicate, collaborate and exchange information and experience in conducting business microenterprise among themselves. Through this continuous monitoring, social contracts approach will be applied to the participants in a wider context and also covers the relationship between the principal (MFI) and agents (participants) for the purpose of economic development of Muslims as a whole.

### **3.3 Construct good relationship**

LZS must establish good relationship to the asnaf entrepreneur through visitation (friendship) on wedding parties, personal approach, advice or assistance, religious activities and building up of character (akhlaq). This approach has actually been practiced widely by AIM through their weekly meeting activity monitoring concept. Through these meetings the participants not only share problem relate to their business but also their personal problems that may affect their business. The ability of LZS in constructing good relationship with their participants is very necessary so that LZS is able to easily and accurately access the business information of the participants.

Business advice helps asnaf entrepreneurs in solving their business problems as well as developing their business. In addition, religious activities contribute to increasing self-reliance which encourages asnaf entrepreneurs to

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improve their business performance. Building up of the character (akhlaq) of asnaf entrepreneurs – which they are able to change their bad to good behavior such as use capital assistance provided (with trust) for the purpose of asnaf development and not for any other purpose. The change of individual behavior to a better condition enables the asnaf entrepreneur to improve their quality of business performance.

### **4. Improving the effectiveness of IMP for asnaf entrepreneur development and poverty alleviation.**

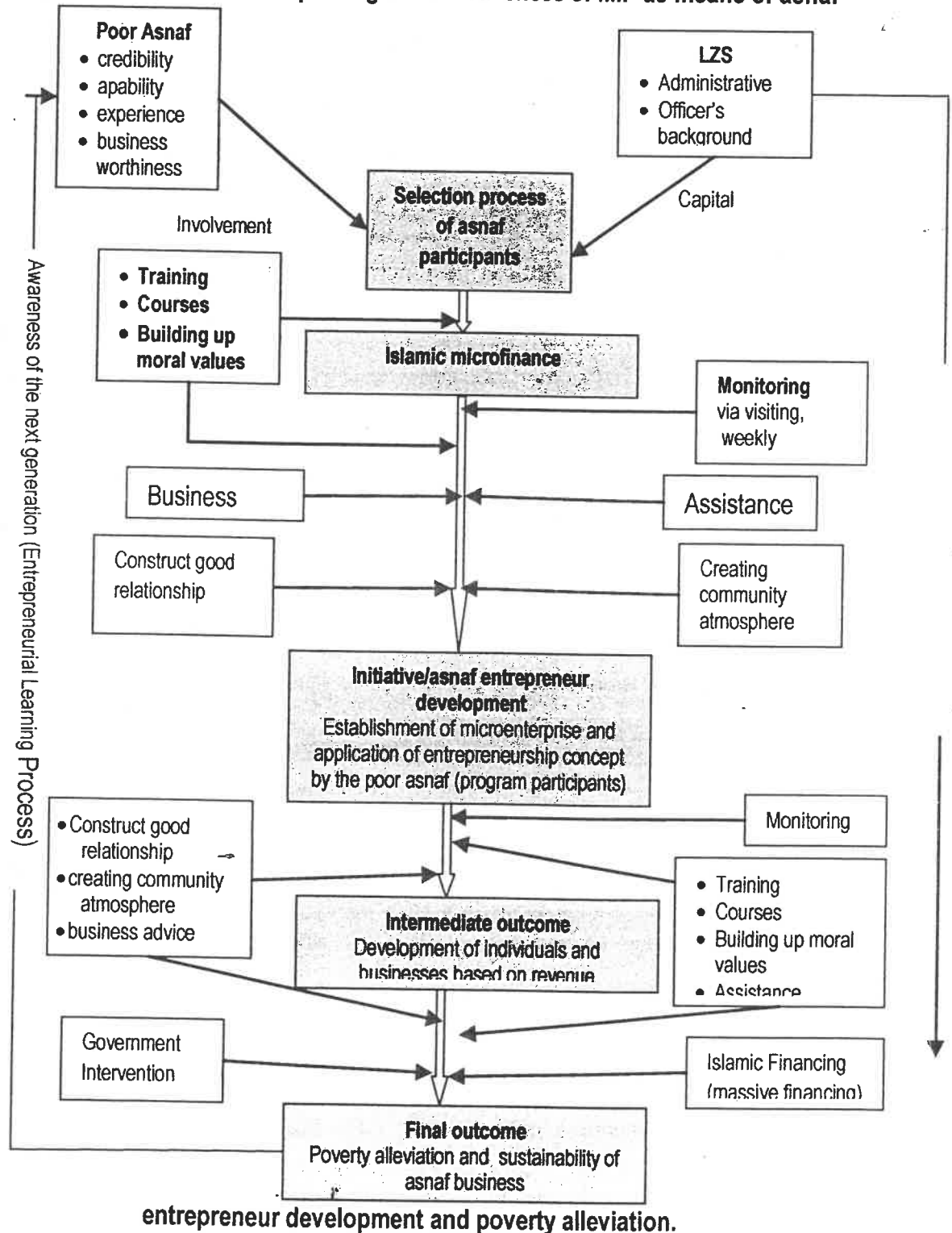
Asnafs entrepreneurial development through IMP such as AEDP is to increase the number of asnafs involvement in business activities, and most importantly, to increase the rate and degree of success of asnafs early business establishment. There are several activities which may be useful for this purpose, among others are, giving financing and training to poor asnaf to help them to start or to strengthen their business (Schreiner and Woller, 2003), building self-esteem and self-reliance, encouraging autonomy and creating community atmosphere. Services that directly target the business owners' activities may include training, technology access, marketing assistance, business advice, monitoring and information. While Nichter and Goldmark (2009) focus on the entrepreneur development on the assets, talents and skills of individuals and channel them into small business ownership.

For an Islamic perspective, the spiritual development through the enhancement of moral values in entrepreneur's consciousness (akhlaq) is also necessary enhancing the effectiveness of IMP. It aims to strengthen the standards of honesty, trust, discipline, spirit, enthusiasm, diligence, patience, piety, social responsibility or to change attitudes from bad to good behaviour. Thus, asnaf entrepreneur development and poverty alleviation through IMP requires an integrated program covering both financial and non-financial (including spiritual development via internalizing Islamic moral value).

IMP implementation after the provision of business capital funding also covers the integration of non-financial services such as training, coaching, and continuous monitoring. In addition, continuous support from the government is also needed to strengthen the IMP through the establishment of rules and policies that promote the development of IMP. In this case the government always gives serious attention to the development of the IMP through

disclosures in the 9MP and 10MP. Therefore, the process of improving the effectiveness of IMP in Selangor (as a means of asnaf entrepreneur development and poverty alleviation) can be summarized in Figure 2.

Figure2: The process of improving the effectiveness of IMP as means of asnaf



## **5. Conclusion.**

IMP implementation in Selangor through AEDP with the provision of business capital assistance enables the poor asnafs to start and develop microenterprise businesses to increase their income and liberate themselves from poverty. Generally, the poor asnafs have difficulty in getting financing from conventional banks formally because they do not have collateral or a business plan, low education levels and lack of business experience. The provision of financing with high interest rates such as micro-credit does not help to solve the problem of capital financing but instead increases the burden of poor asnafs to start a microenterprise business. More importantly, the basic spirit of brotherhood is critical to asnaf entrepreneur development and poverty alleviation through IMP because the function of zakat and *sadaqah* is to help the poor people free from poverty.

Studies on Asnaf Market participants also showed that AEDP was able to increase the income of poor asnafs through these activities. It means that IMP is potential for poverty alleviation in Selangor and Malaysia as a whole. The findings indicate that the selection process of asnaf participant for AEDP, continuous monitoring and good relationship constitute the important factors which cannot be ignored in achieving the effectiveness of AEDP. Proper selection method can ensure that only trusted asnafs can be selected to be involved with AEDP so that business capital assistance funds are not misused for purposes other than to extricate themselves from poverty.

Continuous monitoring allows LZS to know about asnaf business development and can reduce the deviation of fund by asnaf entrepreneurs for other purposes. In similar context, constructing good relationship with asnaf participants is indeed very necessary. This can help to improve the effectiveness of IMP such as AEDP. Developing good relationship in the form of business advice or assistance, religious activities and building up the character (*akhlaq*) to the asnaf entrepreneurs is beneficial in increasing asnaf business performance.

Asnaf entrepreneur developments (for eradication of poverty) are not only confined to the business capital grant only but also include non-financial service offerings for the purpose of increasing the effectiveness of IMP. Other non-financial services can be integrated into the IMP which can give benefit to

asnaf entrepreneur development, poverty alleviation, also reduce the risk of business failure and sustainability of IMP. Offering non-financial services through IMP also includes spiritual development via internalizing Islamic moral value.

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