

# INTEGRATION OF WAQF AND ISLAMIC MICROFINANCE FOR POVERTY REDUCTION:

Case Studies of Malaysia, Indonesia and Bangladesh

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# Abbreviations

AIM	Amanah Ikhtiar Malaysia
APP	Affirmative Action Programmes
BEP	BRAC's Education programme
BIIT	Bangladesh Institute of Islamic Thought
BMT	Baitul Maal Wat Tamwil
BRAC	Bangladesh Rural Advancement Committees
BSM	Bantuan Siswa Miskin (Aid for Poor Students)
CEP	Community Empowerment Programme
CGAP	Consultative Group to Assist the Poor
CIE	Centre for Islamic Economics
CSR	Corporate Social Responsibility
CVDP	Comprehensive Village Development Programme
DECC	Disaster, environment and climate change (DECC) programme
DOPUS	Dostha Paribar Unnayan Samity (Association for Poor Family Development)
FFW	Food for Work
GOs	Governmental Organizations
HNPP	Health, nutrition and population programme
HP	Hope for the Poorest
IBBL	Islamic Bank Bangladesh Limited
IDB	Islamic Development Bank
IDP	Integrated Development Programme
IGVGD	Income Generation for Vulnerable Group Development Program
IIUM	International Islamic University Malaysia
IPAP	Integrated Poverty Alleviation Programme
IPFA	International Project Finance Association
IsMF	Islamic Microfinance
IWIM	Integrated Waqf-based Islamic Microfinance
Jamkesmas	Jaminan Kesehatan Masyarakat (Society Health Assurance)
KDP	Program Pengembangan Kecamatan (District Development Program)
KPS	Kartu Perlindungan Sosial (Social Protection Card)
KUR	Kredit Usaha Rakyat (Credit for Community Effort) micro and small enterprises
LORPEP	Local Level Rural Poor Employment Programme
LP3ES	Lembaga Penelitian, Pendidikan dan Penerangan Ekonomi dan Sosial (Overview Board for Education, Economic Information and Social)
MCP&MP	Minor Crops Production, Preservation, Processing and Marketing Programme

MDGs	Millennium Development Goals
MFIs	Microfinance Institutions
MTKT	Program Makanan Tambahan Keluarga Termiskin (Poorest Families' Additional Food Program)
NDP	National Development Policy
NEP	New Economic Policy
NGOs	Non-Governmental Organizations
NVP	National Vision Policy
OIC	Organization of Islamic Conference
PAMSIMAS	Program Penyediaan Air Minum Berbasis Masyarakat (Community Water Provision Program)
PEP	Production and Employment Project
PESP	Primary Education Strengthening Program
PISEW	Pengembangan Infrastruktur Sosial Ekonomi Wilayah (District Socio-Economic Infrastructure Extension), Indonesia
PKHI	Program Keluarga Harapan Indonesia (Indonesian Potential/Expectation Family Program)
PNPM	Masyarakat Mandiri (The National Society Empowerment Program)
PPP	Palli Progati Prokalpa (Rural Advancement Project)
PPR	Program Pemulihan Rumah (House Rehabilitation Program)
PPRT	Program Pembangunan Rakyat Termiskin (Program for Development of Poorest People)
PRR	Poverty Reduction Rate
P2DTK	Percepatan Pembangunan Daerah Tertinggal dan Khusus (Accelerated Development of Lagging and Specific Districts)
Raskin	Beras untuk keluarga miskin (Rice for Poor Families)
RDP	Rural Development Programme
RDS	Rural Development Scheme
REP	Rural Employment Project
RLP	Rural Livelihood Project
RMP	Rural Maintenance Programme
RPAP	Rural Poverty Alleviation Programme
RPCP	Rural Poverty Cooperative Project
SEC	Self-Employment Creation
SEDPHT	Socio - Economic Development Programme in Hill Tracts
SEM	Structural Equation Modelling
SESRIC	Statistical, Economic and Social Research and Training Centre for Islamic Countries
SIKAP	Program Pemulihan Sikap Keluarga Termiskin (Attitude Rehabilitation Program for Poorest Families)
TEKUN	Tabung Ekonomi Kumpulan Usahawan Niaga (Group Economic Fund Business Entrepreneurs)
TR	Test Relief (TR) program
TVDP	Total Village Development Project
USS	Urban Social Service
VGD	Vulnerable Group Development
VGF	Vulnerable Group Feeding
WDI	World Development Indicators
WEC	Wealth Employment Creation
YBU	Yayasan Bina Upaya (Foundation for Developing Capabilities)
YLBHI	Yayasan Lembaga Bantuan Hukum Indonesia (Indonesian Foundation Board for Legal Aid)
YLKI	Yayasan Lembaga Konsumen Indonesia (Indonesian Foundation Consumer Board)



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The report has been prepared by a core research team at IIUM led by Ataul Huq Pramanik and Mohamed Aslam Haneef and comprising Mustafa Omar Mohammed, Aliyu Dahiru Muhammad and Fouad Md. Amin. Nabil Dabour, Kenan Bagci and Ahmet Akif Demirbaş at SESRIC also provided valuable support in improving the quality of the research output. The work was conducted under the editorial supervision of Savas Alpay, Director General of SESRIC, and Mohamed Aslam Haneef, Professor at IIUM.

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The research team strongly believes that this study, particularly through its proposed model, will significantly contribute to the efforts of policy makers in designing, improving and expanding poverty alleviation programmes, especially those that involve microfinancing arrangements.



# Executive Summary



This report presents the output of two-year collaboration between the Centre for Islamic Economics, IIUM and the Statistical, Economic, Social Research and Training Centre for Islamic Countries (SESRIC) on a research project that covered three OIC member countries namely, Malaysia, Indonesia and Bangladesh. The report briefly examines the poverty profile and poverty alleviation programs introduced in these countries. In doing so, the report explored the possibility of integrating the institutions of *Waqf* and microfinance as a model for poverty alleviation in the selected countries. Depending on the successful operation of this model in these three selected countries, this Integrated *Waqf*-based Islamic Microfinance (IWIM) model is expected to be replicated in other OIC member countries.

## POVERTY IN OIC COUNTRIES AND THE ROLE OF MICROFINANCE

Poverty is a complex, multi-dimensional phenomena that has captured the attention of numerous scholars and agencies globally. It is estimated that 1.37 billion of the world total population of 7.1 billion live on US\$1 per day. In the 57 OIC member countries, which constitute around 1.6 billion people, 31% of the total population lives below the poverty line of US\$ 1.25 per day.

In order to address this alarming poverty problem, some of the OIC countries have increasingly adopted the institution of microfinance as a solution. In spite of its expansion, microfinance continues to face two primary challenges; access to affordable finance and inadequate human resources confronted both by the providers and recipients of services. Existing models have largely failed to adequately overcome all the challenges. Hence, this study has developed a model integrating the Islamic institution of *Waqf* with microfinance that aims at providing solutions to these existing challenges.

## OBJECTIVES OF THE STUDY

In developing a framework to address the two primary challenges of affordable finance and human resource development, the following research objectives were formulated: (i) to provide a brief overview of poverty profile, poverty alleviation programs in Malaysia, Indonesia and Bangladesh as well as to examine the potential of *Waqf* as another viable source of financing microfinance institutions; and (ii) to develop an Integrated *Waqf*-based Islamic Microfinance (IWIM) model, which comprises six components, namely *Waqf*, Islamic microfinance, human resources, *Takaful*, project financing and poverty alleviation, and (iii) to validate and test the IWIM model in the three selected countries.

To achieve these three objectives, the study adopted the following research methods: survey of the literature, content analysis, seminars and focus groups discussions for objectives (i) and (ii). In addition, field surveys and interviews were used to validate the model to achieve objective (iii). For the field surveys, focus groups sessions and interviews, questionnaires were designed and used to collect the data. A total of 828 respondents were taken for survey from the three countries: 137 from Malaysia (from Amanah Ikhtiar Malaysia); 310 from Indonesia (Baitul Maal Wat Tamwil); 381 from Bangladesh (Rural Development Scheme of IBBL). In addition, focus group sessions with approximately 5-10 participants were organized in each country to get feedback from the relevant experts on the viability of the IWIM model and the extent of its acceptance for poverty alleviation in OIC countries.

## A WAQF-BASED ISLAMIC MICROFINANCE MODEL

The literature review and content analysis support the potential of *Waqf* as an additional source of funding for Islamic Microfinance, in particular to overcome the challenges of affordable finance and human resource development. Based on these findings, the study developed the IWIM model with seven hypotheses.

The initial four components of the IWIM model were: *Waqf*, microfinance, human resource and *Takaful*. *Waqf* was considered as a direct source of financing for Islamic microfinance and human resource development. In turn, Islamic microfinance institutions would complement their operations with *Takaful* services. This would help promote affordable finance, human resource development and security. All of these are aimed at alleviating poverty. A pilot test was earlier conducted in Malaysia to validate the instruments. It proved invaluable to the study as important modifications were made to develop the instruments and the model.

The conceptual IWIM model presented itself as follows: the *Waqf* institution was considered as the “funding agency” while the Islamic microfinance institution as the “implementing agency” that was offering microfinance services together with *Takaful* services and financing human resource development programs. In order to

provide variations in financing modes that were deemed more participative, a fifth component, i.e. project financing, to be provided by the Islamic microfinance institution, was added to the model. Additionally, towards fostering the upgrading of knowledge and skills of recipients, human resource development programs could be made a requirement for additional financing. All these features were subject to the varying contexts of the different countries under study.

This final version of the IWIM model was validated through various methods. Firstly, focus group sessions/interviews were held with semi-structured open ended questions involving selected experts and administrators of microfinance and *Waqf* institutions. A total of five focus group/workshop sessions were conducted as follows: three in Malaysia and one each in Indonesia and Bangladesh with approximately 10 participants in each session. Secondly, field surveys were conducted using structured questionnaires administered on recipients of microfinance. Structural Equation Modelling (SEM) was then used to measure the relationships among the components in the model.

## RESEARCH FINDINGS

The focus group discussions and interviews with experts suggest overwhelming support for the IWIM model and its components. The proposal to have *Waqf* as an additional source of funding for Islamic microfinance is supported by all the relevant stakeholders such as, NGOs and government agencies involved in poverty alleviation programs. There was consensus that *Waqf* could play a significant role in providing affordable finance and financing for human development programs related to microfinance and poverty alleviation. However, there is a need to consider individual country contexts in the implementation of the model.

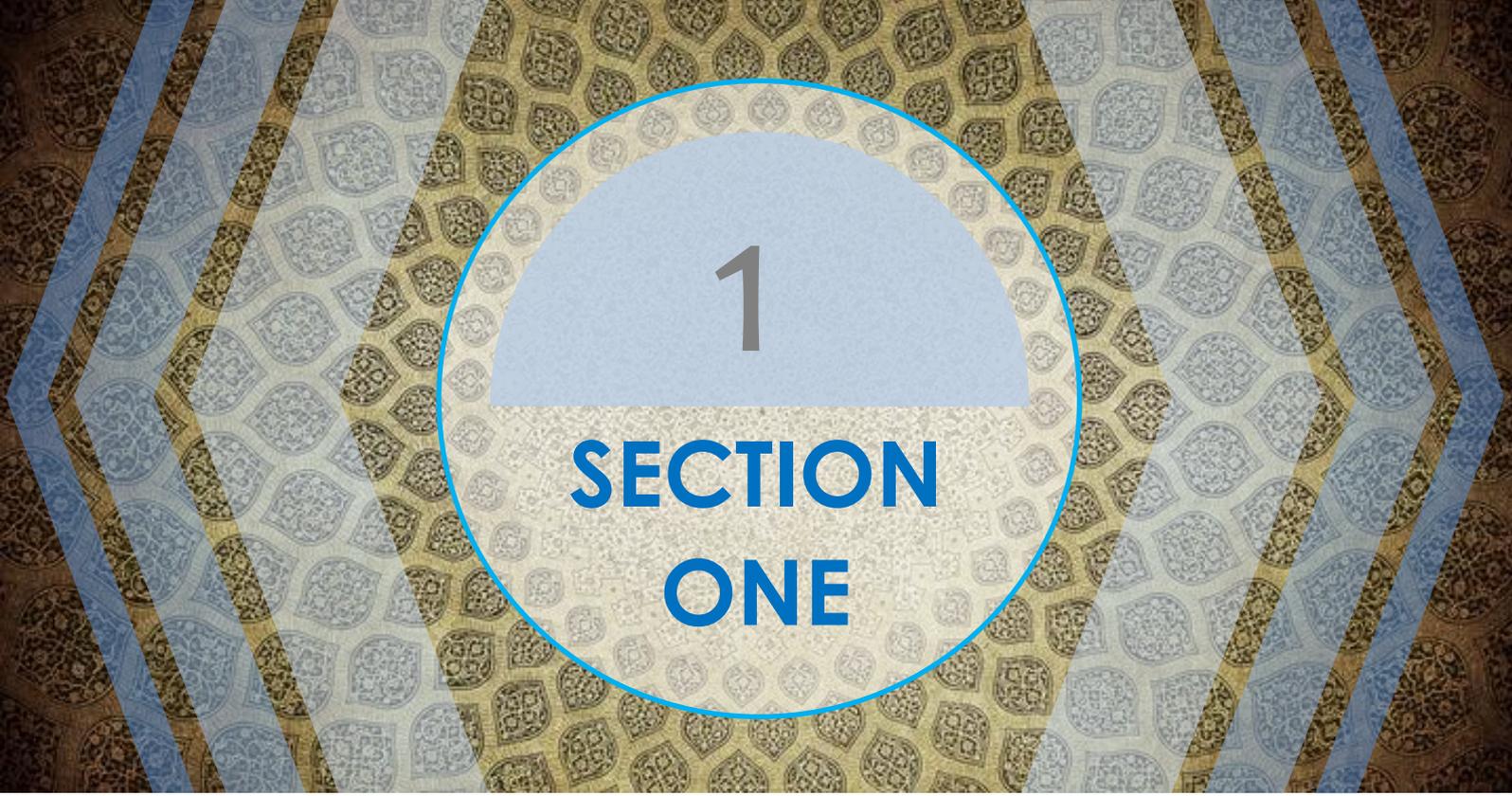
The survey results also generally support the potential of the IWIM model. However, there are mixed findings across the three countries. The results from Bangladesh indicate a very strong support for the model where six of the seven hypotheses show significant relationship among the components in the model (*Waqf* Resources → Islamic microfinance; Islamic Microfinance → Takaful Financing; Islamic microfinance → Human Resource Development; Islamic microfinance → Project Financing; Human Resource → Project Financing and Takaful Financing → Poverty Reduction). In both Malaysia and Indonesia, three hypotheses were supported (Islamic microfinance → Takaful Financing; Islamic microfinance → Human Resource Development and Takaful Financing → Poverty Reduction). These variations need to be analysed in the context of individual countries. However, one undisputed fact in all three countries is that education is vital in any effort to create awareness, understanding and acceptance of the proposed model. Hence human resource development must be the pivotal factor in poverty alleviation programs.

## RECOMMENDATIONS

Based on the studies done in Malaysia, Indonesia and Bangladesh, there is strong indication that the IWIM model can be a viable alternative model for poverty alleviation. This project has reaffirmed that microfinance is an important institution in the fight against poverty and that Islamic microfinance provides additional value in the context of *riba*-free financing. Furthermore, the IWIM model successfully adapts microfinance institutions to overcome two major challenges, i.e., providing financing at lower cost and facilitating human resource development programs. In the IWIM model, *Waqf* is identified as a funding agency while Islamic microfinance institution is the implementing agency. However, there are variations in the selected countries in terms of funding and implementing agencies for poverty alleviation programs. For example, in Malaysia the government has been playing a prominent role in funding poverty alleviation programs. Therefore, in some OIC member countries the role of government may be more pronounced whereas in other OIC member countries there could be a need to have external funding from other sources such as, the Islamic Development Bank (IDB), International *Zakat/Waqf* Agencies or other charitable donor agencies. All these funds can subsidize the cost of lending as well as supplementing the existing limited funds of Islamic microfinance institutions.

As far as implementing agencies are concerned in some OIC member countries such as, Bangladesh, non-governmental organizations (NGOs) are playing a leading role in Islamic microfinance activities/programs. In other OIC member countries, *Waqf* institutions or other *Waqf*-like institutions may be more effective in implementing poverty alleviation programs, hence a ‘*waqf*-based Islamic microfinance model’ could be more appropriate. In countries like Malaysia, even the implementing agencies are very much government-backed or government-assisted. It is also vital to educate all levels of society from recipients of microfinance to administrators, regulators as well as potential donors on the efficacy of the IWIM model and its potential to provide a viable and sustainable model for poverty alleviation.

While the research was undertaken to focus on the IWIM, the research team found that rather than being dogmatic in terms of the nomenclature used, flexibility needs to be given to the differing context and situations. This is evident from the results whereby some relationships between *Waqf* and poverty reduction were not supported by the survey, although the experts’ opinions and interviews supported them. Education and training by itself would improve the well-being of millions of individuals in OIC member countries who are caught in the vicious cycle of poverty. This is where universities such as, the IIUM as well as organizations such as, the SESRIC and IDB can play a crucial role in demonstrating that Islamic principles provide a vital framework for addressing economic problems that plague the OIC countries.



# 1

## SECTION ONE

# POVERTY ISSUES, ISLAMIC MICROFINANCE AND THE ROLE OF WAQF

### 1.1 Poverty in OIC Member Countries

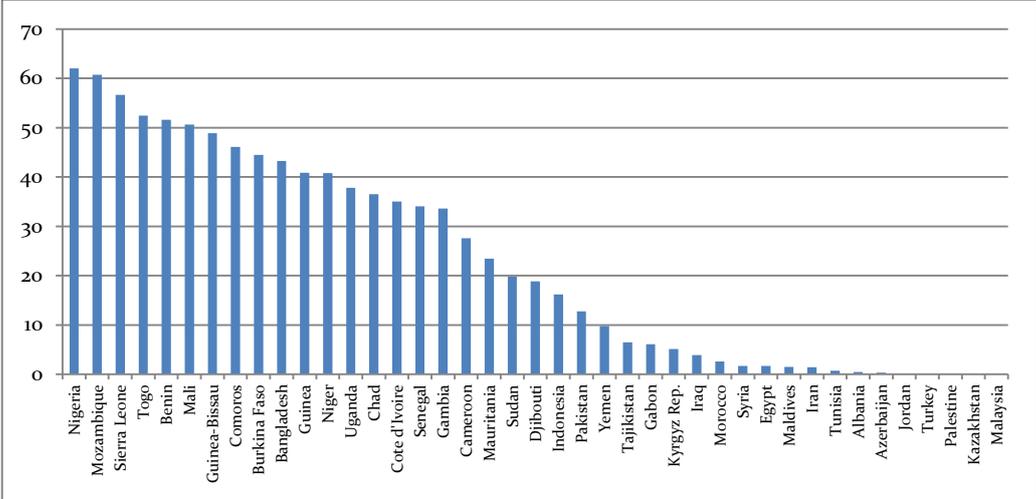
Like everywhere else, poverty in OIC member countries is a multi-dimensional phenomena and a result of a complex socio-economic and political structure of a particular country. It is associated with poor economies, poor human resources, poor social services provision, and poor policies to tackle the challenges facing human and socio-economic development. Therefore, the status, the determinants, and the policy measures required to eradicate poverty would, by definition, vary from one country to another.

In many OIC member countries, poverty has been on such a large scale that it has become a structural phenomenon of human deprivation in terms of hunger, malnutrition, diseases, illiteracy, and low level and quality of consumption of

hundreds of millions of people. The mass poverty in the majority of these countries is a product of complex structural processes embedded in their political economy. Within this complexity, identifying the key causes of poverty should be considered as a crucial precondition for formulating effective anti-poverty strategies.

Poverty is a global problem and it is estimated that more than half of the world population live below US \$2.50 per day (Shah, 2011). The level of poverty in Muslim countries is considered relatively very high compared to non-Muslim countries. More recently, Alpay (2013) noted that 15.6 % of the total OIC population are still living on less than 1\$ a day which is well above the world average of 11.6% and developing countries average of 11.7% in the 2008-2010 period. Alpay (2013) also notes that 31% of OIC total population are still living below the income poverty threshold of 1.25\$ a day by remaining quite above the world average of 14% and developing countries average of 17% during the period in the 2008-2010. Moreover, 42% of the total OIC population is also noted to be living below the poverty threshold of 2\$ a day.

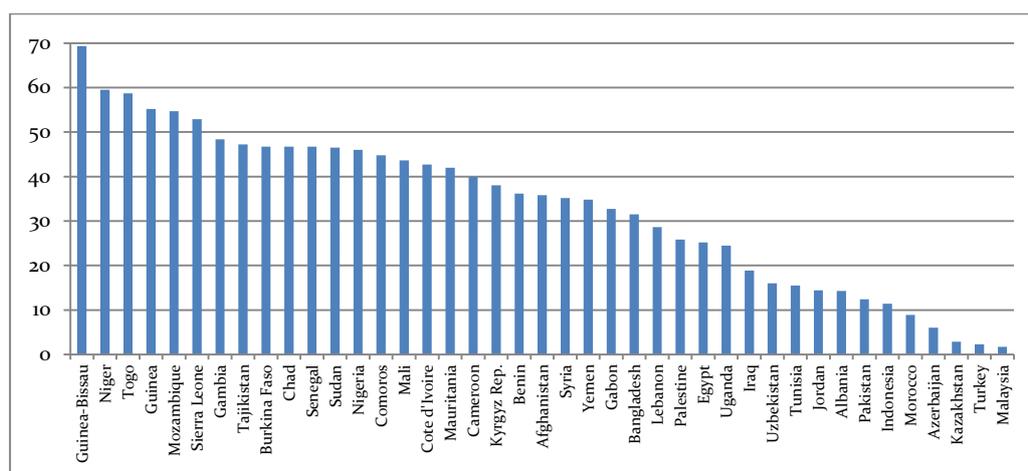
**Figure 1.1: Poverty headcount ratio at \$1.25 a day (PPP) (% of population)**



Source: World Bank WDI Indicators (latest data available during 2002-2014).

According to the latest data available based on the World Bank World Development Indicators (WDI), the percentage of the population living on less than \$1.25 a day at 2005 international prices is highest in OIC member countries located in sub-Saharan Africa (Figure 1.1). Besides African countries, Bangladesh also stands out as having a very high incidence of poverty. Other non-African countries with high to moderate high degrees of poverty include Pakistan, Indonesia and Yemen. With respect to the percentage of the population living below the national poverty lines, OIC members in sub-Saharan region have again highest ratios, reaching up to 70% in Guinea-Bissau (Figure 1.2). In 25 OIC countries, this ratio is above 30% level. Of the 41 OIC countries for which data are available, Malaysia, Turkey and Kazakhstan have the lowest rates of poverty.

**Figure 1.2: Poverty headcount ratio at national poverty lines (% of population)**



Source: World Bank WDI Indicators (latest data available during 2004-2014).

If these countries are to reduce poverty or to judge how their national socio-economic policies affect it, they need to know a lot about their poor. It is important to know who the poor are; where they live; what assets they command; what their education, health and housing conditions are; and what economic opportunities are available to them. It is not possible to imagine sustainable socio-economic development in these countries without a significant rise in the standard of living of the neediest segments of the population in terms of consumption, health, housing, and education. Investing in people must, therefore, be the highest priority for these countries as long as human capital limitations restrain growth or keep people in absolute poverty.

## 1.2 Poverty Alleviation Programs and Policies in Malaysia, Indonesia and Bangladesh

Poverty alleviation remains a core agenda in many least developed and developing countries. In most of these countries, mainly two types of programs are dominant. One is offered by governmental organizations (GOs) and another by non-governmental organizations (NGOs). The GOs rely on domestic funds to carry out different poverty alleviation programs either on short-term or long-term basis. The NGOs mostly get support from foreign donors in collaboration with governmental agencies to finance poverty alleviation programs.

In Malaysia, various programs and policies have been designed and implemented since 1970, for instance the New Economic Policy (NEP) implying growth with equity (1971-1990), National Development Plan (OPP2, 1991-2000), National Vision Plan (OPP3, 2001-2010), Program Pembangunan Rakyat Termiskin (Program PPRT), Amanah Ikhtiar Malaysia (AIM, 1987), TEKUN (1998), Program Pemulihan Sikap Keluarga Termiskin (SIKAP PROGRAM), Program Makanan Tambahan Keluarga Termiskin (MTKT Program), etc. (see the details in Appendix, Table A1.6). The core visions of these programs are poverty eradication, restructuring society, developing

village economy and local community. The AIM and TEKUN are two notable examples of successful microfinance program.

All these programs by GOs have achieved remarkable progress in reducing the country's overall poverty rates both in urban and rural areas (Appendix Table A1.1). The overall poverty reduction rate (PRR) in Malaysia including rural and urban areas appears to vary in the range of 61%-77%. Quite expectedly, PRR is higher for urban compared to rural areas. Malaysia has already achieved the target set for poverty reduction under Millennium Development Goals (MDGs) much earlier than Indonesia and Bangladesh (Table A1.5).

This remarkable achievement in poverty reduction in Malaysia during the last two decades was made possible by the extensive poverty focused programmes and policies pursued mostly by the government and some NGOs. The implementation of Affirmative Action Programmes (AAP) to materialize the twin objectives of NEP- poverty eradication and restructuring of society since the beginning of the 1970s has been very effective. This view is supported by the findings from a very extensive study on poverty alleviation in Asia (ILO, 1997). This study suggests that the impacts of macro-level interventions supported by different programmes/policies were found to be more effective in Malaysia as compared to other countries.

Similarly, there are many government supported programs designed for poverty eradication in Indonesia. These are Health Security Program, Indonesia Family Expectance Program, Rice for Poor People, Fund for Poor Student, The National Society Empowerment Program, Rural Independent of PNPM program, Small Holder Agribusiness Development Initiative, Smart and Healthy Generation of PNPM program, among others. The NGOs along with GOs are also playing greater



role in offering different programs to the poor with a common goal of poverty alleviation. These programs include Indonesia Law Perspective (1970), Institution of Research for Education, Communication, Economic, and Social (1971), Indonesia Customer Protection Institution (1973), District Development Program (1998-2008), Ford Foundation (2013) (see details in the Appendix, Tables A1.7 & A1.8).

Poverty reduction based either on 1\$ (PPP) a day or national poverty line appears to be equally impressive for Indonesia as well (Appendix, Table A1.2). But because of the vast size of rural sector dominated by risk-prone, low productive, tradition-bound agriculture, the PRR in rural areas always lags behind that of urban areas (Appendix, Table A1.2).

In Bangladesh, government based poverty alleviation programs are quite substantial and diverse. These include Food for Work (FFW, 1975), Production and Employment Project (PEP, 1986-87), Vulnerable Group Feeding, renamed Vulnerable Group Development (VGD, 1987), Rural Poverty Cooperative Project (RPCP) and Rural Poverty Alleviation Programme (RPAP, 1993), Rural Employment Project (2000), Integrated Poverty Alleviation Programme (IPAP, 2003), Rural Livelihood Project (RLP, 2007). Besides these government initiated programs, non-governmental organizations are also actively involved in numerous programs and policies. These include Bangladesh Rural Advancement Committee's (BRAC) community empowerment programme (CEP, 1977), Grameen Bank's Housing for the poor (1984), BRAC's Income Generation for Vulnerable Group Development Program (IGVGD, 1987), ASA's Microfinance (credit and savings program, 1992), BRAC's Rural Development Programme (RDP) (1995), Grameen Bank's Micro-enterprise Loans and Grameen Bank's Loan Insurance, BRAC's groundbreaking ultra-poor programme (2002), ASA's Hope for the Poorest (HP, 2004), BRAC's integrated development programme (IDP, 2012) etc. (see details in the Appendix, Tables A1.9 & A1.10). The most prominent Microfinance service providers are Grameen Bank, BRAC, ASA and Islamic Bank Bangladesh Limited's Rural Development Scheme (RDS).

Overall, the micro interventionist strategies based on credit disbursements by NGOs have contributed to poverty alleviation in Indonesia and Malaysia. Both self-employment creation (SECs) through asset creation at the household level and wage employment creation (WECs) in the form of relief works for capital formation at the community level were undertaken in Indonesia and Bangladesh. Indonesia's higher priorities for capacity-building through human capital i.e., training and literacy seem to be more conspicuous (ILO, *ibid*, pp.67-110). The relatively better performance of Indonesia in poverty reduction testifies better financial as well as human capital stock compared to Bangladesh. Overall, the significance of human capital development cannot be overstressed in poverty alleviation.

Similarly, there is no doubt that poverty alleviation programs have been successful, with the performance of Malaysia being relatively much better than Indonesia and Bangladesh. Keeping in mind the government and non-government programs in

the three countries, microfinance has played a significant role in poverty alleviation. Islamic microfinance appears to be very instrumental in this context.

### 1.3 Islamic Microfinance Institutions in Malaysia, Indonesia and Bangladesh

The economic environment in OIC countries under which microfinance operates can broadly be categorized into two: countries with abundance of financial capital resources but inadequate human capital resources and countries with moderate financial and human capital resources. This study has selected Malaysia to represent the first and Indonesia and Bangladesh the second category. These countries are also selected due to their diverse nature of microfinance programs, for instance, Amanah Ikhtiar Malaysia (AIM) is fully supported by the Malaysian government while RDS in Bangladesh and BMT in Indonesia are considered quite effective non-government organizations providing microfinance services. The present subsection highlights various programs offered by governmental organizations (GOs) and non-governmental organizations (NGOs) in the three selected countries.

In agro-based countries like Bangladesh, poverty is primarily linked to unpredictable natural calamities. The natural disasters have serious implications for damages to crops, infrastructures in terms of destroying the communication system thereby affecting normal distribution systems. The problem is compounded by the lack of demand for farm laborers particularly during rainy seasons where crop fields mostly remain under water. Due to the very nature and source of poverty, most microfinance institutions in Bangladesh are highly localized, individualized and non-institutionalized compared to Malaysia and Indonesia as far as operationalizations are concerned.

The poverty incidence in Bangladesh and Indonesia is geographically diverse. On the other hand, publicly-funded poverty alleviation programs in these two countries are not adequate. In addition, formal financial institutions are centralized in urban areas. Hence, microfinance initiatives including Islamic microfinance have largely been taken up by NGOs. In contrast, the situation in Malaysia is one in which poverty alleviation programs/policies are mostly government sponsored and financed (for details see Appendix, Tables A1.6, A1.7, A1.8, A1.9, A1.10).

Given the vastness of the size of population, weak physical infrastructure and communication networks, in addition to its relatively recent introduction, the coverage of Islamic microfinance in Indonesia and Bangladesh is rather limited.

The Rural Development Scheme (RDS) of the Islamic Bank Bangladesh Limited (IBBL) has been actively involved in pursuing policies/programs to alleviate poverty since the mid-1990s. Unlike all other conventional microfinance institutions that charge a predetermined interest rate over the capital/loan amount, which is forbidden in Islam, the RDS pursues Shari'ah-compliant financing. With an

impressive growth rate of 13% per annum, RDS has the potential to attract Muslim clients involved in interest-based microfinance (see Appendix, Table A1.11). However, in the absence of a regulatory framework for Islamic microfinance, the RDS is highly constrained to expand its activities for poverty alleviation.

The development of Islamic microfinance in Indonesia as an autonomous institution is quite remarkable (Hans Dieteos S, 2005). One unique program is offered by Baitul Maal Wat Tamwil (BMT), based on the concept of Islamic cooperatives. The expansion of Islamic finance in Indonesia aims at serving the financial needs of rural areas scattered over thousands of islands in Indonesia (Islamic Rural Bank, PPRS), thus taking care of regional demand for such Shari'ah-based services. In terms of products offered, Indonesia appears to provide more choices to customers compared to Malaysia and Bangladesh. While *Murabahah* seems to be the most dominant mode of financing in Malaysia and Bangladesh, Indonesia's Islamic microfinance institutions offer a wide variety of financial products based on *Musharakah*, *Mudarabah*, *Qard Hasan*, *Wakalah* and *Hawalah*. Other products include those based on *Muzara'ah*, *Istisna'*, *Muajjal (Bai' al-Salam)* and *Ijarah* (Hans Dieter; 2005) (meaning of these and other Islamic economic terminologies used throughout the report are provided in the appendix).

In Malaysia, AIM, a replica of the Grameen Bank model, has recorded a remarkable success over the last three decades. The program has covered over 6700 villages spread over 123 branches with 99% recovery rate (see Appendix, Table A1.11). AIM's Human Capital Development Program provides opportunities for spiritual development, social activities, networking, and leadership skills. The welfare fund of AIM is also quite unique as it covers death benefit, hospitalized allowance, chronic illness and natural disaster.

In summary, RDS, BMT and AIM have been instrumental in poverty alleviation efforts that are Shari'ah-compliant. As argued by a number of scholars (Kahf, 2004 & 2007; Sadeq, 1995; Ahmed, 2002 & 2004), the mobilization of funds through *Awqaf* (as well as from *Zakah*, *Sadaqah*) can be an additional source of funds to assist in poverty alleviation endeavours in OIC countries. While the integration of *Waqf* resources into microfinance schemes (that are run mainly on voluntary basis) will be quite challenging, this can be overcome through concerted efforts by the relevant institutions both at the national and multi-national level.

The following subsection highlights the major challenges facing the microfinance industry. These problems encompass high and exploitative interest rate leading to over indebtedness, limited products, lack of Shari'ah compliance and cultural milieus, outreach, and scaling up.

### 1.3.1 Riba and Exploitation of the Poor

Any additional charge on loans is generally considered to be *Riba*, which is prohibited in Islam. Charging a very high interest rate under the conventional microfinance is a major concern that has led critics to accuse microfinance

Institutions (MFIs) of exploiting their clients. In many cases, the interest charged by MFIs ranged from 25 to 50% of the amount borrowed. This exorbitantly high rate has serious implications for the income and welfare of the poor borrowers who have to repay the principal plus these excessive costs regardless of the outcome of their businesses. High administrative, including supervisory costs of issuing small loan are commonly cited as the main reason for the high rates charged.

According to the CGAP (2012) it is not in favour of market players to set on upper limit for the rates to be charged by micro-lenders. It observes that “interest rate caps can restrict access by making it impossible to serve small and unorganized borrowers. It may be politically difficult to set a cap that is high enough to cover the unavoidable costs of micro-lending and a profit margin adequate enough to attract capital to low-income financial services” CGAP (2012, p.57). In fact, interest is perceived to have negative impact both at macro and micro levels. The high interest rate is found to be one of the major causes of business bankruptcies in many countries (Abulhair, 2011).

The microfinance industry needs to address the issue of high administrative costs to avoid and reverse public dissent associated with charging interest much above the market rates to an already disadvantaged group. This can be done by lowering the costs of funds available for micro-lending through public-private partnerships, enhancing operational efficiency etc. The involvement of *Waqf* institutions in this context is very promising and deserves utmost attention.

### 1.3.2 Over-Indebtedness

Research findings suggest that clients of microcredit are becoming over-indebted (Schicks and Rosenberg, 2011). The issue of over-indebtedness is related to the amount of loan borrowed, the number of institutions patronized by clients and the ethical consideration of the clients. Over-indebtedness in microcredit is usually measured by: i) the performance of collection of the lending institutions; ii) debt to income ratios; iii) increases in loan sizes; and v) terms and conditions of rescheduling the loan repayments. Thus, borrowers are used to repaying loans by borrowing from another microcredit institution due to the inadequate internal control over loan transactions. In some cases, the staff of microcredit institutions rolls over bad loans (CGAP, 2012).

The over -indebted clients also become depressed so much so that they can commit any form of crime including suicide. However, one must not forget that a poor who is born in debt, live in debt and die in debt is also confronted with immense socio-economic problems. These include hunger caused by natural calamities and unexpected death of income earners as well as of sudden loss of livestock bought by loan from microfinance institution. The psychological problems associated with not being able to fulfil the basic services for a family such as proper housing, food, heating etc. put the poor borrowers in a spiral of repeated borrowings with many unfortunate outcomes.

### 1.3.3 Limited Products

Despite the popularity of microfinance, the available products for the micro-entrepreneurs are too limited. Initially, the existing microcredit institutions focus on credit only, neglecting other financial needs of the poor borrowers. Although microfinance industry is growing fast, the borrowers have limited sovereignty on the type of products being offered. Hence, there is a mismatch between the demand for and supply of financial services in microfinance industry. Like commercial banking, microfinance products that are needed by the clients include microcredit, micro-insurance, transfers, savings and investment opportunities. However, this has not been the case in the conventional microfinance in Muslim countries.



*It is expected that the integration of Waqf will further promote human resource development in OIC member countries provided the existing programmes and institutions are tailored to achieve the desired goal of poverty alleviation.*

Given this limitation, project financing that comprises three elements are very relevant for the development of the industry especially in OIC countries. These are: i) individually-initiated products; ii) Group-initiated products; and iii) institutions-initiated products. The limited availability of product is hardly capable of unleashing the potentials of the entrepreneurs in the informal sector, which play a considerable role in the economies of these countries.

### 1.3.4 Religious Sensitivities and Cultural Values

The problems related to cultural diversity receive less attention from researchers, policy-makers and other stakeholders in microfinance institutions. A recent study by the World Bank (2012) stated that a strictly economic response does not fully address many significant challenges faced by individuals and families when crises occur. According to the report, human development supported with small programs that are tailored to fit the needs, culture and customs of a region must be treated at the core of economic development. Then larger gains with small steps will spread into all areas of family and community life.

In this context, Saefullah (2010) argues that the stagnancy in Islamic microfinance development in Indonesia is due to the lack of attention to the cultural differences in a study analysing the impact of culture on the development of microfinance in Indonesia. Obaidullah (2008) also asserts that the religion and cultural sensitivities of Muslim world deserve a greater attention in order to ensure the sensitivities of the Muslim borrowers in the global financial system. It is argued that understanding the local culture will improve the effective delivery of microfinance (Phlong, 2009). Similarly, Rana (2008) finds that cultural orientation in microfinance plays a vital role for the success of microfinance. These studies indicate the diverse requirements with regards to cultural differences. This is confirmed by Karim, Tarazzi and Reille (2008) that innovative designs of a range of Shariah-compliant products and services would increase financial coverage to a broader segment of the Muslim clients. At the end, culture is predicated to affect the success or failure of microfinance (Saefullah, 2010). Ignoring these cultural diversities is likely to inhibit microfinance penetration and its overall performance in the society.

Ashraf and Hassan (2013) demonstrate the major reasons of preferences for Islamic microfinance in Muslims countries. In fact, majority of the committed Muslims confronted with the problems of poverty can be provided with Islamic microfinance services as they reject the interest-based loans by commercial banks in those countries. For instance, in Algeria, a study by Bank Academe International (2006) shows that 20.7% of microenterprise owners do not apply for loans primarily because of religious reasons. The studies based on Afghanistan, Indonesia, Syria, and Yemen further testify that given the choice some conventional microfinance



borrowers tend to switch over once Islamic products are offered (CGAP, 2008). This is also evident from our case study on Bangladesh. This story remains the same in the case of Nigeria and other OIC countries showing greater preference for Islamic microfinance over conventional microfinance (see Table A1.12 for more detailed information on the preference for Islamic finance in the Muslim world).

### 1.3.5 Outreach and Scaling up

SESRIC report (2008) thoroughly investigated the contribution of MFIs for poverty alleviation in OIC member countries and focused on four core issues namely, scale, outreach, sustainability and efficiency of MFIs. For instance, a total of 430 MFIs have distributed US\$8.3 billion to 33.8 million borrowers with a very satisfactory loan portfolio quality. It also shows that NGOs have achieved greater outreach, efficiency and transparency. The large and medium size MFIs are found to be more productive in terms of average borrowers per staff members. They are equally, more efficient in case of maintaining lower cost per borrower. The findings of this comprehensive report suggest that there exist positive associations among size, efficiency and outreach of MFIs.

This SESRIC report is based on the performance of both conventional and Islamic MFIs. In most cases, Islamic MFIs face the challenges of limited funding, particularly at start up stage, scaling up stage as well as sustainable stage. It is important to have subsidized funding in order to enhance the initial operations of MFIs. Even in the case of achieving better outreach and scale-up, MFIs are likely to face huge difficulties in receiving fund either from donors or from other commercial sources (SESRIC, 2008). Thus, it is suggested that MFIs can get funding from donors and receive various grants.

To address these challenges discussed above, scholars have proposed, among others, the integration of Islamic microfinance institution with *Awqaf* and *Zakat*. They have provided some propositions, which were yet to be conceptualized into a model. The present study has considered these propositions, including the ones that appeared in the SESRIC report (2008), to develop an IWIM model where the *Waqf* fund along with other grants will be pooled to finance poor borrowers. The subsequent subsection provides an overview of the related works on the integration of microfinance with *Awqaf* and *Zakat*.

## 1.4 The Rationale for Conceptualizing an Integrated Model

In the literature, there are a number of studies emphasizing the role of *Waqf* and its potential contribution in the socio-economic development of society in general, and poverty alleviation, in particular. These include the views that Islamic institutions, such as *Waqf* as well as *Zakah* and *Qard hasan*, can be used to ensure social justice, equity and peace by helping to fulfil the basic needs of society (Zarqa, 1988; Siddiqi, 2004). This leads to the potential role of *Waqf* based Microfinance institutions as a mean of solving the problems of poverty as well as creating self-

wage employment. Other scholars also support this concept by proposing *Waqf* based financing institutions (Cizakca, 2004; Elgari, 2004; Kahf, 2004, Ahmed, 2007; Hasan, 2010). For instance, cash *Waqf*, *Qard hassan* and *Zakah* can be effectively channelled through Islamic financial institutions so that the poor can have easier access to financial services at a reasonably lower cost. These studies did not propose a practical model that could be implemented on the ground to solve the needs of microfinance recipients. In other words, there is a lack of empirical research in validating the conceptual model of *Waqf* based Microfinance.

Therefore, it would be fair to categorize the related literature into two groups. In the first category, there are studies arguing that *Waqf* can play an effective role in poverty alleviation from social perspective (Kahf, Cizakca, Elgari) while in the second, the scholars (Sadeq, Ahmed, Hasan, Manjoo) propose the idea of *Waqf* based microfinance institutions for poverty reduction. However, as mentioned earlier, none of the studies attempt to conceptualize and develop their propositions into a framework or model that can be empirically tested. This study, therefore, has filled the gap by conceptualizing and developing the IWIM model to address the poverty problems as well as the challenges facing Islamic MFIs. Below, some of the important studies that consider *Waqf*-based financing institutions as a tool for poverty reduction are reviewed.

Among the studies investigating the role of *Waqf* in poverty reduction from financing perspective, Sadeq (2002) provides an interactive model for poverty alleviation where *Waqf* institutions will be the sources of funds. According to him, *Waqf* resources can be utilized to empower the poor. While *Waqf* funds can be used for income generating activities, both *Zakah* and *Sadaqah* can be effectively utilized for poverty alleviation. Sadeq (2002) also proposes an integrated approach to alleviate poverty where the *Waqf* institution will issue two types of certificates: i) *Awqaf* certificates of high denomination, ii) *Awqaf* certificates of low/medium



denomination. The institution or individual will buy these certificates according to their saving capacities. By this, the *Waqf* institution can pool cash funds and finance development projects. The jobless poor can be the direct beneficiary. According to this approach, there can be some primary projects and some secondary projects. The primary projects could include hospitals and clinics primarily for the poor. This project will help create secondary projects such as, markets or small shopping malls. The revenue earned from the secondary projects will help to pay for operational costs as well as other costs relating to the primary projects.

In a similar fashion, Manjoo (2008) argues that *Zakah* and *Waqf* can be effective tools for poverty alleviation. He emphasizes the role of *Zakah* and *Waqf* to address the need of the economically disadvantaged. *Zakah* funds along with value added tax (VAT) can be effectively utilized for poverty alleviation. The Muslim donors get tax exemptions as successfully implemented in Malaysia. Based on *Zakah* payments, a National *Zakah* fund can be set up in order to facilitate the *Zakah* disbursement. Again, the author proposes to establish *Waqf* as a Public Benefit Organization (PBO). These *Waqf* funds can come under certain programmes such as, *Poverty Entrepreneurship Schemes* that can be used for creating employment opportunities. Funds can be channelled through Islamic microfinancing instruments like *Mudarabah* and other joint-ventures consistent with poverty alleviation. It is also argued that an Islamic venture capital model can be well structured to help its partner sell the *Waqf* shares at higher rates to ensure a certain level of self-sufficiency.

A study by Ahmed (2007) emphasized on the basic model of a *Waqf*-based Islamic MFIs that could be sustainable in the long term. Islamic MFIs face the challenges of mismatch in their assets and liabilities. An empirical study in Bangladesh shows that the growth and the efficient operation of Islamic MFIs are hampered by inadequate funding (Ahmed 2002). Despite the availability of local sources of funds, Islamic MFIs are unable to receive the amount from local sources as they violate the Islamic Principles of prohibition of interest. Investment at fixed rates to ensure fixed returns cannot be used. Islamic microfinance strongly advocates for *Mudarabah* and *Musharakah* principles of financing. The author has identified many other obstacles that originate from the fund shortage such as, hiring insufficient number of workers, lack of proper supervision and monitoring, low productivity of field workers due to low salaries and benefits. All of these eventually contribute to defaulting on loans and lowering the expected income of the institutions. *Waqf*-based Islamic MFI can go a long way to resolve most of these problems.

On the liability side, according to Ahmed (2007), cash *Waqf* and *Waqf* certificates can be used to mobilize capital for MFIs. The Shari'ah compatible saving facilities can also be provided to public depositors based on *Mudarabah* or profit-sharing contracts. Besides, *Takaful* reserves can be introduced as a safeguard for the

beneficiaries in case of loan default caused by many unforeseen events. Again, a profit equalizing reserve can also be taken into consideration where a small portion will be subtracted from the profit-share of the depositors. Later on, this reserve will be utilized to boost the rates of returns on deposits. In the same way, economic capital can be increased by creating a reserve fund from its surplus. On the asset side, *Waqf*-based Islamic MFIs can have various types of assets. This can comprise low-risk fixed-income assets, microfinancing activities that include investments and *Qard*. Here, the investment will be made utilising various Islamic modes of financing such as *Murabahah*, *Ijarah*, *Salam*, *Istisna'*, *Mudarabah*, *Musharakah*, depending upon the appropriateness of the microenterprises.

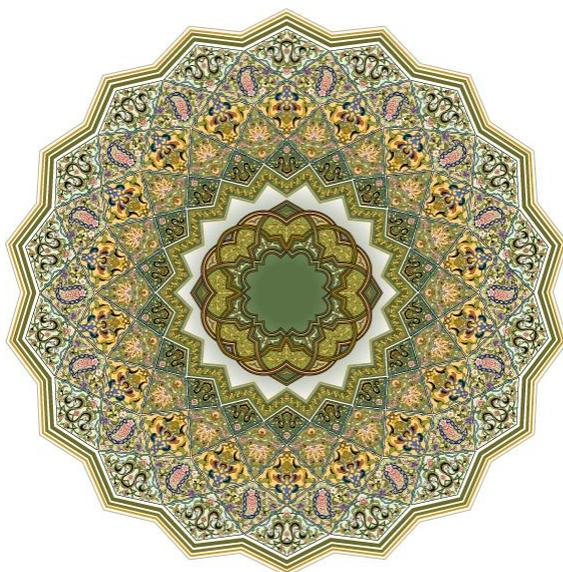
In dealing with various risks associated with *Waqf*-based MFIs, Ahmed (2007) suggests that Islamic MFIs must create various reserves to tackle the risk that may arise due to the mismatch of its assets- liabilities. For example, it is suggested to adopt *Takaful* and profit-equalization of reserves to overcome the depositor's withdrawal risks. The author also proposes that a portion of *Waqf* funds be channelled through microfinancing. This, however, will depend on the *Takaful* and economic capital reserves. Once these reserves increase, a good portion of the *Waqf* fund can be channelled through microfinancing.

In addressing the issue of sustainability, a group based lending mechanism following Grameen Bank Model by Prof. Yunus (1998) can mitigate the credit risk of Islamic MFIs. In addition, the moral hazard issue can be tackled once Islamic MFIs adopt various Islamic modes of financing that are by definition, directly connected to real transactions. Again, Islamic MFIs can overcome the economic viability problem through the reduction of their financing costs (Ahmed, 2007).

More recently, Hasan (2010) develops the idea of an integrated model that combines Islamic microfinance with *Zakah* and *Awqaf* institutions for poverty alleviation. First, *Zakah* funds will be given to the hard-core poor clients for their consumption need. *Awqaf* funds, on the other hand, can be used as investable fund to promote capital investment and/or working capital for micro-businesses. This use of *Zakah* and *Waqf* will minimize the risk of default as the consumption needs of the poor clients have already been taken care of. One of the characteristics of this model is that it will ensure an equitable distribution of income and welfare for the poor based on an inclusive growth strategy. As the proposed model is fully based on profit and loss-sharing and other concessional contract modes, the distribution of profit or earnings will be made as per the contribution of capital among the depositors, shareholders and investors in the NGO/Islamic MFIs. Furthermore, there is no burden of debt under the model since the provision of *Zakah* fund does not require any repayment. The model is based on profit-loss sharing principle where no fixed interest payment will be imposed on the clients. It is argued that all these factors will lower the chances of default rates thereby contributing to higher success rate for poverty alleviation. Although the above studies provide many insights and stimulating ideas on an integrated *Waqf* based Islamic Microfinance,

many other aspects concerning the clients as well as the institutions themselves, are not well addressed.

On the practical side, Sadeq's (2002) views of separating projects into primary and secondary projects, where the entire process of fund management/investment will be implemented by the *Waqf* institution itself, may not be effective. The *Waqf* institutions in many countries have shortcomings in collecting and managing funds. Countries like Malaysia, where *Waqf* is linked to the individual state religious councils is one example of the problems in materializing Sadeq's view. Besides, relying only on cash *Waqf* certificates may not be fruitful. The study by Ahmed (2007) shows the major concern of MFIs in managing assets and liabilities.



*Charging a very high interest rate under the conventional microfinance is a major concern that has led critics to accuse microfinance Institutions (MFIs) of exploiting their clients.*

Even though the author has identified many obstacles to the development of Islamic microfinance, the link between *Waqf* and MFI is not precisely outlined. The provision of *Takaful* is suggested to face the withdrawal risk of the institution. However, the risks of business faced by the clients are ignored. The study by Manjoo (2008) suggested that *Zakah* and *Waqf* both can be utilized for establishing poverty alleviation enterprises through MFI. However, his study has not given enough attention on issues such as how to select the project, how to enhance the enterprise skills among the clients and the extent to which the enterprise will be sustainable etc. However, the work does outline a "Poverty Entrepreneurship Scheme" based on *Waqf* funds. Lastly, the study by Hasan (2010), who suggests for an integrated MFI model based on both *Zakah* and *Waqf* funds, can be more effective if the conceptual framework is drawn based on sources of funds, sharing of risks, types of micro-investment projects and sustainability of the funds etc.

All in all, the findings of this section provide an additional policy direction i.e. the need for human capital development via the IWIM model, especially in lower income OIC member countries. It is expected that the integration of cash *Waqf* in

particular, will further promote human resource development in OIC member countries provided the existing programmes and institutions are tailored to achieve the desired goal of poverty alleviation. The following section highlights the modus operandi and the various components of the proposed IWIM model.

# 2

## SECTION TWO

# AN INTEGRATED WAQF- BASED ISLAMIC MICRO- FINANCE (IWIM) MODEL

*“As regards the private and the voluntary sector, an NGO body at the level of OIC member countries needs to be established for providing help and support for all member countries and Muslim communities to spearhead a campaign for recovering those lost Awqaf assets. Let us declare the coming decade as the decade for recovery of lost Awqaf all over the Muslim world.”*

**Dr Ahmed Mohammed Ali**

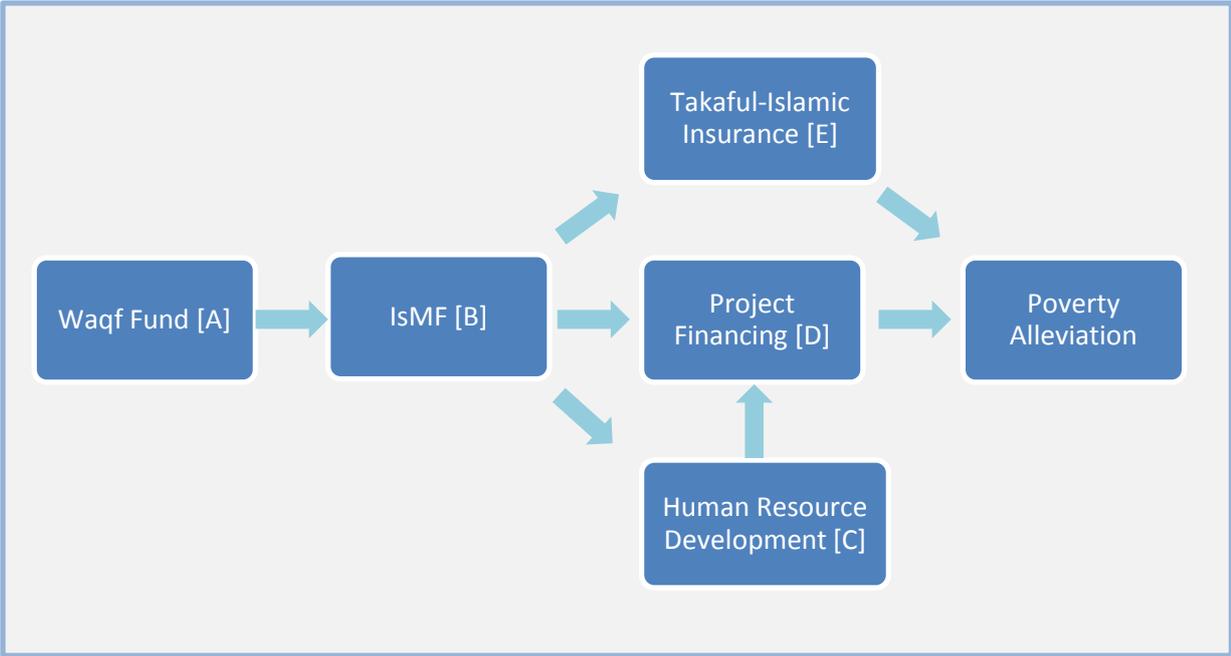
*President of Islamic Development Bank (IDB) – 2011*

There are alternative instruments being developed around the world to address the needs of low income households and to give them a chance to get out of the poverty trap. These include mostly financing as well as social development mechanisms. The instruments developed to finance the needs of the poor and to give them an opportunity to sustain their livelihoods are concentrated around microfinance

programmes. However, households with low income levels, particularly in Muslim communities, face numerous challenges despite the alternative mechanisms being offered to them. The resources provided to them are usually not sufficient and usually do not require to have a solid project to be delivered. These mechanisms also ignore to a large extent the impact of the interventions on the human resource development and do not involve an insurance mechanism (Takaful) suitable to the needs of the Muslim communities.

Given these challenges, an integrated *Waqf*-based Islamic microfinance (IWIM) model is proposed that can address all these practical challenges of microfinance faced in Muslim communities. In this model, microfinance is practiced in compliance with *Shari'ah* to address the multi-dimensional aspects of poverty and empowering the poor in order to enhance the socio-economic development and hence the well-being of the *Ummah*. With this aspiration, the IWIM model aims to tackle the challenges related to scarcity of capital, inadequate human resources, absence of proper Takaful programs and project financing in an integrated approach. The conceptual framework of the proposed IWIM model is illustrated in Figure 2.1 below.

**Figure 2.1: The Proposed IWIM Model**



In what follows, the critical role and importance of the model components are discussed to provide a better understanding on them and how they interact. As it is clear, the ultimate goal of the model is poverty alleviation.

**2.1 Modus Operandi**

As depicted in Figure 2.1, there are several interactions postulated among the components of the IWIM model. The respective numberings and directions of arrows imply the followings:

## 2. A *Waqf*-based Islamic Microfinance (WIM) Model

- [A] *Waqf* funds can be used to reduce the cost of capital for expanding Islamic microfinance activities;
- [B] Islamic microfinance (IsMF) can offer Takaful coverage, project financing and human resource development programs;
- [C] Human resource capacities acquired can subsequently complement proper project implementation;
- [D] Successful implementation of funded projects is expected to contribute towards poverty alleviation;
- [E] Takaful coverage is expected to mitigate the financing and family risks of the poor.

The following subsection deals with the details of the components and their impacts on poverty alleviation.

### 2.1.1 Components of the IWIM Model

As shown in figure 2.1 above, the IWIM model has five essential components, namely *Waqf* fund, Islamic microfinance, Takaful, project financing and human resource development towards the expected goal of poverty alleviation. These five components are discussed below.

#### A) *Waqf* / Endowment

Recently, voluntary and charitable activities in the forms of *Waqf*, *Zakah* and *Sadaqah* have received much attention than ever before as a result of increasing inequality, unemployment and extreme poverty confronting the Muslim world.

*Waqf* has played a significant role in socio-economic development in the history of Islamic civilization since its inception in the Arabian Peninsula more than a millennium ago. Given this critical experience, it is expected in the IWIM model that *Waqf* will ensure better resource mobilization and will be a catalyst for Islamic microfinance to fight poverty. Besides *Waqf*, other sources of fund for the IWIM model from potential donors could come from: ii) Governments; iii) Charitable entities; iv) Corporate Social Responsibility (CSR) by banks/financial institutions or other corporations; v) Islamic Development Bank (IDB) and other international development institutions and vi) Public donations, among others. The various sources of funds both in cash and kind are likely to allow flexibility in running microfinance programmes consistent with the ability, scope, legal requirements / jurisdictional differences of the respective institutions. The *Waqf* fund used in the IWIM model is expected to finance productive activities where the returns or profits will be retained for future funding. This process enables perpetuity of *Waqf* fund for many potential activities in future.

#### B) Islamic Microfinance Institutions / NGOs

Microfinance institutions, non-governmental organizations (NGOs) and various government schemes that focus on poverty reduction are the potential platforms for the implementation of the IWIM model in Muslim countries and communities.

Islamic microfinance is the provision of financial services for low-income populations in which the services are provided in conformity with Islamic financing principles. In addition, *Waqf* and *Zakah* institutions have the potential of utilizing their proceeds for genuine socio-economic development of the poor.

For example, the interest-free microfinance provided by Rural Development Scheme (RDS) of Islamic Bank Bangladesh Ltd. (IBBL) is found to be contributing to new job opportunities for unemployed rural poor and enhancing economic growth in the nation (Choudhury, 2011). In fact, Macuja (1981 cited in Alam, 2011) and Khambaja (1982 cited in Alam, 2011) argue that the rate of labor absorption by this sector is significantly higher relative to that of large scale industries in Bangladesh. Such positive socio-economic impacts by Islamic microfinance institutions (IMFI) clearly demonstrate the vital role they play towards poverty alleviation.

### **C) Human Resource Development**

One of the key factors leading to the design of the IWIM model is the lack of adequate human resources. A major challenge found in the microfinance experience is that the clients or recipients of financing are very often lacking in education, training and skills required to improve their own economic status. Financing without proper training and enhancement of capacities may not achieve sustainable results in the long run. In addition, as second and third time financing takes place and when the amount of financing increases, the levels of knowledge and skills may need further upgrading.

In this context, *Waqf* funds can generate significant value-added by facilitating adequate and relevant training to clients. One may even think of making training a 'requirement' for further financing at higher levels. Similarly, training of officials involved in the operations of Islamic microfinance organizations may also be a critical complementary program supporting the human resource enhancement of the clients.

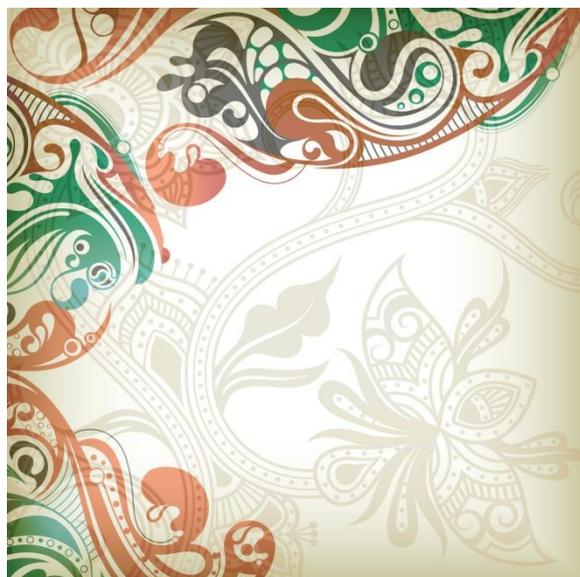
### **D) Project Financing**

International Project Finance Association (IPFA) defined project financing as “the financing of long-term infrastructure, industrial projects and public services based upon a non-recourse or limited recourse financial structure where project debt and equity used to finance the project are paid back from the cash flow generated by the project” (Investopedia.com, 2012).

Since our focus is microfinance, the arrangement and duration may be different. This becomes especially important when the term “project financing” is viewed from Islamic perspective. Islam discourages borrowing with interest, but encourages business undertakings through partnership arrangement. Hence, the relationship between Islamic financial institutions and customers is not of creditor-debtor but partner relationship for sharing both risks and rewards. This makes the structure of the project financing different. In addition, the nature and sources of

fund can be tied to the various project needs. For instance, a *Waqf* fund for investment can be applied in financing long-term viable project.

Microfinance products and services are usually delivered through offering loans to the clients as in conventional banking. The major difference is that the physical collateral is replaced by the social collateral. Other differences include dealing with micro-entrepreneurs based on small amount of loans, weekly meetings and compulsory savings, among others. For poor individuals / micro-entrepreneurs, access to finance is critical to escape from poverty. However, a poor entrepreneur needs more than a sustainable loan or microcredit (Muhammad, 2012; Ashraf and Hassan, 2013). For instance, as also noted by the founder of microfinance and Nobel laureate Muhammad Yunus (1998), microfinance services will not make significant impact to the clients, if these services do not play any additional role other than behaving as intermediary between borrower and saver.



*The Waqf fund used in the IWIM model is expected to finance productive activities where the returns or profits will be retained for future funding. This process enables perpetuity of Waqf fund for many potential activities in future.*

There are alternative mechanisms for project implementation. This can be done *individually*, as a *family*, as a *group* or as a legitimate *association*. At **individual** level, it is possible that an entrepreneur might be having his own business prior to joining the institution, but requires capital to scale up his enterprise. The institution can enter into a *Mudarabah* contract with this entrepreneur. The institution will naturally evaluate the entrepreneur on his social, religious and financial background. The Islamic MFIs would also provide trainings for the entrepreneur before disbursement of the money.

With regard to the **family**, it is an undeniable fact that many micro-entrepreneurs operate family businesses. This includes family members, self-employed, wage workers or supervisors. It would be desirable that existing family microenterprises are encouraged to become self-reliant and acts as small/medium scale enterprises.

All the components of the proposed model are expected to materialize this aspiration. The role of the Islamic MFIs here is to provide the capital for expansion on a *Musharakah* basis. Training would be provided especially on management, marketing and record-keeping. This will help create employment opportunities based on the objective of promoting inclusive growth.

Project financing can take the form of **group** financing whereby the institution and the clients agree to run a business. The relevant institution can come to a *Mudarabah* agreement with the group of the clients with the roles identified in a separate document. Depending on the different roles, the clients can be divided to assume different roles to accomplish the same goal, such as production, packaging, marketing, delivery and financing. The fast-growing ‘food industry’, ‘halal food industry’ and ‘furniture factories’ could be the examples of down-stream and up-stream activities based on joint/partnership/group projects.

There are a number of different **associations** under different economic activities in different countries. These include farmers associations, manufacturing associations, trade unions and associations of mechanics, among others. Through these bodies, many viable projects beneficial to the community can be undertaken. The role of micro-entrepreneurs in solving the problem of unemployment is well-recognized both in developed and in developing countries (Alam, 2011; Khambaja, 1982 and Macuja 1981). The large scale industries despite their ability to create urban employment in the formal sectors, fail to absorb semi or unskilled rural workers mostly engaged in the informal sectors. The marketing opportunities, training requirements and management facilities can be made available through the associations dealing with IMFI to promote employment in the informal sectors.

#### E) Takaful

The word ‘*Takaful*’ is derived from ‘*kafala*’, which literally means ‘to take care’ and hence ‘*Takaful*’ is taking care of each other. Technically, Takaful refers to mutual insurance. Microfinance that was considered giving ‘credit only’ is now recognized to include other financial services to meet the financial needs of the poor households and micro-entrepreneurs. During the pre-Islamic era the people of *Aqila*, used to donate contribution to compensate mishaps and pay for *diyyah* (reparation). This practice was confirmed as one of the best practices of the period. It is stated in the Qur’an “*help each other in obedience and piety and do not help each other in sinful act and enmity.*” *Al Maida, Verse no. 2.*

In the early twentieth century, income inequality in the Arab world was found to be one of the lowest in the world. This was due to the existence of simple economic structure. Furthermore, there also existed strong cohesive system based on social responsibility operationalized through *Takaful*, *Zakah* and *Waqf* practices as reviewed in the preceding section. However, during the last several decades, income disparity among people has grown and significant gaps have emerged

between the rich and poor. Moreover, economic growth in many parts of the world is not taking place in a way to reduce that inequality.

An outcome of this inequality is the unequal access to resources. While the rich have easy access to formal credit, poor and micro entrepreneurs are deprived because of lack of credit record and the requirement for collateral. In such a setting, insurance system as a risk protection mechanism plays a critical role in helping the people in need and relieving them from their distresses that they face as it can mitigate the vulnerability of the Muslim population. According to the World Bank (2000) “*reducing vulnerability, with all its debilitating consequences is central to improving material well-being (or preventing reversals) and empowering poor people and communities*”. For the poor people, a mild increase in prices or a drop in income can cause adverse effects on their health, education and standard of living.



*The relationship between Islamic financial institutions and customers is not of creditor-debtor but partner relationship for sharing both risks and rewards.*

Patel (2004, p.4) concludes that “insurance is an effective mechanism for reducing the vulnerability of the poor from the impact of disease, theft, disability, and other hazards as well as safeguarding the productive use of savings and credit facilities.” Since conventional insurance is not an option for committed Muslims, Islamic insurance or *Takaful* (component [C] in the model) has a great potential in absorbing the risk suffered by the poor in their productive operations. By acting in a community spirit through a viable *Takaful* system, this vulnerable group of people can have wider opportunity to benefit from the financing mechanism and sustain a better life. This will come through contributions from all members and the money invested to yield returns. The clients remain the shareholders and in case of any business failure the money will be used to mitigate the loss.

## 2.2 Hypotheses of the IWIM Model

As depicted in Figure 2.1, the proposed IWIM model involves several proclaimed linkages among its components. Review of the literature also supports the existence of such linkages between the various constituents of the model postulated earlier and depicted in Figure 2.1. In order to move towards validating the model, these linkages should be formulated in a way that can be tested. Accordingly, based on the initial persuasion as well as the outcome of the review of the existing literature

on the potential interaction between the components of the proposed model, seven hypotheses were formulated. These hypotheses are listed in Table 2.1.

**Table 2.1: Hypotheses of the IWIM Model**

<b>H<sub>1</sub></b>	<i>Waqf Resources contribute <b>positively</b> to Islamic Microfinance</i>
<b>H<sub>2</sub></b>	<i>Islamic Microfinance contributes <b>positively</b> to Takaful Financing</i>
<b>H<sub>3</sub></b>	<i>Islamic Microfinance contributes <b>positively</b> to Human Resource Development</i>
<b>H<sub>4</sub></b>	<i>Islamic Microfinance contributes <b>positively</b> to Project Financing</i>
<b>H<sub>5</sub></b>	<i>Human Resource Development contributes <b>positively</b> to Project Financing</i>
<b>H<sub>6</sub></b>	<i>Takaful Financing contributes <b>positively</b> to Poverty Reduction</i>
<b>H<sub>7</sub></b>	<i>Project Financing contributes <b>positively</b> to Poverty Reduction</i>

Taken as a whole, this section explores the literature on *Waqf*-based microfinance programs. Towards addressing some of the key challenges in microfinance sector, an integrated *Waqf*-based Islamic microfinance (IWIM) model is proposed. This new model is expected to overcome the issues such as, high cost of capital, low quality of human resources, vulnerability of poor borrowers arising from lack of sustainable income and limited products for the clients with different occupational backgrounds. Specifically, the lack of finance and business training requires institutional support to unleash the potentials of micro-entrepreneurs and to establish viable micro-enterprises. The empirical findings of the case studies in Malaysia, Indonesia and Bangladesh are believed to further strengthen the efficacies in materializing all the components of the proposed IWIM model.



# 3

## SECTION THREE

### RESEARCH METHOD

In Section 2, a new model has been proposed that combines the *Waqf* sources with Islamic microfinance institutions for an effective approach in poverty alleviation. Composed of five essential components, the proposed integrated *Waqf*-based Islamic microfinance (IWIM) model has resulted in seven hypotheses to be tested. These hypotheses are derived from the potential linkages anticipated between the constituents of the model towards alleviating poverty.

This section provides detailed information on the methodology in testing the hypotheses of the model. The methodology has two modules. In the first module, a quantitative approach is adopted to test the hypotheses through a survey conducted in three selected countries, namely in Bangladesh, Indonesia and Malaysia. Second module followed a much qualitative oriented approach in validating the model. It involved interviews and focus group discussion with key stakeholders. While using both modules, the varying socio-economic contexts in the selected countries were taken into consideration.

### 3.1 Quantitative Method

#### 3.1.1 Developing the Instrument

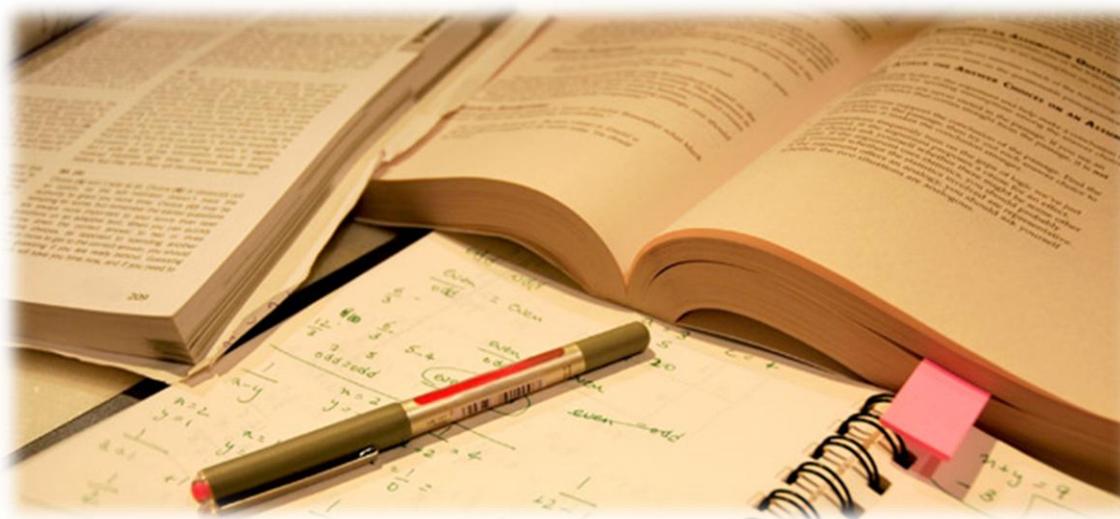
To develop the instrument, existing scholarly works related to poverty, *Waqf* and Islamic Microfinance were reviewed to identify the gap. Then content analysis and face validity were used for developing the initial instrument. Several sessions were held with various experts to solicit their views for refining the instrument.

A pilot survey of 101 microfinance recipients under the Amanah Ikhtiar Malaysia (AIM) program was conducted in the district of Kuala Selangor, Malaysia to test the reliability of the questionnaire. Based on the feedback of the survey, the instrument was modified taking into consideration the situations in the three selected countries.

A few interactive sessions were conducted in collaboration with microfinance agencies to train selected enumerators or survey administrators (more details are in section 3.1.4). The purpose of the training was to enable the enumerators to properly understand the questionnaire, gain knowledge of data collection and reporting as well as provide them with insights on the nature of the respondents and their environment.

#### 3.1.2 Population and Sample Size

The population for the survey in this study is the clients of microfinance institutions from three selected countries, namely Malaysia, Indonesia and Bangladesh. A sample is a portion, or part, of the population. On average, a sample size ranging from 200 to 400 is considered to be sufficient for good results (Hair et al., 2006). It is also suggested that a minimum of 200 is also good for any statistical analysis (Hoe, 2008). Some prefer to take the sample size in proportion to the number of parameters or items in the research. In other studies using the Structural Equation Modeling (SEM), a small sample size of at least 100 is acceptable (Sahari, 2011). His view is supported by Bagozzi and Yi (2012) who also propose that the sample size for SEM should be more than 100 individuals. Gorsuch (1983)



### 3. Research Method

recommends that there should be at least 5 observations per construct and observations per data analysis should not be less than 100. The present study has adopted these opinions (Sahari, 2011; Bagozzi and Yi, 2012; Gorsuch, 1983) and determined an initial sample size of 350 microfinance clients for each of the three countries (1050 in total).

#### 3.1.3 Sampling Technique



The study adopted purposive sampling, a non-probability technique, which provides the researchers with the flexibility of applying judgment in deciding the composition of the respondents. In other words, purposive sampling enables researchers to focus on specific characteristics of the population based on their research interest.

#### 3.1.4 Procedures of Data Collection

Before embarking onto the actual field survey, a few interactive sessions were held in collaboration with microfinance agencies to train selected enumerators or survey administrators. The survey administrators were mainly students from local universities who are familiar with the survey areas, the local customs and traditions. Before they went for the data collection, several training sessions were conducted for them to understand in detail each and every section of the survey instrument, especially the items that are directly related to the validation of the IWIM model (where respondents are asked about their views on the need of such a model). The training also helped the enumerators to gain knowledge of data collection and reporting as well as provide them with insights on the nature of the respondents and their environment. The survey administrators were divided into groups and each group was led by a researcher who guided them to obtain relevant data consistent with the items in the questionnaires.

The selection procedure of respondents in Bangladesh followed participatory observation method, which helped to improve the quality of information gathered. For instance, the survey administrators conducted the survey in the residence of respondents who were very supportive. The respondents were selected from areas that had no easy access to the main highways linking secondary or tertiary markets. In Malaysia and Indonesia, complete lists of respondents were collected from the respective institutions. Most of the surveys in Malaysia were conducted at different AIM branch offices, during their weekly meetings where huge number of clients gathers. Collecting data in this manner proved to be cost effective and time saving. These meetings also combine social and business functions. Clients share with branch managers the progress and hardships in managing their businesses, which is

accompanied by social interactions. These were additional first-hand experience for the research team.

In all cases, the researchers were actively involved. They paid prior visit to the survey areas to get acquainted with the environment of the respondents. During the survey, the researchers closely monitored the survey administrators. They double checked every completed questionnaire in each survey area to ensure their validity. The survey administrators were also required to submit a brief report on their field observations. On daily basis, the researcher in charge of the respective district discussed various points with the survey administrators, particularly those related to some unexpected challenges and experiences during the data collection period. Collecting data at AIM centers proved to be cost effective and time saving. On average, it took 20-25 minutes to complete one questionnaire. In all the three countries, a total of 828 responses were finally retained after sorting out and excluding incomplete questionnaires.

### 3.1.5 Data Analysis

After collecting the necessary data for testing and verifying the IWIM model, the data were coded, tabulated and analyzed using SPSS to generate descriptive statistics related to the demographic and other factors of the respondents.

The study also adopted Structural Equation Modeling (SEM) software, Amos version 18.0, to generate goodness of fit indicators and to evaluate how well the data fits the proposed model (Mayhem et al, 2009, p.453). SEM has gained popularity and is widely applied in several behavioral science researches. It is a robust statistical method that combines confirmatory factor analysis (CFA) and structural model into a simultaneous statistical test. It is a valuable technique in inferential data analysis and hypothesis testing. One of the advantages of SEM is that it measures a number of variables and their interrelationships simultaneously. It also allows multiple dependent relationships between the variables.

Prior to running SEM, a confirmatory factor analysis was conducted on the latent constructs to assess the degree in which the results would follow the theory and predict the constructs in the proposed model. Accordingly, six constructs or components of the IWIM model, namely (i) *Waqf*, (ii) Islamic microfinance, (iii) Takaful, (iv) project financing, (v) human resource development, and (vi) poverty alleviation were inputted into SEM as unobserved variables. This allowed the researchers to use this multivariate technique to confirm the relationships among the unobserved variables (Hair et al., 2010)<sup>1</sup>. Poverty alleviation, for instance, is one of components or unobserved variables obtained from the observed variables like income, assets, saving, etc. (Searle B A, Köppe S., 2014)<sup>2</sup>.

<sup>1</sup> Hair, J. F., Black, W. C., Babin, J. B., & Anderson, R. E. (2010). *Multivariate Data Analysis*. (7<sup>th</sup> ed.). Upper Saddle River, NJ: Prentice Hall

<sup>2</sup> Searle B A, Köppe S (2014) Assets, savings and wealth, and poverty: A review of evidence. Final report to the Joseph Rowntree Foundation. Bristol: Personal Finance Research Centre.

In SEM, the regression paths are shown by unidirectional arrows. For instance in the IWIM model, the unidirectional arrow pointing towards endogenous factor, Poverty Alleviation, implies that the exogenous factors such as Takaful and Project Financing “cause” poverty alleviation (see Fig. 2.1 in previous section). Poverty Alleviation is indicated as the dependent variable in the IWIM model.

## 3.2 Interviews and Focus Group Discussions



Besides the survey, interviews, focus group sessions and workshops were used for validating the IWIM model in the three countries. In Bangladesh, a half day focus group session was conducted at the Bangladesh Institute of Islamic Thought (BIIT) office to solicit feedback on the proposed IWIM model from the experts cum-practitioners. Several interview sessions were also conducted in Bangladesh. Meanwhile, in Indonesia, a half-day workshop was also organized by the Bogor Agricultural University. A small number of participants having vast experiences in dealing with

poverty shared their ideas on Islamic microfinance, *Zakah*, and other related fields. Table 3.1 below presents the profiles of the experts who participated in the focus group and interview sessions in Malaysia, Bangladesh and Indonesia (the names of the experts are concealed).

As shown from Table 3.1, the experts come from various rich backgrounds that combine academic and practical experiences. They also hold important and senior positions in their fields of expertise. Such rich backgrounds speak for themselves on the quality of data obtained through the various sessions. Hence, the research team gathered the required inputs on the constructs of the model and on ways of implementing the model in OIC member countries. In Malaysia, a number of in-depth interviews were also conducted to solicit the various experts' views on the IWIM model.

In summary, the whole process involving developing and testing the instrument, training the enumerators to collecting the data from the three countries took approximately two to three months. The data were then keyed in and analysed by using SPSS and AMOS software. The empirical findings as well as the key messages from interviews and focus group sessions are discussed in the subsequent section of this report.

**Table 3.1: List of Experts in the Focus Group and Interview Sessions**

<b>Experts</b>	<b>Institutions</b>
<b>Malaysia</b>	
Expert 1	Director, Centre For Islamic Finance, Durham University
Expert 2	Director, Center for Islamic Development Management Studies, Universiti Sains Malaysia
Expert 3	Asst. Branch Manager, Amanah Ikhtiar Malaysia, Klang
Expert 4	Asst. Branch Manager, Amanah Ikhtiar Malaysia KB
Expert 5	Branch Manager, Amanah Ikhtiar Malaysia KB
<b>Bangladesh</b>	
Expert 6	Ex-Secretary, Government of Bangladesh, Ex-Chairman, Islami Bank Bangladesh Limited, Renowned Islamic Thinker,
Expert 7	Chairman of Shari'ah Council of City Banks Ltd, Dhaka Bank Ltd. And Pubali Bank Ltd., Founder of Islamic Bank Bangladesh Ltd.
Expert 8	Vice Chancellor, Asian University of Bangladesh
Expert 9	Senior Vice President Research and Development Division, Islami Bank Bangladesh Limited
Expert 10	Chairman of Department of Banking, Faculty of Business Studies, University of Dhaka.
Expert 11	Executive Vice President and Director (Training) of Islamic Bank Training and Research Academy (IBTRA) of IBBL.
Expert 12	Head in charge of RDS at of IBBL at Motijeel branch, Dhaka.
<b>Indonesia</b>	
Expert 13	Director, Bank Syariah Amanah Ummah
Expert 14	Director, BaitulMal WatTamwil Ibadurrahman
Expert 15	Director, Center for Islamic Business and Economic Studies, Institut Pertanian Bogor (Bogor Agriculture University)
Expert 16	Islamic Economics Expert
Expert 17	Bogor Government Board of Zakat
Expert 18	Microfin Indonesia (Microfinance Association)
Expert 19	Head, Department of Management, Institut Pertanian Bogor
Expert 20	Head, Islamic Economics Programme, Institut Pertanian Bogor

# 4

## SECTION FOUR

### EMPIRICAL FINDINGS

As mentioned in the previous section, the proposed model has been tested empirically by utilizing both qualitative and quantitative methods. The quantitative method was primarily based on survey conducted to examine the relevance of the proposed model particularly in the context of the three selected OIC member countries. These three countries, namely Malaysia, Indonesia and Bangladesh, were selected for the field survey considering their differences in economic structure, level of development, poverty alleviation programs and most importantly socio-economic status of the microfinance clients. Meanwhile, the qualitative method used was mainly in the form of focus group sessions and interviews.

The present section is divided into two subsections, presenting the findings of quantitative and qualitative analyses. The quantitative results focus on demographic information and the respondents' views on the proposed IWIM model. Whereas, qualitative results comprise findings from interviews and focus group sessions that were held to explore the views of key stakeholders on the proposed model.

#### 4.1 Demographic Information

Overall 828 questionnaires, representing almost 80% response rate, were found to be valid from the field survey in the three countries. A total of 381 samples were

surveyed in three divisions of Bangladesh, namely Dhaka, Rajshahi and Khulna from the Rural Development Scheme (RDS) under IBBL. Meanwhile, a total of 137 responses were recorded from various states in Malaysia. These respondents were the members of AIM. Finally, a total of 310 questionnaires received from PT. Permodalan BMT Ventura (BMT) in Indonesia were valid (Table A4.1).

As expected, other than Indonesia, the overwhelming majority of the microfinance clients in the three case studies comprise women (99% in Malaysia, 96% in Bangladesh and 28% in Indonesia) (Appendix, Table A4.7). According to Nobel Laureate-Yunus (1998), women were found to be the best paymasters and in the context of microfinance programs contribute more effectively to enhancing family well-being. For the Bangladesh case, RDS requires the female clients to have joint liability of the financing facilities provided with their husbands. In Malaysia, although not required, there were cases where AIM clients involved their husbands/male family members in the business ventures. The case of Indonesia shows the possibility that microfinance schemes can also be successfully extended to male clients.

As far as the occupation of respondents is concerned, 79% of the respondents in Malaysia, 65% in Indonesia and 40% in Bangladesh were involved in non-agriculture activities with assured incomes. These figures also correspond to the general economic structure and income levels of the three countries: Malaysia-upper middle income bracket; Indonesia-lower middle income bracket; and Bangladesh-lower income bracket. It is also an established fact that in the development process, all countries will undergo structural economic transformation. Microfinance schemes, including those having the IWIM model, can play a crucial role in providing adequate and affordable finance to facilitate the movement towards non-agricultural sectors.

## 4.2 Descriptive Statistics and Analysis

### 4.2.1 Level of Awareness

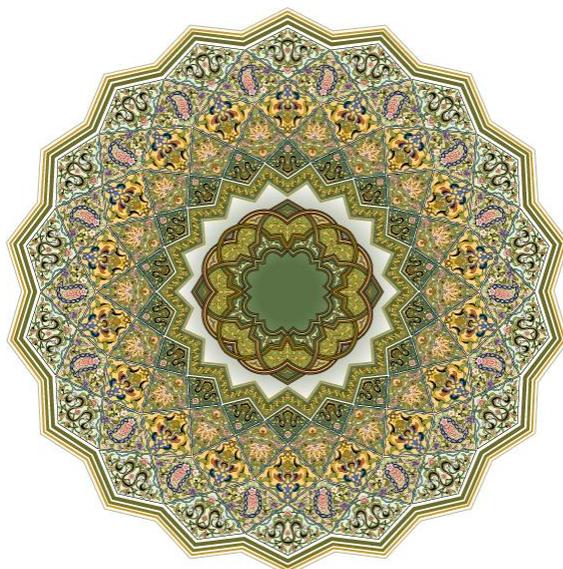
Interestingly, based on the level of awareness about non-governmental institutions in poverty alleviation, the findings suggest that the poor people in Bangladesh have a high awareness of the importance of Islamic microfinance in poverty alleviation (74%) that is followed by Indonesia (13%). The higher level of awareness primarily might be due to the fact that all the respondents in Bangladesh are the clients of Rural Development Scheme (RDS) operated by Islamic Bank Bangladesh Ltd. (Appendix, Table A4.11). The relatively better-off microfinance borrowers in Malaysia with zero level of awareness might be already convinced that the service charge of 10% made by Amanah Ikhtiar Malaysia (AIM) is not exploitative compared with the charges made by the so-called loan sharks in the country.

The lack of concern for Islamic microfinance in Malaysia contrary to Bangladesh is also evident from the extensive nature of poverty alleviation programmes/policies in

#### 4. Empirical Findings

Malaysia (Appendix, Table A1.1). Relatively much higher adequacy of loan made available for the poor clients in Malaysia and Indonesia (75% and 67%, respectively) followed by a lower level of adequacy in poorer Bangladesh (59%) attests to the above observation (Table A4.2).

It is obvious that the poor borrowers that experience lower level of income compounded by inadequate access to loan will feel a higher pressure during loan repayments. The findings (Table A4.3) also suggest that 15% and 16% of the poor borrowers from Bangladesh and Indonesia, respectively, reported to be highly indebted, especially when compared to Malaysia with only 3%.



*There is a high potential of utilizing Waqf resources, complemented by other sources of funds from Zakah and Sadaqah, for promoting small business activities in the countries under study.*

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#### 4.2.2 Incomes, Expenditures and Savings

The need for borrowing is largely determined by the level of savings resulting from the level of incomes and expenditures of the microfinance clients. The conventional macroeconomic theory of consumption predicts that with the increase in income, expenditures also increase. But the increase in expenditure always lags behind that in income thereby contributing to savings leading to capital formation (Appendix, Table A4.4). The micro level information on income and expenditure behaviour of the poor microfinance borrowers also attests to this hypothesis. Although the poor borrowers experience increase both in monthly incomes and expenditures, the increase in monthly household income appears to be quite higher relative to their monthly expenditure particularly, in much better-off Malaysia. This explains higher level of savings in Malaysia for this group of people.

A higher rate of increase in expenditure compared to income in Bangladesh (Table A4.4) primarily stems from a higher level of unfulfilled demand compared to the poor borrowers of much better-off Malaysia (14% increase in expenditure compared

to 41% increase in income). Thus, the lower level of loan burden together with higher level of loan availability/adequacy in Malaysia with higher income is quite substantiated by the higher ability to save by those in lower income classes. They were able to fulfil their basic needs even before getting loans from microfinance institutions.

#### 4.2.3 Human Resource Development

The findings based on micro-level case studies also suggest that the increase in human capability as achieved in Malaysia with higher level of development hinges on the level of education already attained by the poor. The opposite holds true in lower income OIC countries that experience lower level of literacy (Appendix, Table A4.5).

With respect to human resource development in terms of enhancing capability or empowerment, our findings do indicate higher association between greater access to opportunities for those having higher level of education and longer years of schooling (Appendix, Table A4.5). Good-performing Malaysia with 85% respondents having completed more than six years of schooling with equally high percentage having more than secondary level of education tops the list. It is also quite revealing that Indonesia, despite being at a lower level of development with lower per capita income compared to Malaysia, is found to be marginally performing better than Malaysia. The poor-performing Bangladesh seems to have been experiencing much lower level of human resource development with only less than half of what Malaysia and Indonesia achieved.

Another important factor that contributes directly to the capability-building resulting from human resource development is the access to professional training and higher use of information and communication technologies (Appendix, Table A4.6). As for better income earning opportunities, Malaysia compared to Bangladesh and Indonesia offers relatively much higher access to the use of mobile, computer and internet. This also speaks in favour of the *Waqf*-financed human resource development in low income OIC member countries.

#### 4.2.4 Living Conditions, Sources of Energy and Food Sufficiency

The poor, in general, are subject to so many types of vulnerabilities including lower income and saving levels, less rewarding sources of income and greater involvement in risk-prone agriculture. Thus, the overall living conditions and easy access to markets and the microfinance institutions have implications for the productive allocation of resources (Appendix, Table A4.8 and A4.9). It appears that the poor people in Bangladesh are living in more congested as well as dilapidated houses with poor structures than those in Malaysia and Indonesia. In terms of linkage with markets and sources of loan, the low income borrowers also enjoy better facilities in Malaysia and Indonesia compared to Bangladesh (Table A4.8).

#### 4. Empirical Findings

The sources of fuel for cooking purposes together with the degree of easy access to pure drinking water also contribute to the vulnerability of the poor (Appendix, Table A4.9). It is quite clear that the poor in low income countries like Bangladesh are more constrained as far as the productive utilization of time is concerned. Under these conditions, it is quite natural that natural calamities such as draughts, floods, storms, and typhoons make the livings of the poor most unbearable (Table A4.10).

The vulnerabilities of poor people in the context of food security, food-sufficiency and quality of food should also be given special attention. The observed information (Table A4.10) by any standard would suggest that the poor greatly suffer from malnutrition and hunger. These difficulties are more pronounced for lower income Bangladesh compared to Malaysia and Indonesia. When asked about the ability to eat every day, only a very smaller percentage of respondents in Bangladesh (20.5%), compared to 65% and 83 for Indonesia and Malaysia, respectively, responded "yes". In terms of food quality much higher percentage of the poor clients of Microfinance in Malaysia (84%) expressed satisfaction followed by Indonesia (39%) and Bangladesh (21.5%).

#### 4.3 Respondents' Perception on the IWIM Model

The findings based on the quantitative study also support the qualitative findings based on interviews with experts and focus groups. It is found that there is a high potential of utilizing *Waqf* resources, complemented by other sources of funds from *Zakah* and *Sadaqah*, for promoting small business activities in the countries under study.



As presented in Table 4.1, analyses of the quantitative survey findings show the followings:

- i. In all the three case studies, three hypotheses are supported ( $H_2$ : Islamic microfinance contributes positively to Takaful Financing,  $H_3$ : Islamic microfinance contributes positively to Human Resource Development, and  $H_6$ : Takaful Financing contributes positively to Poverty Reduction).
- ii. Islamic microfinance is found to be positively associated with Project Financing ( $H_4$ ) and Human Resource Development contributes positively to Project Financing ( $H_5$ ) in the case of Bangladesh only, which implies a huge demand for project financing and human resource development programs in a least developed country like Bangladesh.
- iii. A few of the hypotheses in the study are not supported ( $H_1$ ,  $H_4$ , and  $H_7$ ) in Malaysia and Indonesia due to the low level of awareness among the clients particularly in understanding the concepts like *Waqf* and project financing (the low level of awareness applies in Bangladesh too). This is supported by the fact that none of the Islamic microfinance institutions in the three countries (i.e., RDS in Bangladesh, AIM in Malaysia, and BMMT in Indonesia) use *Waqf* fund for poverty alleviation. In addition, the use of project financing for poverty alleviation is not implemented in the three countries, hence project financing is not found to be related with Human Resource Development and Poverty alleviation in Malaysia and Indonesia ( $H_4$ ,  $H_5$ , &  $H_7$ ).
- iv. In the case of Malaysia, only three hypotheses are supported namely  $H_2$  &  $H_3$  (Islamic Microfinance contributes positively to Takaful Financing and Human Resource Development), and  $H_6$  (Takaful Financing contributes positively to Poverty Reduction) while four hypotheses are not supported:  $H_1$  (*Waqf* Resources contribute positively to Islamic Microfinance),  $H_4$  (Islamic Microfinance contributes positively to Project Financing),  $H_5$  (Human Resource contributes positively to Project Financing) and  $H_7$  (Project Financing contributes positively to Poverty Reduction).
- v. In the case of Indonesia, Islamic microfinance is found to be associated neither with *Waqf* nor Project financing ( $H_1$  &  $H_4$ ). Three hypotheses in Indonesia are supported and four are not. For example, the influence of Islamic microfinance on project financing ( $H_4$ ). This explains the strong influence of lending and borrowing practices that are prevalent in Indonesia.
- vi. It is quite interesting to observe that with the exception of hypothesis ( $H_7$ ) showing direct relationship between project financing and poverty alleviation, all the remaining six hypotheses ( $H_1$ – $H_6$ ) are supported in Bangladesh. This reflects the positive attitude adopted by the respondents from Bangladesh towards IWIM model, which they were hopeful could improve their quality of life. The positive findings from a very low income

#### 4. Empirical Findings

Muslim country such as Bangladesh can be indicative of other low income OIC members as far as the prospects for the proposed model is concerned.

**Table 4.1: Comparison of Estimates and Results of Structural Equation Modelling**

Hypotheses		Malaysia	Indonesia	Bangladesh
H <sub>1</sub>	Waqf Resources contribute positively to Islamic Microfinance	<i>Not Supported</i>	<i>Not Supported</i>	<i>Supported</i>
H <sub>2</sub>	Islamic Microfinance contributes positively to Takaful Financing	<i>Supported</i>	<i>Supported</i>	<i>Supported</i>
H <sub>3</sub>	Islamic Microfinance contributes positively to Human Resource Development	<i>Supported</i>	<i>Supported</i>	<i>Supported</i>
H <sub>4</sub>	Islamic Microfinance contributes positively to Project Financing	<i>Not Supported</i>	<i>Not Supported</i>	<i>Supported</i>
H <sub>5</sub>	Human Resource contributes positively to Project Financing	<i>Not Supported</i>	<i>Not Supported</i>	<i>Supported</i>
H <sub>6</sub>	Takaful Financing contributes positively to Poverty Reduction	<i>Supported</i>	<i>Supported</i>	<i>Supported</i>
H <sub>7</sub>	Project Financing contributes positively to Poverty Reduction	<i>Not Supported</i>	<i>Not Supported</i>	<i>Not Supported</i>

Source: Amos Version 18 Output from the Field Survey data, 2012. Quantitative results are provided in Table A4.12 in the appendix.

The variations in the hypotheses results in the three countries are due to the different levels of awareness among their clients relative to the specificities of each country. This is despite the fact that focus group session findings from experts have verified the validity and robustness of IWIM model and its related components.

#### 4.4 Findings from Interviews and Focus Group Studies

In order to verify the proposed Integrated *Waqf*-based Islamic Microfinance (IWIM) model, a combination of interviews and focus group sessions were conducted in Malaysia, Indonesia and Bangladesh. In all cases, professionals and experts from academia and industry involved in microfinance and *Waqf* institutions were asked to provide their views and suggestions on the proposed model. Key findings are summarized below.

- i) In the proposed IWIM model, financial flow must go hand in hand with real transaction in terms of development of skills, motivation and infrastructure for poverty alleviation.
- ii) People at different levels of poverty, i.e., hardcore poor, regular poor and vulnerable non-poor need different treatments. However, in most cases, they need proper guidance, training on product development, marketing and other skills. The concept of project financing can be more effective in creating wage employment particularly for regular poor in the society.

- iii) Project financing can be in the form of small/medium/large projects depending on the time, place and nature of the project financed by *Waqf/Zakah*/charity funds. It can follow the principles of venture capital in terms of investment yielding higher returns. These kinds of successful projects have the potential for further expansion.
- iv) The proposed model can be implemented by Islamic microfinance institutions together with other Islamic NGOs. On one hand, Islamic NGOs will utilize the fund for developing infrastructure, training centres, schools and health care centres. On the other hand, Islamic MFIs can also distribute financing for more income generating activities.
- v) Islamic microfinance Institutions can create business enterprises as partners. A complex/centre of each branch can cater for many services like training, education and health care etc. The proposed model can play a central role in this regard.
- vi) RDS of IBBL can introduce such a product where only service charge will be made.
- vii) The proposed IWIM model can focus on various other sources of funding rather than only *Waqf*. Additional funding may be generated from charity, donation and public funds for social assistance etc., as also mentioned in section 1 of this report.



# 5

## SECTION FIVE

# CONCLUSIONS AND POLICY IMPLICATIONS

Poverty is a multi-dimensional phenomenon. Hence, any poverty alleviation program must take into consideration both income and non-income factors. Even after eliminating or significantly reducing the size of population living below national poverty lines in many Muslim countries as measured in monetary terms, there is still need for developing and implementing effective policies and programs that ensure a comprehensive enhancement of all socio-economic conditions of the poor.

The major contribution of this study lies in developing the IWIM model. The model is viable and intends to integrate *Waqf* and microfinance thereby incorporating both income and non-income aspects to ensure more effective and efficient microfinance structure towards addressing the challenges faced by low income people. The model embodies five central components contributing to poverty alleviation efforts as the ultimate goal: [A] *Waqf* as the funding agencies; [B] Islamic microfinance as the implementing agencies; [C] *Takaful*, [D] project financing and [E] human resource development as target uses of the funds. The verification of the

model by experts and relevant stakeholders including microfinance recipients demonstrates the strong potential of the model as a relevant tool for poverty alleviation, especially in overcoming the problems of affordable financing and human resource development. In addition, the rich experiences obtained from the three countries under study provide invaluable lessons for policy-makers, funding and implementation agencies in OIC countries.

The findings from the quantitative and qualitative analyses suggest that *Waqf* has huge untapped potential as a source of funding for Islamic Microfinance in reducing the cost of capital. This potential will be more pronounced when coupled with human resource development, Takaful provision and enhancing capacity on project financing. However, there is a need for greater education and awareness among the stakeholders to realize and unlock this potential.

Microfinance institutions and other microcredit implementing agencies have not considered incorporating comprehensive insurance coverage as well as effective human resource development programs in their operations for higher impact. There is clear evidence from the study that having *Waqf* funding can enable Islamic Microfinance to play a significant role in offering Takaful and human resource development programs for poverty alleviation.

While the IWIM model remains relevant, based on country contexts and varying environments, the following findings deserve further attention:

1. Funding Agencies: Even though the IWIM model proposes funding from *Waqf* resources, it is possible to utilize other sources of funding such as those from the state/government, charitable organization-endowment/foundation as well as international development financing institutions such as the Islamic Development Bank.



2. Implementing Agencies: In the IWIM model, the implementing agency is expected to be Islamic microfinance institutions. However, other institutions such as, public organizations for social assistance programmes, non-governmental organizations (NGOs) and even *Waqf* institutions may also take up the implementation role.

Whereas the implementing agencies could vary in OIC member countries considering the specificities of each country, the name of the proposed model could also vary. For example, in some OIC countries *Waqf* institutions are more effective and relevant than Islamic microfinance institutions. Hence the idea of integrating *Waqf* with microfinance would be redundant and may not be viable. In such a situation, the name of IWIM model could be modified as “WIM Model” (*Waqf* based Islamic Microfinance Model).

3. Takaful: This instrument needs to be used not only to cover investment risks i.e., to ensure payment of financing to funding agencies, but also to cover risks confronting individual and family businesses.



*The IWIM model that is developed and tested in the three case studies could be extended to cover other OIC more member countries to address the specific issues related to the application of this model in different countries.*

4. Human Resource Development: In order for poverty alleviation programs to be effective and sustainable in the long run, there is a need to give adequate attention to education and training programs for the recipients of Islamic microfinance. This would require, among others, the facilitation of sound training programs both by governments and NGOs for improving skills and productivity.

Furthermore, the following issues could be considered for effective implementation and extension of the model:

1. The mobilized funds could be revolving in project financing in addition to enhancing human resource qualities of the clients and staff of implementing agencies for the sustainability of the IWIM model.

2. (Islamic) Microfinance concomitant with all other components of the IWIM model can effectively address the need of poor, hard core poor, regular poor and vulnerable poor. *Qard Hasan* (benevolent loans) can be extended to support these groups.
3. There must be transparency and accountability between funding and implementing agencies for achieving the ultimate goal of poverty reduction.
4. The effective implementation of the IWIM model requires support from the governments of OIC member countries to provide infrastructural facilities for basic education and vocational training for access to markets. Besides, the government can formulate a regulatory framework to promote and implement relevant policies in this context.
5. In order to have a successful implementation of the IWIM model, awareness should be created among the stakeholders through effective media campaigns.
6. The IWIM model has been tested in three countries. It should be extended to cover other OIC member countries to address the specific issues related to the application of this model in different countries. In this way, differences in regulatory and overall financial system across countries can be taken into consideration properly.

Overall, whatever mechanism is developed and proposed, a critical factor for success is always good governance. If implemented in a setting where institutional quality and level of governance are high at local and national level, then the proposed IWIM model, like other similar projects, will be more effective in implementation as well as in achieving the goal of poverty alleviation, because resources are much of the time readily available. This can be achieved by raising the overall level of awareness among those directly involved in the implementation of the poverty-focused programs and policies. Education and training are key features of any effective long term policy initiative. Governments must also ensure improvement in transparency and accountability of the relevant agencies and departments working in poverty alleviation activities. In this regard, donor countries and development financing institutions can play a significant role in setting appropriate terms and conditions for using the funds for materializing the goals of IWIM model. Finally, more detailed research and studies need to be carried out for more effective development and implementation of the IWIM model in the quest towards eradicating poverty from among OIC member countries.



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# Appendix

**Table A1.1: Poverty Reduction Rate in Malaysia**

	1989	1992	1995	1997	1999	2002	2004	2007	2009	PRR
Rural	21.1	21.2	14.9	10.9	14.3	13.5	11.9	7.1	3.4	-60.8
Urban	7.1	4.7	3.6	2.1	3.3	2.3	2.5	2.0	1.7	-76.1
Malaysia	16.5	12.4	3.7	6.1	3.5	6.0	5.7	3.6	3.5	-77

Source: EPU 2012. Note: PRR was calculated by the researchers

Note: Overall poverty declined from 16.5% (1989) to 3.5% (2009). Urban poverty declined from 7.1% to 1.7% while rural poverty declined from 21.1% to 3.4% in the same periods respectively.

**Table A1.2: Poverty Reduction Rate in Indonesia**

Indicator		Baseline	2011	2015 MDGs*
1.1	Proportion of population below \$1 (PPP) per day	20.60% (1990)	5.90% PPR (-71) (2008)	10.30%
1.1a	Percentage of people living under the national poverty line	15.10% (1990)	12.49% PPR (-17.3) (2008)	7.55%
1.12	Poverty gap ratio (incidence x depth of poverty)	2.70% (1990)	2.08% (2011)	Reduced further

\*According to the target set by MDGs, the poverty based on \$1 a day per head is expected to be halved in 2015.

Source: Central Statistical Agency in Indonesia (BPS) BPS Susenas, 2011,

Note: PRR was calculated by the researchers

**Table A1.3: Poverty Reduction Rate in Bangladesh**

	1991-92	1995-1996	2000	2005	2010	PRR
Rural	56.7	50.1	48.9	40	31.5	-21.2
Urban	42.8	27.8	35.2	28.4	21.3	-25
Bangladesh	58.8	54.5	52.3	43.8	35.2	-18.0

Source: Household Expenditure Survey (HES) 1991-92 and Household Income and Expenditure Survey (HIES), various years, Bangladesh Bureau of Statistics (BBS), World Bank 2011.

Note: PRR was calculated by the researchers

**Table A1.4: Nature and Trend in Poverty Reduction in Malaysia, Indonesia and Bangladesh**

Period	Type of Poverty Line						International Poverty Line		
	General/Overall			Hardcore poverty			General/Overall		
	MSIA	IND	BA	MSIA	IND	BA	MSIA	IND	BA
2012	2.8% (2010)	1.9% (2011)	6.5% (2010)	0.7 (2009)	0.49% (2011)	5.22% (2010)	0.2% (2009)	13.0% (2011)	30.4% (2010)

Sources: Central Bureau Statistic of Indonesia ([www.bps.go.id](http://www.bps.go.id)), World Development Report, and Human Development Report.

Note: International poverty line based on poverty gap at US\$2 per day (PPP).

**Table A1.5: MDGs, Target and Achievement on Poverty**

	Malaysia	Indonesia	Bangladesh
MDGS i. Target	a) Halve, between 1990 and 2015, the proportion of people whose income is less than one dollar a day b) Eliminate hard-core poverty by 2009	a) Halve, between 1990 and 2015, the proportion of people whose income is less than one dollar a day b) Reduce percentage of poor living under NPL from 15.10% to 7.55% by 2015 c) Reduce poverty gap ratio from 2.7%	d) Halve, between 1990 and 2015, the proportion of people whose income is less than one dollar a day from 56.7 (NPL) or 70% (IPL) e) Reduce poverty gap ratio to 8.0% by 2015
ii. Achievement	a) Achieved in 2000 b) Reduced it to 3.8%	a) Achieved in 2008 b) Reduced to 12.49 in 2011 c) Poverty gap ratio was reduced to 2.08 in 2011.	a) Achieved in 2012 as the figure was 29.0% (NPL) or 43% IPL in 2010. b) Reducing poverty gap ratio to 6.5 against 2015 target of 8.0.

Source: UNDP 2010, GED (2012), EPU 2012

Note: International poverty line based on poverty gap at US\$2 per day (PPP). National Poverty line by government of the country concerned is based on local economic condition

**Table A1.6: Poverty- Focused Programmes / Schemes/ Policies in Malaysia**

In Malaysia, the government adopted two types of policies- one which can be called as set of macro-policies addressing the macro-goals and the second called micro-intervention focusing on specific sectors and target groups (Pramanik, 2000, p.14).

Period	Programmes/ Schemes/Policies	Description
1971-1990	New Economic Policy Growth with equity	Eradicate poverty irrespective of race, Restructure society-eliminate identification of race by economic function/activities
1991-2000	National Development Plan (OPP <sub>2</sub> )	Introduced new dimension, i.e. too eradicate hardcore poverty
2001-2010	National Vision Plan (OPP <sub>3</sub> )	Emphasized more on target-specific approach to poverty, particularly among the Aborigines, Bumiputera minorities in Sabah and Sarawak, pockets of poverty in the interior and urban areas
2001-2010	OPP <sub>3</sub>	Full eradicate hardcore poverty and halve the general poverty to 2.8% by 2010. Improve quality of life of the bottom 40% income group
	Program Pembangunan Rakyat Termiskin (Program PPRT) (Program for Development of Poorest People)	A Program with multi-pronged approach to develop hardcore poor citizens
1987	Amanah Ikhtiar Malaysia	Microfinance scheme based on Grameen Bank Model
1998	TEKUN	Microfinance program to reduce inter-ethnic disparity. It provides loans to both poor and not so poor people. The objective of TEKUN is to provide easy and quick loans to lower income groups particularly <i>Bumiputra</i> and Indian entrepreneurs.
	Program Pemulihan Sikap Keluarga Termiskin (SIKAP PROGRAM)	Program to reform the attitude of the hardcore poor families
	Program Makanan Tambahan Keluarga Termiskin (MTKT Program)	Food assistance program for hardcore poor families
	TASKA Program	Children program
	PKB Program	Urban poverty program
	PPRT Pertanian	Agricultural program
	Program Pembangunan Rakyat Termiskin (Program PPRT)	A Program with multi-pronged approach to develop hardcore poor citizens
	Pemulihan Rumah (PPR Program)	Program to improve houses
	Program PPEK	Program to develop villages' economy
	PPMS Program	Program to develop local communities

Source: UNDP (2010), EPU 2012, Pramanik, 2000, AIM, 2012.

Pramanik 2000 describes the 11 strategies applied by the government for an effective poverty alleviation policy. These are:

- i) Overall agricultural development to improve income through productivity enhancement;
- ii) Regional and land development with a view to resettling landless and marginal farmers;
- iii) Land consolidation and rehabilitation as catalyst for enhancing productivity and income;

- iv) Agricultural support services including extension, training, input and price subsidies to encourage the producers to produce more;
- v) Helping smallholders and traditional farmers from replanting rubber, growing pineapple and coconut, accepting multi-cropping as part of crop diversification;
- vi) Rural industrialization to fully utilize the indigenous resources including labor and human skills;
- vii) Expansion of social overhead capital encompassing education, health water and electricity supplies etc.;
- viii) Community development to instill the spirit of self-help and other positive values;
- ix) Applied food nutrition programmes for rural poor households;
- x) Rehabilitation of traditional villages by way of ensuring basic socio-economic infrastructure and amenities; and
- xi) Rural industrialization to help reduce the negative aspects of over-urbanization.

**Table A1.7: Poverty-Focused Programmes / Schemes/ Policies in Indonesia by Government**

Period	Programmes/ Schemes/Policies	Description
2010 – 2014	Cluster 1: Poverty Program based on Family basis: 1. Jamkesmas (Jaminan Kesehatan Masyarakat) or (Society Health Assurance)  2. Program Keluarga Harapan Indonesia (PKHI) or (Indonesian Potential/Expectation Family Program)  3. Raskin (Berasuntukkeluargamiskin) or (Rice for Poor People)  4. Bantuan Siswa Miskin (BSM) or (Aid for Poor Student)	Healthy program for poor and very poor people  Give cash money to very poor households  Give rice to poor people  Give scholarship to poor students
	Cluster 2: Program Nasional Pemberdayaan Masyarakat Mandiri (PNPM) or (The National Society Empowerment Program) consist of: 1. PNPM Mandiri Pedesaan (Rural Independent of PNPM program)  2. PNPM Pedesaan R2PN (Rehabilitasi dan Rekonstruksi Pulau Nias) or (Rehabilitation and Reconstruction of Rural Area in Nias Island by PNPM program).	Focusing on the empowerment of rural society  Preparing facilities for the empowerment of the society, advisor for society, providing training for society, cash money for society in supporting the planning of rehabilitation and reconstruction decided and managed by the society.
	3. PNPM Mandiri Agribisnis/SADI (Small Holder Agribusiness Development Initiative) 4. PNPM Generasi Sehat dan Cerdas (Smart and Healthy Generation of PNPM program)  4. PNPM Lingkungan Mandiri Pedesaan (PNPM-LMP) or (Rural Independent Environment program of PNPM)	Increasing the standard of living of poor farmers through enhancing their productivity and their access to the market.  Focusing on the health of mother and children, and increasing access to education system in terms of primary and secondary school.

cont'd

Period	Programmes/ Schemes/Policies	Description
	5. Program Pengembangan Sistem Pembangunan Partisipatif (P2SPP) or (Participation Development System Program)	Focusing on national resources management in rural area.
	6. PNPM Mandiri RESPEK (Rencana Strategis Pengembangan Kampung) bagi Masyarakat Papua or (Strategic Development of Rural People in area of Papua).	Focusing on integration of technocrat planning, politics, and participation.
	7. PNPM Mandiri Perkotaan (Independent Urban area of PNPM program)	
	8. PNPM Mandiri Infrastruktur Pedesaan or (Independent Rural Structure of PNPM program)	Focusing on improving the self-system of Papua society
	9. Pengembangan Infrastruktur Sosial Ekonomi Wilayah (PISEW) or (Development Structure for Socio-Economic)	Improving self-esteem of society and local government in alleviating poverty in urban area.
	10. Program Penyediaan Air Minum Berbasis Masyarakat (PAMSIMAS) or (Clean Water Program based on the needs of society)	Improving the prosperity and economic development of areas selected by Indonesia government.
	11. PNPM Mandiri Daerah Tertinggal dan Khusus/ Percepatan Pembangunan Daerah Tertinggal dan Khusus (P2DTK) or (Development of poor and special areas)	Focusing on reducing the gap among districts in Indonesia, poverty alleviation, and unemployment.
	12. PNPM Mandiri Kelautan dan Perikanan (PNPM Mandiri - KP) or (Independent Fisherman Program by PNPM)	Focusing on water sanitation
	13. PNPM Mandiri Pariwisata (Independent Tourism by PNPM Program)	Focusing on poverty alleviation in poor areas and special areas done by local government.
	14. PNPM Mandiri Perumahan dan Pemukiman (PNPM- Mandiri Perkim) or Independent Housing and Residence of PNPM Program)	Focusing on poverty alleviation for fisherman
	Cluster 3: KUR (Kredit Usaha Rakyat) or (Credit for micro and small enterprises)	Focusing on poor people who live in tourism areas.
	Cluster 4: KPS (Kartu Perlindungan Sosial ) or (Social Protection Card)	Focusing on healthy house program.  Expanding the allocation of credit for cooperative, and small and medium enterprises.

**Table A1.8: Poverty-Focused Programmes / Schemes / Policies in Indonesia by NGOs**

Period	Programmes/Schemes/Policies	Description
1970	Yayasan Lembaga Bantuan Hukum Indonesia (YLBHI) or Indonesia Law Perspective)	Focusing on poor people from law perspectives
1971	Lembaga Penelitian, Pendidikan dan Penerangan Ekonomi dan Sosial (LP3ES) or (Institution of Research for Education, Communication, Economic, and Social)	Research focused on few people in Indonesia
1973	Yayasan Lembaga Konsumen Indonesia (YLKI) or (Indonesia Customer Protection Institution)	Focusing on customer protection
1998 – 2008	Program Pengembangan Kecamatan (KDP) or (District Development Program)	This program focuses on poverty alleviation sponsored by the Indonesian government, NGOs from Netherlands, Japan, Multi-donor funds, DFID
2013	Ford Foundation	Focusing on poor people in rural areas

Notes: Indonesia provides four clusters which consist of many poverty alleviation programmes to reduce poverty called as Rencana Pemerintah Jangka Menengah Nasional (RPJMN) or Indonesia Government Planning for Medium term from 2010 to 2014.

**Table A1.9: Poverty-Focused Programmes / Schemes/ Policies in Bangladesh by Government**

Period	Programmes/ Schemes/Policies	Description
1975	Food for Work (FFW)	To provide food-wage employment during the slack season, mostly in construction and maintenance of rural roads, river embankments, and irrigation channels. Wage payments are made in kind (that is, in wheat) rather than in cash. Such a practice is thought to stabilize food grain prices in the market and to improve food consumption and nutrition of the participating households.
1975 onward	Vulnerable Group Feeding (VGF)	To provide in-kind wheat transfer to enable destitute rural women to improve their economic and social condition. It also offers health and nutrition education, literacy training, savings, and support in launching income-earning activities.
1975	Test Relief (TR) program	To create employment opportunities for rural poor, wage-laborer and unemployed people through implementation of small rehabilitation projects, including development of educational and public welfare institutions, based on providing 8 kgs. of rice/wheat to every person for working 7 hours a day for specific project activities and standardized volumes of work. It helps to ensure food security of the economically vulnerable and distressed people of the country.

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Period	Programmes/ Schemes/Policies	Description
1982-1987	Community Forestry Project	To create resource generation and management based on a 'benefit-sharing' mechanism between the government and the local communities. The activities of the project include strip plantation, fuel wood plantation, pilot agro forestry demonstration plot, village afforestation and community forestry growth centre.
1983	Rural Maintenance Programme (RMP)	To address rural infrastructure, livelihood security, nutrition, numeracy, gender, unemployment and many other issues. The programme aims to strengthen the capacity of rural local government.
1983	Comprehensive Village Development Programme (CVDP)  Total Village Development Project (TVDP) undertaken by BARD in 1975 based on "one village-one organization" concept. The TVDP was transformed into CVDP in 1983.	To reduce poverty and improve the standard of living through implementation of a village based comprehensive development programme that ensures the delivery of basic services (education, agriculture, health, security and environment) to the villagers.
1986-87	Production and Employment Project (PEP)	To improve the quality of life of the rural poor by substantial increase in income and social empowerment.
1987	Vulnerable Group Feeding, renamed Vulnerable Group Development (VGD) in 1987	To build the income-earning capacities of VGD women and to socially empower them through training on awareness raising, provision of training on variety of Income Generating Activities (IGA), provision of credit and other support services during and beyond the food completion of the contract period and NGO shall continue the follow up services to the VGD women for three years after the completion of VGD cycle.
1992-2000	Forest Resources Management Project	To develop forest and human resources in the country. It is a participatory agro-forestry models undertaken in the degraded hill forest lands, particularly in the southern districts, Chittagong and Cox's Bazar.
1992	Socio - Economic Development Programme in Hill Tracts (SEDPHT)	To reduce poverty and develop their physical quality of life of the landless, assetless and disadvantaged people of Chittagong Hill Tracts area. It provides skill development training and micro-credit for income generating activities.
1993	Rural Poverty Cooperative Project (RPCP)	To improve the socio-economic condition of the rural people by utilising local resources.
1993	Rural Poverty Alleviation Programme (RPAP)	To alleviate poverty and improve the living standard of the targeted rural poor which is achieved through individual income generating activities for the rural poor and organising them in to informal groups.
1995-2000	Coastal Green Belt Project	To create a live shelterbelt of trees along the coastlines of the country. The activities of the project are embankment plantation; foreshore and barrow pit plantation; homestead and institutional plantation; establishment of nurseries and training centres.
1998	Old-age/Widow Allowance	To Provide monthly allowance to poor elderly and the benefit has no condition attached to it.

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Period	Programmes/ Schemes/Policies	Description
N.D	Urban Social Service (USS)	To provide collateral – free small credit and skill training for the urban poor. It supports also in income generating, cleanliness, education, awareness and training on primary and reproductive health etc. to the urban slum dwellers.
2000	Palli Progati Prokalpa (PPP) (Rural Advancement Project)	This project is designed to achieve following goals: - Comprehensive village development through alleviation of poverty of the rural people and ensuring them an improved quality of life; - Empowerment of the rural women; - Reduction of the number of poor; - Generation of awareness with mindset for increased - Human Development Index; - Promotion of Income Generating Activities with micro-finance and reduction of migration of the rural population.
2003	Integrated Poverty Alleviation Programme (IPAP)	To form informal groups, imparts skill training, self-employment, accumulation of own capital through thrift deposits, supply of micro-credit for income generating activities, raise awareness and rebuild the confidence of the poor, human resource development, up-keeping environment and ensuring the sustainability of the previously completed projects under BRDB.
2003-2004	Insolvent Freedom Fighters and their dependents training and self-employment programme (FF)	To ensure the up-liftmen of the insolvent freedom fighters and their dependents are provided skill development training and micro-credit access on easy terms.
2003	Dostha Paribar Unnayan Samity (DOPUS) (Association for Poor Family Development) and Local Level Rural Poor Employment Programme (LORPEP)	To reduce poverty of the rural poor and distressed women which is achieved through empowering them to participate in income generating activities through the provision of the projects development training and micro-credit funds.
2005	Minor Crops Production, Preservation, Processing and Marketing Programme (MCPP&MP)	To reduce poverty and create employment opportunity through minor crops production, processing and marketing.
2007	Rural Livelihood Project (RLP)	To support the government poverty reduction efforts through the creation of sustainable farm and off-farm employment opportunities among the poor people of the community.
ND	Primary Health Care (BAN-PHC 006)	To alleviate poverty and improve the quality of life of the vulnerable families through providing seed capital as loan to generate income and create self-employment, allowing families to meet their basic needs which will promote and protect health within their families and communities.

Source:

- i. Vulnerable Group Development (VGD) programme ( [http://www.heed-bangladesh.com/index.php?option=com\\_content&view=article&id=74&Itemid=104](http://www.heed-bangladesh.com/index.php?option=com_content&view=article&id=74&Itemid=104))
- ii. Community forestry for poverty reduction in Bangladesh - Mohammad Zashimuddin, Bangladesh Forest Research Institute, Chittagong, Bangladesh; E-mail: bfri@spnetctg.com
- iii. Bangladesh Rural Development Board – BRDB
- iv. [http://www.brdb.gov.bd/index.php?option=com\\_content&task=view&id=325&Itemid=383](http://www.brdb.gov.bd/index.php?option=com_content&task=view&id=325&Itemid=383)

**Table A1.10: Poverty-Focused Programmes / Schemes/ Policies in Bangladesh by NGOs**

Period	Programmes/ Schemes/Policies	Description
1977	BRAC's community empowerment programme (CEP)	The program covers various activities including gender equality, dowry, child marriage, violence against women, good governance, environment, health, migration, HIV-AIDS, road safety, agriculture and many other issues of local and national significance. Very recently (2012), the program highlights on PolliShomaj (a village-based community institution) offering development initiatives, rural people's access to basic services. It also takes into consideration of maintenance of local infrastructure and prevention of violence against women.
1984	Grameen Bank's Housing for the poor	The poor borrowers receive housing loan for their decent but low-cost shelter. It enables them to improve quality of life and gain social status.
1987	BRAC's Income Generation for Vulnerable Group Development Program (IGVGD)-	The program aims to support those who are falling between the "moderate poor" to the "hardcore poor:" It also extends various services to those are facing deepest deprivations. The program contributes a lot in reducing the chronic food insecurity of extremely poor households.
N.D	BRAC's Disaster, environment and climate change (DECC) programme	It increases BRAC's institutional capacity to fight against natural disasters and prepares the community to face the disaster by adopting preventive and adaptive strategies. The program has so many activities such as conducting predictive research, enable information sharing, providing education, training etc.
1992	ASA's Microfinance (credit and savings program):	The program offers good credit delivery systems to meet the requirement of valued customers at home and abroad. It specializes in providing small loan power pump and housing loan for the clients.
1993	ASA's Small Savings program	It was created only to meet the necessary demand of the clients during their hardships. It also extends to Technical Assistance (TA) internationally for assisting poor covered by Microfinance program.
1995	BRAC's Rural Development Programme (RDP)	The programme is mainly for poverty alleviation targeted for women and landless poor. The programmes support many ways such as non-formal education, skill training and income generation opportunities and credit facilities.
1997	Grameen Bank's Higher Education Loans	This program offers many opportunities for talented children of its clients to continue higher education in medicine, engineering, agriculture and other higher education programmes at the graduate (with honours) and postgraduate levels.
2000	The Grameen Generalized System	It is to help the borrowers to restore their financial ability arising because of natural calamities like flood, tsunami and draught. It offers four types of loan products: 1) the basic loan, 2) the housing loan, 3) the higher education loan which runs parallel to the basic loan, and 4) the struggling members (beggars) loan program.
N.D	Grameen Bank's Micro-enterprise Loans	It is opens the opportunities for business ventures. The loan is given to operate grocery shops, pharmacy, dairy farms, auto-rickshaw for transportation and stone business for construction.

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Period	Programmes/ Schemes/Policies	Description
N.D	Grameen Bank's Loan Insurance	This kind of programme allows borrowers to sustain their income generating activities despite all hazards. Under the loan insurance, all outstanding loans are paid-off from the insurance fund even in the event of death of a borrower.
2001	Grameen Bank's 'Stars' for Achievements	It introduces color-coded stars to branches and staff for 100% achievement of a specific task starting from 2001. The 'five- star' is an indication of highest level of performance. The branch will receive green star if it maintains 100% repayment record, and blue star for earning profit while violet star for a branch for being able to meet their entire loan demands with the branch income and deposit. Besides, brown star for those braches that are ensuring education for 100% children of Grameen families and the red star for those that are successful in taking all its borrowers families out of the poverty line.
2002	Grameen Bank's Beggars As Members	The program covers those who are disabled, blind, and retarded people, as well as old people with ill health. The main objective of this program is to transform the beggar into main-stream borrowers.
2002	BRAC's ground-breaking ultra-poor programme	The programme caters services to those who are in extreme poverty. This kind of poor people are unable to get the loan or any other financial support from Microfinance institutions. Hence, BRAC provides them asset grants, skills development and personalized healthcare support. This enables the group to qualify for enjoying the benefit of mainstream microfinance.
2004	BRAC's health, nutrition and population programme (HNPP)	The programme is supportive of improving maternal, neonatal, child health and nutritional status and reducing vulnerability to communicable diseases.
2004	ASA's Hope for the Poorest (HP)	The main aim of this program is to serve the poorest, underprivileged and vulnerable people, particularly the victims of climate changes. It has many other activities related to health, education, water, sanitation and hygiene and creating awareness among the poor people.
2008	BRAC's education programme (BEP)	It not only offers mainstream school systems but also introduces innovative teaching methods and materials and opens primary schools for the local communities. These are the people who lack access to formal education systems, and vulnerable to poverty, violence, displacement or discrimination. Besides, the program also provides need-based training, student mentoring initiatives, and e-learning materials at the secondary level.
2011	ASA's Primary Education Strengthening Program (PESP)	It has many objectives such as reducing dropout rate in primary schools, ensuring quality education for the students of poor and illiterate households and alleviating poverty through educating children of poor families.
2012	BRAC's integrated development programme (IDP)	It provides assistance to the marginalized and deprived communities. The program covers various activities like health, education, microfinance, and overall social development. It allows to help the poor financially particularly, those who are living in -remote areas.

Source:

- i. <http://www.grameen-info.org/>
- ii. <http://asa.org.bd/>
- iii. <http://www.brac.net/content/annual-report-and-publications#.UIIbHtLXC8o>
- iv. IMRAN MATIN and DAVID HULME, "Programmes for the Poorest: Learning from the IGVGD Program in Bangladesh" Bangladesh Rural Advancement Committee, Bangladesh
- v. University of Manchester, Published in: World Development Vol. 31, No. 3, pp. 647-665, 2003, Elsevier.

**Table A1.11: Operationalization of Islamic Microfinance Institutions in Malaysia, Indonesia and Bangladesh: AIM, BMMT & RDS at a Glance**

No.	Areas of Performance	AIM (Malaysia)	BMMT (PT. Permodalan BMT Ventura) (Indonesia)	RDS of IBBL (Bangladesh)
1	Year of Establishment	1987	2006	1995
2	Districts Covered	14	8 provinces	64 (2013)
3	Villages Covered	6,779	8 (out of 35 provinces)	16,911(2013) out of 70,000 villages
4	Branches (for population in million)	123 (28)	137 (245) (2012)	228(152) (2013)
5	Total Member (Million)	0.286	14.316 in 87 BMTs (2013)	0.812(2013)
6	Total Staffs/Field Officer	2300 (2013)	550 service offices (2010)	2171 (2012)
7	Disbursement (Million)	RM 1900 (2012)	Rp. 47,344.10 (2010)	Tk.74,779.14 (2013)
8	Outstanding Loan (%)	21.3	1	17
9	Profit/Interest(flat) rate % (service charge )	10	71.5%/11.27%	10
10	Average Investment Size per client (Million)	RM 6667	Rp.3,329,318 (2010) or US\$ 330	0.0153 (2009)
11	Rate of Recovery %	99.6		99.6 (2013)
12	Assets Growth (in terms of capital) Rate of the respective Microfinance institution	-	86.02% (2010)	12.57
13	Dropout rate % (from the respective institution)	4.36 (2011)	3.4	5

Sources:

- i. Adopted from Rafique, Mubarak (2011) and the Annual Report of RDS.
- ii. RDS Website (<http://www.islamibankbd.com/rds/performance.php>- accessed on 13th December, 2012)
- iii. Mixmarket, <http://mixmarket.org/mfi/aim#ixzz2fzPKpK9l>
- iv. AmanahIkhtiar Malaysia: The Role of microfinance in poverty alleviation: AIM's experience, World Islamic Economic Forum, 2012. <http://wief.org/wp-content/uploads/2012/04/Datuk-Hajah-Zabidah-Ismail.pdf>
- v. [http://en.wikipedia.org/wiki/Amanah\\_Ikhtiar\\_Malaysia](http://en.wikipedia.org/wiki/Amanah_Ikhtiar_Malaysia)

**Table A1.12: Preference for Islamic Finance in the Muslim World**

Country	Survey (Year)	Findings
Algeria	School of Finance and Management (Bank academy International) (2006)	A study revealed that 20.7% of microenterprise owners do not apply for loans primarily because of religious reasons.
Malaysia	Saad (2012)	Clients of Amanah Ikhtiar Malaysia show willingness to participate in musharaka and other Islamic financial contracts if they are provided. They also pay Zakat from their loans.
Indonesia	Bank Indonesia (2000)	In East Java, 49% of the rural population considers interest prohibited and would prefer to bank with Shariah-compliant financial institutions.

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Country	Survey (Year)	Findings
Bangladesh	Rahman (2010), Mannan, 2007	There is strong need for Islamic alternative to microfinance. Islamic microfinance was also found to be significant contributor to poverty reduction.
Jordan	IFC and FINCA (2006)	Studies show that 25% and 32%, respectively, of those interviewed cite religious reasons for not seeking conventional loans. The study also showed that 18.6% of those interviewed rank religious reasons as the single most important factor in their decision on obtaining a loan.
Lebanon	Hamze (2001)	The success in outreach of Islamic programmes relative to conventional microfinance institutions strongly suggests that large numbers of poor people prefer Islamic finance. In addition, microfinance practitioners report that many of the poor refuse financial services unless they are Sharia-compliant.
Palestine	PlaNet Finance (2007)	More than 60% of low-income survey respondents claim a preference for Islamic products over conventional products. More than half of such respondents prefer such products even if they come at a higher price.
Syria	IFC (2007)	Survey revealed that 43% of respondents considered religious reasons to be the largest obstacle to obtaining microcredit. In addition, 46% of respondents who had never applied for a loan stated that religious reasons were the primary reason they had never applied. Nearly 5% of current borrowers said they would not apply for another loan for religious reasons.
Yemen	National Microfinance Foundation	An estimated 40% of the poor demand Islamic financial services, regardless of price.
Afghanistan, Indonesia, Syria, and Yemen	FINCA (Afghanistan), German Technical Cooperation (Indonesia), Sanadiq in Jabal-al-Hoss (Syria), Social Fund for Sustainable Development (Yemen) and Hodeidah Microfinance Program (Yemen)	Microfinance practitioners indicate that in these countries some conventional micro borrowers tend to switch over once Islamic products become available (CGAP, 2008).
Nigeria	Adewale, 2006, Muhammad, 2013	Majority of micro entrepreneurs interviewed stated that their religion prohibits dealing with interest, thus the reason for avoiding conventional microfinance banks. In addition, they express their intention to utilise Islamic micro-investment model.
33 OIC Countries	Ashraf and Hassan (2013)	Religious and cultural norms in Muslim countries drive preference of Islamic microfinance over conventional microfinance.

Source: OIC Outlook Series (2012), Saad (2012) Adewale (2006) Muhammad (2013), Ashraf and Hassan (2013).

**Table A4.1: Sample Size, Sampling Technique and Areas Covered**

Particulars	Malaysia	Indonesia	Bangladesh
Sample size	137	310	381
Selection of Respondents	AIM	BMMT	RDS
Sampling technique:	Purposive sampling		
Tools of Analysis	i. Descriptive Analysis, Exploratory Factor Analysis, Confirmatory Analysis and SEM ii. Interview iii. Focus Group Session		

Source: Field Survey, 2012

**Table A4.2: Distribution of Respondents Based on Size and Adequacy of Loan**

Country	Variable					
	Adequacy of Loan		Amount of Loan			
	Category					
	Yes	No	<RM3k	RM3k-6k	RM6.01K-9k	>RM9k
Malaysia	100 (75.2)	33(24.8)	21(14.8)	46(32.4)	33(23.2)	42(29.6)
	Yes	No	< Rp 9m	Rp 9.1m-18m	Rp 18.1m-27m	>Rp 27m
Indonesia	206(66.5)	104(33.5)	91(29.4)	79(25.4)	27(8.7)	113(36.5)
	Yes	No	<Tk 8k	Tk8.01k-16k	TK 16.01k-24k	>Tk24k
Bangladesh	224(58.8)	157(41.2)	22(5.8)	160(42)	83(21.8)	116(30.4)

Source: Field Survey, 2012

Note: Based on the exchange rates on 31st December, 2012:

- i. Taka 84=US\$1;
- ii. Ringgit Malaysia (RM) 3.06= US\$1;
- iii. Indonesian Rupiah (Rp) 9645.38 = US\$1

**Table A4.3: Distribution of Respondents Based on Level of Indebtedness**

Variable	Category	Malaysia		Indonesia		Bangladesh	
		Freq.	(%)	Freq.	(%)	Freq.	(%)
Level of Indebtedness (subject to the client's opinion based on burden of loan )	Highly Indebted	4	2.9	50	16.13	57	15
	Moderately Indebted	40	29.2	157	50.65	188	49.3
	Least Indebted	93	67.9	103	33.23	136	35.7

Source: Field Survey, 2012

**Table A4.4: Distribution of Respondents Based on Income and Expenditure**

Variable	Malaysia		Indonesia		Bangladesh	
	Range	Freq. (%)	Range	Freq (%)	Range	Freq (%)
Monthly Income (Before Joining the Scheme)	<RM 1000	47(34.8)	<Rp 3 m	223(71.9)	<Tk.2500	79 (20.7)
	RM 1000 – RM 2000	55(40.7)	Rp 3 m – 6 m	72(23.2)	Tk.2500-5000	141(37)
	RM 2001 - RM 3000	19(14.1)	Rp 6 m – 9 m	10(3.3)	Tk.5001-7500	101(26.5)
	>RM3000	14(10.4)	>Rp 9 m	5(1.6)	>Tk.7500	60(15.7)
Monthly Income (After Joining the Scheme)	<RM 1000	9(6.6)	<Rp 3 m	131(42.2)	<Tk.2500	43(11.3)
	RM 1000 - RM 2000	36(26.3)	Rp 3 m – 6 m	143(46.1)	Tk.2500-5000	94(24.7)
	RM 2001 - RM 3000	36(26.3)	Rp 6 m – 9 m	29(9.4)	Tk.5001-7500	96(25.2)
	>RM3000	56(40.8)	>Rp 9 m	7(2.3)	>Tk.7500	148(38.8)
Monthly Expenditure (Before Joining the Scheme)	<RM 1000	76(58.9)	<Rp 3 m	259(83.5)	<Tk.2500	13(3.4)
	RM 1000 - RM 2000	36(27.9)	Rp 3 m – 6 m	43(13.9)	Tk.2500-5000	87(22.8)
	RM 2001 - RM 3000	11(8.5)	Rp 6 m – 9 m	5(1.6)	Tk.5001-7500	89(23.4)
	>RM3000	6(4.7)	>Rp 9 m	3(1.0)	>Tk.7500	192(50.4)
Monthly Expenditure (After Joining the Scheme)	<RM 1000	37(27.0)	<Rp 3 m	227(73.2)	<Tk.2500	3(0.8)
	RM 1000 - RM 2000	50(36.5)	Rp 3 m – 6 m	67(21.6)	Tk.2500-5000	35(9.2)
	RM 2001 - RM 3000	27(19.7)	Rp 6 m – 9 m	11(3.6)	Tk.5001-7500	71(18.6)
	>RM 3000	19(13.8)	>Rp 9 m	5(1.6)	>Tk.7500	272(71.4)
Monthly Saving (Before Joining the Scheme)	<RM 100	63(52.9)	<Rp 0.3 m	151(48.7)	<Tk.100	254(66.7)
	RM 101 - RM 200	19(16.0)	Rp 0.3-0.6 m	104(33.5)	Tk.101-200	73(19.2)
	RM 201 - RM 300	17(14.3)	Rp 0.6-0.9 m	28(9.0)	Tk.201-300	23(6.0)
	RM 301 – RM400	16(13.4)	Rp 0.9-1.2 m	15(4.9)	Tk.301-400	10(2.6)
	> RM 400	4(3.4)	>Rp 1.2 m	12(3.9)	>Tk.400	21(5.0)
Monthly Saving (After Joining the Scheme)	<RM 100	24(17.9)	<Rp 0.3 m	78(25.2)	<Tk.100	26(6.8)
	RM 101 - RM 200	32(23.9)	Rp 0.3-0.6 m	140(45.1)	Tk.101-200	128(33.6)
	RM 201 - RM 300	25(18.7)	Rp 0.6-0.9 m	50(16.2)	Tk.201-300	64(16.8)
	RM 301 – 400	15(11.1)	Rp 0.9-1.2 m	19(6.1)	Tk.301-400	68(17.8)
	>RM 400	38(28.4)	>Rp 1.2 m	23(7.4)	>Tk.400	95(24.9)

Source: Field Survey, 2012

Note: Taka 84=USD1; Taka 26= RM 1, During July- August, 2012 (subject to fluctuations on weekly/monthly basis)

**Table A4.5: Distribution of Respondents Based on Education**

Variable	Category	Malaysia		Indonesia		Bangladesh	
		Freq.	(%)	Freq.	(%)	Freq.	(%)
Level of education	Informal Education	2	1.5	2	6.46	103	27
	Islamic School/Madrasa	1	0.7	5	1.61	6	1.6
	Primary School	25	18.2	40	12.90	105	27.6
	Secondary School	101	73.7	74	23.87	123	32.3
	Diploma/College	6	4.4	139	44.84	11	2.9
	Tertiary Institution	2	1.5	32	10.32	4	1.0
	Others	-	-	17	5.48	29	7.6
Years of Schooling	5 and Below	21	15.3	22	7.10	235	61.7
	6-10	37	27.0	121	39.03	128	33.6
	10 and Above	79	57.7	167	53.87	18	4.7

Source: Field Survey, 2012

**Table A4.6: Distribution of Respondents Based on Training and Occupation**

Variable	Category	Malaysia		Indonesia		Bangladesh	
		Freq.	(%)	Freq.	(%)	Freq.	(%)
Vocational Training	Yes	49	36	40	12.90	50	13.1
	No	87	64	270	87.10	331	86.9
Previous Training	Hand phone/Mobile	66	48.2	196	12.6	48	12.6
	Computer and Internet	11	8.0	17	0.8	3	0.8
	Not have taken	60	43.8	97	86.6	330	86.6
Present Occupation	Housewife	21	16.8	58	18.71	187	49.1
	Farmer/Tiller	2	1.6	34	10.97	17	4.5
	Fishing	3	2.4	3	0.97	6	1.6
	Livestock	1	0.8	13	4.19	20	5.2
	Factory Worker	7	5.6	59	19.03	6	1.6
	Government Servant	8	6.4	27	8.71	8	2.1
	Business/Services	61	48.8	100	32.26	97	25.5
	Other	22	17.6	16	5.16	40	10.5
Experience in Present Occupation	1-2 years	50	37.3	31	10.00	188	49.3
	3-4 years	27	20.1	59	19.03	39	10.2
	5 and Above	57	42.6	220	70.97	154	40.5

Source: Field Survey, 2012

**Table A4.7: Distribution of Respondents Based on Demography**

Variable	Category	Malaysia		Indonesia		Bangladesh	
		Freq.	(%)	Freq.	(%)	Freq.	(%)
Gender	Male	1	.7	222	71.61	13	3.4
	Female	136	99.3	88	28.39	368	96.6
Marital status	Single	4	2.9	18	5.81	7	1.8
	Married	127	92.7	283	91.29	351	92.1
	Widow	3	2.2	4	1.29	20	5.2
	Single Parent	3	2.2	5	1.61	3	0.8
Age	15-29 years	6	4.4	5	1.61	101	26.6
	30-44 years	63	46.0	200	64.52	168	44.1
	45-59 years	63	46.0	95	30.65	101	26.5
	60-64 years	4	2.9	8	2.58	10	2.6
	65 and Above	1	.7	2	0.64	1	0.3
Family Size	Below 5	40	29.2	217	70.00	244	64
	5-7	73	53.3	84	27.10	118	31
	8-10	16	11.7	6	1.94	14	3.7
	Above 10	8	5.8	3	0.96	5	1.3

Source: Field Survey, 2012

**Table A4.8: Distribution of Respondents Based on Living Environments**

Criteria	Category	Malaysia		Indonesia		Bangladesh	
		Freq.	(%)	Freq.	(%)	Freq.	(%)
1.Ownership Status	Built on squatter land	-	-	11	3.6	30	7.9
	Own property	101	73.7	217	70.0	315	82.7
	Given by relative or others to use	9	6.6	47	15.2	16	4.2
	Provided by government	4	2.9	6	1.9	4	1
	Renting	23	16.8	29	9.3	16	4.2
2.Rooms in the dwelling	1-2	40	29.4	43	13.9	276	72.4
	3-4	81	59.6	195	62.9	98	25.7
	5-6	12	8.8	54	17.4	6	1.6
	7 and Above	3	2.2	18	5.8	1	0.3
3.Observed structural condition of main dwelling	Seriously dilapidated	2	1.5	11	3.6	96	25.2
	Need major repairs	12	8.9	80	25.8	89	23.4
	Sound structure	122	89.1	219	70.6	196	51.4
4.Distance between dwelling & Market	Below 1 Km	44	32.4	32	10.3	185	48.6
	1.1-2 Km	45	32.1	78	25.2	90	23.6
	2.1-3 Km	28	20.6	92	29.7	56	14.7
	Above 3 Km	19	13.9	108	34.8	50	13.1
5.Distance between dwelling and MFI	Below 1 Km	42	30.7	39	12.6	165	43.3
	1.1-2 Km	54	39.4	80	25.8	51	13.4
	2.1-3 Km	19	13.8	81	26.1	30	7.9
	Above 3 Km	22	16.1	110	35.5	135	35.4
6.Distance between dwelling & main road	Below 0.5 Km	56	41.2	98	31.6	221	58
	0.6-1 Km	44	32.4	100	32.3	59	15.5
	Above 1 Km	36	26.4	112	36.1	101	26.5

Source: Field Survey, 2012

**Table A4.9: Distribution of Respondents Based on Their Sources of Energy**

Criteria	Category	Malaysia		Indonesia		Bangladesh	
		Freq	(%)	Freq	(%)	Freq.	(%)
Source of Electricity supply	No connection	135	99.3	8	2.6	70	18.4
	Shared connection with others	1	0.7	19	6.1	87	22.8
	Own connection	-	-	283	91.3	224	58.8
Source of Energy for Cooking	Dung	-	-	-	-	66	17.3
	Fire Wood	-	-	9	2.90	222	58.3
	Purchased	-	-	-	-	89	23.4
	Wood/Sawdust	-	-	-	-	2	0.5
	Charcoal	-	-	1	0.32	1	0.3
	Kerosene	-	-	298	96.13	1	0.3
	Gas	95	100	2	0.65	-	-
Source of Drinking Water	Rainwater, dam, pond, lake or river,	1	0.7	7	2.3	7	1.8
	spring	2	1.5	43	14.2	126	33.1
	Public Tube well	115	83.9	167	55.1	81	21.3
	Private Tube well	19	13.9	86	28.4	167	43.8
	Personal Tube well						

Source: Field Survey, 2012

**Table A4.10: Distribution of Respondents Based on Their Food Status**

Criteria	Category	Malaysia		Indonesia		Bangladesh	
		Freq.	(%)	Freq.	(%)	Freq.	(%)
Full meals (for at least 2 days)	Yes	125	91.2	261	84.19	359	94.2
	No	12	8.8	49	15.81	22	5.8
Store a stock of staples foods	One Week	76	55.5	216	69.68	301	79
	Two Weeks	22	16.1	65	20.97	33	8.7
	Three Weeks	3	2.2	17	5.48	10	2.6
	Four Weeks	36	26.3	12	3.87	37	9.7
Assessment of the general food sufficiency	Insufficient	1	0.7	14	4.52	118	31
	Moderate	14	10.2	176	56.77	187	49.1
	Sufficient	122	89.1	120	38.71	76	19.9
Assessment of the poverty level in relation to food quality	Poor	2	1.5	6	1.94	136	35.7
	Moderate	20	14.6	184	59.35	163	42.8
	Good	115	83.9	120	38.71	82	21.5

Source: Field Survey, 2012

**Table A4.11: Distribution of Respondents Based on Level of Awareness and Participation in Poverty Alleviation Programme**

Variable	Category	Malaysia		Indonesia		Bangladesh	
		Freq.	(%)	Freq.	(%)	Freq.	(%)
Awareness of Poverty Alleviation	Yes	119	88.8	121	39.03	343	90
	No	15	11.2	189	60.97	38	10
Level of Participation in Programmes	Govt. Program /Scheme	86	68.8	79	71.2	8	2.1
	Private Program /Scheme	9	7.2	17	15.3	2	0.5
	NGOs Program /Scheme	30	24	1	0.9	89	23.4
	Islamic Institutional Program /scheme	0	0	14	12.6	282	74
Programme Involvement (In years)	1-2	53	38.7	205	66.13	165	43.3
	3-4	48	35.0	96	30.97	47	12.3
	5-6	16	11.7	9	2.90	44	11.5
	7 and Above	20	14.6	0	0	125	32.5
Beneficial Level	High	92	59.9	-	-	234	61.4
	Medium	32	23.4	-	-	119	31.3
	Low	1	.7	-	-	28	7.3

Source: Field Survey, 2012

**Table A4.12: Comparison of Estimates and Results of Structural Equation Modelling**

Hypotheses		Malaysia	Indonesia	Bangladesh
H <sub>1</sub>	Waqf Resources contribute positively to Islamic Microfinance	-0.057 (.430)	-0.013 (.793)	0.18 (.040)**
		Not Supported	Not Supported	Supported
H <sub>2</sub>	Islamic Microfinance contributes positively to Takaful Financing	0.227 (.023)**	0.193 (.011)**	0.45 (.001)*
		Supported	Supported	Supported
H <sub>3</sub>	Islamic Microfinance contributes positively to Human Resource Development	0.244 (.026)**	0.213 (.000)*	0.27 (.012)**
		Supported	Supported	Supported
H <sub>4</sub>	Islamic Microfinance contributes positively to Project Financing	-0.037 (.686)	Missing Values	1.02 (.031)**
		Not Supported	Not Supported	Supported
H <sub>5</sub>	Human Resource contributes positively to Project Financing	-0.231 (Missing Value)	0.053 (.306)	0.11 (.011)**
		Not Supported	Not Supported	Supported
H <sub>6</sub>	Takaful Financing contributes positively to Poverty Reduction	0.220 (.000)***	0.20 (.021)**	1.33 (.001)*
		Supported	Supported	Supported
H <sub>7</sub>	Project Financing contributes positively to Poverty Reduction	-0.115 (0.100)	0.053 (.290)	-0.20 (-2.60)
		Not Supported	Not Supported	Not Supported

Source: Amos Version 18 Output from the Field Survey data, 2012.

Note: P-values are shown in parentheses. P-value has been considered for Malaysia and Bangladesh whereas T-value is considered for Indonesia in determining 1% (\*\*\*), 5% (\*\*) and 10% (\*) level of significance.

# Glossary of Islamic Economic Terminologies

[Meaning of some Islamic economic terminologies used throughout the report based on Khan, M.A. (2003).]

<b>Bai' al-Salam</b>	A sale agreement that involves advance payment for goods that are to be delivered later. According to the general law, no sale can be affected unless the goods are in existence at the time of the bargain, but this sort of sale forms an exception to the general rule provided the goods are defined, price is paid in advance and the date of delivery is fixed. The objects of this sale are mostly fungible things and cannot be gold or silver because they are regarded as monetary values. Barring this, <i>bai'al-salam</i> covers almost all things that are capable of being definitely described as to quantity, quality and workmanship. One of the conditions of this contract is advance payment; the parties cannot reserve their option of rescinding it but the option of revoking it on account of a defect in the subject matter is allowed. It is also applied to a mode of financing adopted by Islamic banks. It is usually applied in the agricultural sector where the bank advances money for various inputs to receive a share in the crop (that the bank sells in the market).
<b>Hawalah</b>	<i>Lit:</i> Bill of exchange, promissory note, cheque, draft. <i>Tech:</i> A debtor passes on the responsibility of payment of his debt to a third party who owes the former a debt. Thus, the responsibility of payment is ultimately shifted to a third party. <i>Al-hawalah</i> is a mechanism that can be usefully employed for settling international accounts by book transfer. This obviates, to a large extent, the necessity of physical transfer of cash. The term was also used, historically, in the public finance during the 'Abbasid period (AD 750–945) to refer to cases where the state treasury could not meet the claims presented to it and it directed its claimants to occupy a certain region for a certain period and procure their claims themselves by taxing the people. This method was also known as <i>tasabbub</i> . The taxes collected and transmitted to the central treasury were known as <i>mahmwl</i> (i.e. carried to the treasury) while those assigned to the claimants or provinces were known as <i>musabbab</i> .
<b>Istisna'</b>	A contract of sale whereby the purchaser asks the seller to manufacture a specifically defined product using the seller's raw materials at a given price to be delivered at a specified place. The contractual agreement of ' <i>istisna'</i> ' has a characteristic similar to <i>bai' al-salam</i> in that it provides for the sale of a product not available at the time of sale. It also has a characteristic similar to the ordinary sale in that the price may be paid at the time of delivery of the product.

<b>Ijarah</b>	<i>Lit:</i> Letting on lease. <i>Tech:</i> Sale of usufruct of an asset in exchange for definite reward, but it is commonly used for wages. Also, it refers to a contract of land lease at a fixed rent payable in cash. It is contrary to <i>muzar'ah</i> , when rent is fixed as a certain percentage of the produce of land. It also refers to a mode of financing adopted by Islamic banks. It is an arrangement under which the Islamic bank leases equipment, a building or other facility to a client against an agreed rental. The rent is so fixed that the bank gets back its original investment plus a profit on it. The conventional lease financing distinguishes between operating lease and financing lease. In the Islamic framework, <i>al-'ijarah</i> represents conventional operating lease. But Islamic <i>al-'ijarah</i> financing (called <i>al-'ijarah muntahia bit tamluk</i> ) is distinct from the conventional lease financing in the following respect. The conventional financing lease applies to intangible assets while the Islamic lease financing also applies to intangible assets such as right to collect rentals of an infrastructure as toll of a bridge.
<b>Muajjal</b>	Refers to postponement or deferment, usually related to price or asset. Hence, sale with deferment of price is called <i>al-Bai' Bithaman Ajil</i> , and when the asset is deferred it is referred to as <i>Bai' al-Salam</i> .
<b>Mudarabah</b>	A form of business contract in which one party contributes capital and the other personal effort. The financier is known as <i>rabbal-mal</i> and the worker or entrepreneur as <i>mudarib</i> . The proportionate share in profit is determined by mutual consent. But the loss is borne only by the owner of the capital, in which case the entrepreneur gets nothing for his labour. As a financing technique adopted by Islamic banks, it is a contract in which all the capital is provided by the Islamic bank while the business is managed by the other party. The profit is shared in pre-agreed ratios, and loss, if any, unless caused by the negligence or violation of the terms of the contract by the <i>mudarib</i> , is borne by the Islamic bank. Ultimately, the bank passes on the loss to the depositors.
<b>Murabahah</b>	It is a particular kind of sale where the seller expressly mentions the cost of the sold commodity he has incurred, and sells it to another person by adding some profit or mark-up thereon. The profit can be determined by mutual consent, either in lump sum or through an agreed ratio of profit to be charged over the cost.
<b>Musharakah</b>	A financing technique adopted by Islamic banks. It is an agreement under which the Islamic bank provides funds which are mingled with the funds of the business enterprise and others. All providers of capital are entitled to participate in management, but not necessarily required to do so. The profit is distributed among partners in pre-agreed ratios, while the loss is borne by each partner strictly in proportion to respective capital contributions.
<b>Muzar'ah</b>	It is a contract in which one person agrees to till the land of the other person in consideration for a part of the produce of the land.
<b>Qard Hasan</b>	<i>Lit:</i> A virtuous loan. <i>Tech:</i> A loan with the stipulation to return the principal sum in the future without any increase.
<b>Sadaqah</b>	<i>Lit:</i> Charity. <i>Tech:</i> In its widest sense it means an attitude of mutual appreciation, affection, mutual assistance, an act of loyalty to God and to one's fellow beings, a sense of true human hood. At material level, it consists of two kinds: <i>al-sadaqah al-tatawwu'iyah</i> given at the free will of the donor and <i>Zakah</i> , the obligatory tax imposed by the <i>Qur'an</i> on the Muslims having wealth beyond a certain limit.

<b>Takaful</b>	<i>Lit:</i> Mutual or joint responsibility; solidarity; mutual agreement. <i>Tech:</i> An alternative of the contemporary insurance in the Islamic framework. Conceptually, a group of persons agree to share the risk of damage by collecting a specified sum from each. In case of loss to anyone of the group, the loss is met from the collected funds. The individual contribution is calculated using the conventional methods of actuarial sciences. The collected funds are invested in Islamically permissible ventures until a part of them is needed to meet an individual loss. The profits or losses from investments are shared by the members in proportion to their capital. Expenses of the <i>Takaful</i> are also debited to the collected funds. An individual buying this policy enters into a contract of <i>mudarabah</i> with the <i>Takaful</i> company. Each instalment paid by him is divided into two accounts: The Participant's Account and The Participant's Special Account. The former is meant for investment while the latter is a contribution to a mutual fund of the company meant to pay <i>Takaful</i> benefits to fellow participants in case of need. If the participant dies before the maturity, he gets the value of the policy along with any surplus earned on his contribution. In case of surrender or withdrawal from the <i>Takaful</i> plan, the participant is entitled to benefits as agreed to in the contract. In case a participant lives to maturity, he gets value of the policy and also any surplus earned on his capital.
<b>Wakalah</b>	<i>Lit:</i> Representation, agency. <i>Tech:</i> Contract of agency in which a person delegates his business to another and substitutes the other in his own place. The latter is called the <i>wakil</i> , or agent, and the former is called <i>muwakkil</i> , or principal.
<b>Waqf</b>	<i>Lit:</i> Detention. <i>Tech:</i> Appropriation or tying up of a property in perpetuity so that no proprietary rights can be exercised over the corpus but only over the usufruct. The <i>Waqf</i> property can neither be sold nor inherited or donated to anyone. <i>Al-Awqaf</i> consisted of religious foundations set up for the benefit of the poor. Conceived in such a way, administration of the <i>Waqf</i> , together with the salary that it involved, was often reserved for the founder and his family until the founder's line of descent became extinct. They were often set up as an indirect way of avoiding too strict a division of the property under the Islamic law of succession, retaining it for the male members of the family in undivided form.
<b>Zakah</b>	<i>Lit:</i> To purify. <i>Tech:</i> A tax that is levied on all persons having wealth above an exemption limit ( <i>nisab</i> ) at a rate fixed by the <i>Shari'ah</i> to purify wealth and souls from impure love. The object is to take away a part of the wealth of the well-to-do and to distribute it among the poor and the needy. It is levied on cash, cattle, agricultural produce, minerals, capital invested in industry and business, etc. The distribution of <i>Zakah</i> fund has been laid down in the <i>Qur'an</i> (9: 60) and is for the poor, the needy, the <i>Zakah</i> -collectors, those whose heart have to be reconciled, captives and debtors, travelers when in difficulty, and in the way of God. The <i>Zakah</i> is payable if the owner is a Muslim and a sane person. The <i>Zakah</i> is the third pillar of Islam. The term <i>sadaqah</i> also occurs in the <i>Qur'an</i> and incorporates <i>Zakah</i> . The <i>sadaqah</i> is of two kinds: <i>sadaqah tatawwu'iyah</i> (voluntary charity) and <i>sadaqah mafrudhah</i> (obligatory charity). In the terminology of <i>fiqh</i> , a clear distinction between <i>sadaqah</i> and <i>Zakah</i> is made, since <i>sadaqah</i> generally refers to any kind of charity that is given voluntarily. <i>Zakah</i> signifies the obligatory contribution that every well-off Muslim has to pay to the Islamic state or distribute it among its beneficiaries.