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Integration of Waqf and Islamic Microfinance for Poverty Reduction: A Survey in Kuala Selangor, Malaysia

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Abstract

Waqf has generally been related to the religion and the socio-economic system of Muslim societies. It has played a vital role throughout Islamic history. On the other hand, Islamic Microfinance (IsMF) is expanding rapidly in the Muslim countries. The IsMF is considered as a key instrument for providing funds to poor micro investors. Since both waqf and IsMF emphasize sustainability, and since waqf can assist to reduce the cost of capital in operation of IsMF, the research aims to develop an integrated waqf based microfinance model applicable in some Muslim countries. This will ensure utilisation of the combined resources of Waqf and IMF institutions in alleviating poverty, an objective that both the two institutions share. The present study focuses in in Kuala Selangor, Malaysia, using 102 sahabat (clients) from Amanah Ikhtiar Malaysia (AIM). Structural equation modeling is adopted to examine the relationship among the five constructs i.e., Waqf Resources, IsMF, Takaful, Human Resources and Poverty Alleviation. While the reliability and validity were established, the structural relationship between the constructs reveals that the model has to be modified. Specifically, the result shows only takaful has significant impact in reducing poverty while others are found to be insignificant. This suggests that the model as well as the instrument should be further developed.

Keywords: Waqf; Islamic microfinance; poverty reduction, Malaysia, OIC countries

1. Introduction

Waqf has generally been related to the religion and the socio-economic system of Muslim societies. It has played very important roles throughout Islamic history. Since the first period of Islam, this institution has developed and spread so widely that it has become accepted as one of to the vital sectors that contribute immensely to building human societies and catering for their socio-economic welfare especially in terms of poverty alleviation. In addition to the Waqf institution, the Muslim Ummah has also experienced the evolution of Islamic Microfinance (IMF). The duo has common objectives of fighting poverty and one major characteristic of sustainability. While the former could supply the fund and reduce the cost of capital the later would benefit from subsidized cost and increase in funds availability. Previous researches such as Hassan (2010) and Ahmed (2007) argue for the integration of these institutions yet it remains at theoretical level. Therefore the research felt the need to integrate these two institutions for a better outcome particularly for the welfare development of the OIC member countries.This will also enhance the effectiveness of IMF and Waqf institutions in addressing the socio-economic needs of the society, particularly the poverty alleviation programs.

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2. Waqf and Islamic Microfinance Development

Under the objective of Innovative Modes of Commercialization of the *Waqf* Land, Malaysia is introducing an Islamic capital market product for securitization of *waqf* property through *sukuk* instrument. In the meantime, several states such as Johor, Melaka and Selangor have already issued *waqf* shares. Cash Waqf has been introduced by the Waqf authorities for fund raising purposes which are channeled to various Waqf activities. Besides, the respective authorities have established various types of cash waqf concept such as waqf shares models, takaful waqf model and corporate cash waqf models (Magda, 2008).

On the other hand, microfinance is becoming a popular tool to finance loans for micro-enterprises and the poor. Such practices in Malaysia include Amanah Ikhtiar Malaysia (AIM) and Islamic pawn broking (*ArRahnu*). In 1987, AIM was established with the intention to help hardcore poor households. Nevertheless, AIM receives service charge (10 percent) from its clients below the prevailing market rates. Since its inception, AIM has disbursed more than RM2.3 billion in loans to its clients (*Amanah ikhtiar Malaysia,* AIM Report, 2009). Ar-rahnu is mainly for the middle income class women that have gold and keep it for safe with the institution and borrow money for business activities. In this arrangement the women have to pay service charge for keeping the gold.

The concept of Integration of Waqf into IsMF has been proposed by many researchers. Their intent is to promote the essence of various Islamic institutions such as zakah, waqf and qardhasan in ensuring justice, equity, social peace and for the fulfilment of the basic needs (Zarqa, 1988; Siddiqi, 2004). Ahmed (2007) emphasizes the prospects of waqf based Microfinance institution in solving the poverty problem. This view is also supported by Cizakca (2004); Elgari(2004); Kahf (2004). These discussions include the role of cash waqf, qardhassan and zakah, as effective sources of fund so that poor borrower can get easy and subsidized loan.

Ahmed (2007) proposes a basic model of *waqf*-based Islamic MFI particularly in addressing the issue of sustainability. He has identified so many other obstacles that originate from shortage of fund such as lack of proper supervision and monitoring, low productivity of field worker due to low wage, quitting from IMFIs etc. which all eventually lead to increase the probability of loan default and lowering the expected income of MFIs. To the author, all these problems can be resolved by adopting *waqf*-based Islamic MFI.

On the liability side, cash waqf, waqf certificates will be used for collecting the capital for MFI and the Shari'ah compatible saving facilities will be also provided to the public depositors in the form of mudarabah or profit-sharing contracts. Besides, takaful reserve is introduced as the backup for the beneficiaries in case of loan default. Again, a profit equalizing reserve has also taken into consideration where a small portion will be subtracted from the profit-share of depositors. Subsequently, this reserve will be utilized in order to boost the rates of returns on deposits once they get depressed. 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 have various types of assets. It comprises of low-risk fixed-income assets, Microfinancing activities that includes investments and qard. Here, the investment will be made on various Islamic modes of financing i.e., mudaraba, ijarah, salam, istisna, mudrabah, musharakah etc. depending upon the appropriateness of the microenterprises.

In addressing various risks associated with waqf-based MFI, Ahmed (2007) suggests MFI creating 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 reserves to overcome the depositor's withdrawal risks. The author also proposes that a portion of waqf funds can be channeled through micro-financing which again depends on the takaful and capital reserves. Once these reserves get increased, a higher portion of waqf fund can be employed in financing microfinance sector. In this arrangement, IMFIs can extend their lending coverage and outreach without lowering their profit margin.

In his study, Hasan (2010) sheds light on integrated model with the support of Zakat. In the redistributive approach, both Zakat and Sadaqa along with Awqaf would have strong and effective mechanism in alleviating poverty through the provision of health services, educational and infrastructural facilities, resource and employment creation (*Sadeq, 1995*). It is suggested raising the cash fund through issuing Awqaf certificates that can be used for financing development projects.

According to Hasan (2010), Zakat funds will be given to the borrowers (hard-core poor) for their consumption need whereas the Awqaf fund will be used as investible fund that will work as capital investment and working capital for micro-business. It will minimize the risk of loan default as the consumption needs of the poor borrowers have already met. One of the characteristics of this model is that it will ensure the equitable distribution of income and welfare of the poor people.

Awqaf which is considered as a perpetual charity (in the form of fixed property, land or buildings, cash money, books, shares, stocks, and other assets) can generate and bring benefit to certain types of philanthropic activities such as providing religious education, community services and maintenance of the Mosques (Kahf, n.d).

Manjoo, (2008) argues that Zakah and Waqf can be effective tools for poverty alleviation. He emphasizes on voluntary sector like Zakah and Waqf can well address the needs of economically disadvantaged people. He proposes to establish Waqf as a Public Benefit Organization (PBO). The waqf fund under *Poverty Entrepreneurship Scheme* will be used for assisting the poor by creating employment opportunities. The Waqf fund can be channeled through micro financing. Among the Islamic financial Modes of operations, a Mudarabah, joint-venture, contract will be suitable for poverty alleviation. It is also suggested that an Islamic venture capital model can be well structured which will help its partner to sell the Waqf share at higher rate and thus ensure their level of self-sufficiency.

Realizing the importance of both waqf and IsMF institution and considering the proposition of many scholars, the present study draw following conceptual framework for the poverty alleviation in OIC member states:

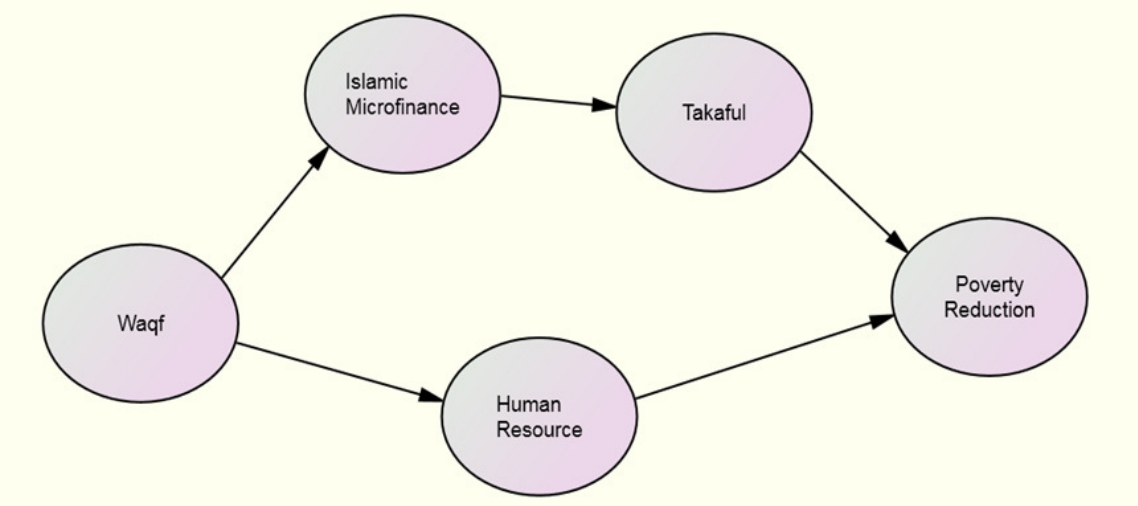


Figure 1. Conceptual Framework

Research Hypothesis

H1: Waqf reduces the cost of Capital in microfinance services
H2: Waqf influences human resource by providing training among clients of microfinance
H3: Islamic microfinance services provide safety net among the clients of microfinance
H4: Takaful reduces poverty effects among clients of microfinance
H5: Human resource development influences poverty level among clients of microfinance

3. Research Method

The motive behind the study is to get the ideas, approaches, and clues that the research team may not have foreseen before conducting the pilot study. Besides, researchers get the opportunity to reduce the number of unanticipated problems in actual study based on the outcome of pilot study. Thus, the study enhanced the chances of getting comprehend finding that will be more favourable for the main survey.

The survey instrument is developed based on previous studies and reports. The instrument is divided into six sections i.e., demographic information, poverty alleviation programme/scheme, assets based indicators, food related indicators and dwelling related indicators to capture the overall socio-economic conditions of the respondents. The last section is on Integrated Waqf Based Islamic Microfinance Model (IWIMM) designed in a way to verify the needs of the proposed model among the respondents.

3.1 Data collection

A total of 32 enumerators split into 7 groups for 3 centers. A group consists of five members visited the SKIMSEL and interviewed only 6 respondents. Three groups had visited Centre 2 to get the respondents before they joined the weekly meeting at 10.30. Another three groups went to Centre 1 and waited until the group meeting ends. After the weekly group meeting, the enumerators took the opportunity to interview the respondents on random basis.

3.2 Area of study and sample Size

Kuala Selangor, located in Selangor, Malaysia, around 90 Km from Kula Lumpur, was selected for the pilot study due to the existence of different MFIs (AIM, SKIMSEL) and the diversities of the respondents.

A research team consists of 6 members participated in the pilot survey for observing and supervising the pilot survey.

The survey covered a total of 102 samples from both AIM and SKIMSEL in Kuala Selangor. Two centers of AIM (NurFadilah and DarulHanah Centres) and one center of SKIMSEL were selected purposively for the pilot survey.

3.3 Structural Equation Modelling

Structural Equation Modelling (SEM) was adopted to test the fitness of the IWIM model with the data observed among the microfinance clients in Malaysia. The use of Structural equation modelling as a statistical technique has grown widely in behavioral science researches. The method enables researchers to evaluate and modify the theoretical models. It also provides opportunities for theory buildings by the researchers (Anderson and Gerbing, 1988). The measurement model or Confirmatory Factor Analysis specifies relations of the constructs with the constructs allowed to inter-correlate freely (Anderson and Gerbing, 1988).

The research therefore, uses structural equation modeling software Amos version 18.0 to generate goodness of fit indicators and to evaluate how well the data fits the model (Mayhem et al, 2009, p.453). Before running the Structural Equation Modeling we conducted a confirmatory factor analysis on the latent constructs to assess the degree in which our results follow the theory and predict the constructs in the IWIMM. Conducting Confirmatory Factor Analysis is a valuable step in achieving construct validity (Kline, 2011). Nonetheless, the research also considered expert view on the constructs to represent content validity. Expert opinion is considered as the basis for establishing whether item content is representative (Kline, 2011, p.60).In conducting the pilot survey the instrument was given to 5 experts for their comments and through this some important notes were made. In conducting factor analysis, from the 43 measuring items only 20 items were retained for further analysis as shown in table 3 above. These were used in conducting CFA for the five latent constructs as they were all loaded with factor loading above 0.50.

4. Result and Analysis

This section highlights on descriptive statistics in order to present the overall findings of the research. The factor analysis has been conducted to identify the most relevant factors of the proposed model. Besides, the reliability test provides support on validating the instrument adopted in the research. Finally, the structural equation modeling is adopted in testing the hypothesis.

4.1 Descriptive statistics

As the Microfinance Institution focuses on the female clients, the pilot survey includes only female respondents. It is important to present the demographic information of respondents to observe their personal profile and economic condition. The pilot survey shows that significant number of the respondents (43.1%) is falling in the age group between 30-34. This is followed by the respondents that are in the age group of 45-59 (41.2%) . However, only a small percentage (4.9%) is found between 60-64 years. It indicates that both AIM and SKIMSEL have been successfully able to capture the productive group of the population. Furthermore, majority of the respondents are married (93%) and around half (52.9%) of them have 5 to 7 family members whereas one fifth of the respondents (20.6%) have family consists of 8-10 members. Bottom line is Microfinance Program makes female client self-sufficient which has greater impact in contributing their family (Table 1).

Table 1. Age, Marital status and Family Size of the Respondents

Item	Frequency	Percent
Female	102	100.0
Age		
15-29	11	10.8
30-44	44	43.1
45-59	42	41.2
60-64	5	4.9
Marital Status		
Single	1	1.0
Married	93	91.2
Widowed	6	5.9
Divorced	2	2.0
Family Size		
Below 5	26	25.5
5-7	54	52.9
8-10	21	20.6
Above 10	1	1.0
Total	102	100.0

Source: Pilot Survey (2012)

Education and training are considered the most indispensable qualifications for economic prosperity. It is interesting to observe the level of education and status of training among the respondents. The survey result shows various educational qualifications of respondents where half of them have secondary education (52.9%), less than one-third of them have primary education are (28%). Besides, very insignificant portion of the respondents have diploma (8.8%), informal education (3.9%), Islamic school/Madrassa education (2.9%) and other types of education (2.9%). In other way of getting educational experience is considering the years of schooling among the respondents. It is found that less than half of the respondents (47.1%) and more than a one third of the respondents (38.2%), have the experience of 6-10 years and 10 and above, respectively, of schooling experiences. Only small portion of the total respondents (15%) have schooling experience less than 5 years of schooling experience (Table 2).

Table 2. Education and Training of the Respondents

Item	Frequency	Percent
Level of Education		
Informal Education	4	3.9
Islamic Schools/Madrassa	3	2.9
Primary School	29	28.4
Secondary School	54	52.9
Diploma/College	9	8.8
Others	3	2.9
Years of Schooling		
5 and below	15	14.7
6-10	48	47.1
10 and above	39	38.2
Vocational training		
Yes	30	29.4
No	72	70.6
Previous Training		
Hand phone/Mobile	34	33.3
Computer and Internet	2	2.0
Not Applicable	66	64.7
Total	102	100.0

Source: Pilot Survey (2012)

It is pertinent observe the correlation between education and vocational training among the respondents. Theoretically, both are positively correlated, in other words, the educated person is expected to participate in training for enhancing the production. However, it is found that a good portion of the respondents (70%) have not taken any vocational training even though more than half of them have at least secondary education while the remaining 30% have training experience. In addition, more than half of the respondents (61.8%) claim that they do not have any previous training experiences while one third of them (33.3%) have the experiences (Table 3).

Even though the majority of respondents have schooling and educational experiences, their participation in vocational training is limited and not up to the mark which can be a major impediment to make the best use of microfinance program and a great barrier to increase their productivity and income.

Table 3. Occupation of the Respondent

Item	Frequency	Percent
Current Occupation of the Respondent		
Housewife	9	8.8
Farmer/Tiller	1	1.0
Fishing	1	1.0
Livestock	2	2.0
Factory Worker	4	3.9
Govt. Servant	2	2.0
Business/ Services	68	66.7
Other	15	14.7
Experience in Previous Occupation		
1-2	18	17.6
3-4	7	6.9
5 and above	77	75.5
Experience in Current Occupation		
1-2	16	15.7
3-4	10	9.8
5 and above	76	74.5
Total	102	100.0

Source: Pilot Survey (2012)

Table 3 shows the frequency distribution of various occupations of the respondents. A significant number of them (66.7%) involve in business/services and small part of them (14.7%) are in other

professions whereas very small portion (8.8%), (3.9%) and (2%) are housewives, factory workers and livestock farmers respectively. Very insignificant portion of the respondents (2%) and (1 %,) are government servant and farmers/tillers/fisherman, respectively. In relation to the occupational experience, it shows that majority of them (75%) have 5 years and more experiences in their previous occupation as well as current occupation which are beneficial to utilize the microfinance in most efficient ways.

Table 4. Income and Expenditure of the Respondents

Item	Frequency	Percent
Previous Monthly Income		
<500	35	34.3
500-1000	32	31.4
1001-1500	14	13.7
>1500	21	20.6
Current Monthly Income		
<500	12	11.8
500-1000	28	27.5
1001-1500	19	18.6
>1500	43	42.2
Previous Monthly Expenditure		
<500	47	46.1
500-1000	25	24.5
1001-1500	18	17.6
>1500	12	11.8
Current Monthly Expenditure		
<500	23	22.5
500-1000	41	40.2
1001-1500	21	20.6
>1500	17	16.7
Total	102	100.0

Source: Pilot Survey (2012)

Income and expenditure are the most important indicators of economic well-being. Particularly, it is interesting to see whether the income and expenditures level of the respondents have increased or not. Before joining the AIM, around 34% of the respondents earned less than 500 ringgit a month while 31.4% of them earned between RM 500-1000, 20.6% earned over 1500, 13.7% earned between RM 1001-1500. Presently, around42% of the respondents have income more than RM 1500 while a small group (11.8%) has the income less than RM 500. Less than half of the respondent's (41%) income fall under the category between RM500-1500. The income pattern of the respondents indicates that most of them have been able to increase their income level after joining the AIM and SKIMSEL program (table 4).

The monthly expenditure patterns of the respondents are also shown in table 4. It shows that previously 46.1% of the respondents had expenditure less than RM500 and 24.5% of the respondent had expenditure between RM 500-1000, 17.6% of them had expenditure between RM 10001-1500 and only 11.8% of them had expenditure more than RM1500. At present, less than half of the respondents have expenditure between RM 500 -1000 and one fifth of them have expenditure between RM 10001-1500 while few of them (16.7%) have monthly expenditure greater than RM 1500.

In terms of monthly saving, previously the tendencies of saving were very low among the respondents where 38.2% of the respondents have savings less than RM100 and 22.5% of them have no savings. At present, saving awareness has been increased among the respondents due to their participation in the AIM program. It is found that more than half of the respondents (52%) have saving between RM 100-400 while few of them have savings more than RM 400 per month. The number of respondents who had zero savings previously now declined from 22.7 % to 7.8% at present, a good indication of accumulation of money for future investment (Table 5).

Table 5. Savings of the Respondents

Item	Frequency	Percent
Previous Savings		
<100	39	38.2
101-200	19	18.6
201-300	7	6.9
301-400	7	6.9
>400	7	6.9
None	23	22.5
Current Savings		
<100	24	23.5
101-200	23	22.5
201-300	15	14.7
301-400	15	14.7
>400	17	16.7
None	8	7.8
Total	102	100.0

Source: Pilot Survey (2012)

One of the objectives of the research is to identify the poverty profile of the respondents. It is good to observe the awareness level of poverty alleviation programme/scheme among the respondents. The questionnaire was designed in a way to capture the awareness level of respondents on poverty alleviation programes offered by government, private body, NGOs, Islamic Institutions and community based organizations. The pilot survey shows that majority of them (91.2%) are fully aware of the program while a few (8.8%) of them are not aware of the program. More specifically, 57.8% of the respondents are aware of while 42% are not aware of poverty alleviation program/scheme offered by the government. Again, majority of them (88.2%) are not aware of while few others (11.8%) are aware of any private program/scheme. Besides, 41.2% of total respondents are aware of NGOs Program/scheme while are aware while 58.8 % are not aware of the program. Interestingly, most of them (more than 97%) do not know about the programs offered by Islamic Institutions and community based organization (table 6).

The information above reveals that due to the average level of educational background most of the respondents know about the poverty alleviation program, but when it comes to the question of how details are their awareness level are on the specific program, our filed survey shows very negative result. Only half of the respondents know well about the NGO programs whereas most of them are not aware on the poverty alleviation programs offered by various institutions mentioned at the outset.

Table 6. Awareness Level of the Respondents

Item	Frequency	Percent
Poverty alleviation program/scheme		
Yes	93	91.2
No	9	8.8
Govt. Program /Scheme		
Yes	59	57.8
No	43	42.2
Private Program /Scheme		
Yes	12	11.8
No	90	88.2
NGOs Program /Scheme		
Yes	42	41.2
No	60	58.8
Islamic Institutional Program /scheme		
Yes	3	2.9
No	99	97.1
Community Based Program /Scheme		
Yes	1	1.0
No	101	99.0
Total	102	100.0

Source: Pilot Survey (2012)

Besides the awareness level, respondents were also asked how beneficial those programs in affecting their lives are. The main intention here is to identify whether the program can satisfy their needs or not. A good number of respondents (36.3%) claimed that the program is very much beneficial while 21.6% claimed that the program is only beneficial to them. In the case of NGOs, about one third of the respondents (31.2%) claimed that program is beneficial (Table 7).

Table 7. Beneficial Level of the Respondents

Item	Frequency	Percent
Govt. Program /Scheme		
Very much beneficial	37	36.3
Beneficial	22	21.6
Not beneficial	1	1.0
Not Applicable	42	41.2
NGOs Program /Scheme		
Very much beneficial	31	30.4
Beneficial	9	8.8
Not Applicable	62	60.8
Total	102	100.0

Source: Pilot Survey (2012)

Another objective of survey instrument was to identify the multiple membership of Microfinance of the respondents. The main reason is that whether the existing MFI that they subscribe to is sufficiently provide capital and other facilities helping to upgrade their economic and social life. All the respondents are the members of AIM and SKIMSEL. Even though these two MFIs follow the Islamic principles in their lending operation, their borrowers have different opinions. It is found that more than half of the respondents (52.9%) believe their MFI is Islamic and around one-fifth of them (20.6%) believe that they are dealing with conventional MFIs whereas more than one-fourth of them (25.5%) could not classify the type of MFI they involve in. Also, the majority of the respondents (87.3%) maintain single membership, a few of them (10.8%) take loan from two MFIs and very few of them (2%) receive loan from at least three MFIs at a time. The membership trend among the respondents indicates that majority of them are having better loan and other facilities from the single MFI (table 8).

Table 8. Membership of the Respondents

Item	Frequency	Percent
Type of MFI		
Islamic	65	63.7
Conventional	22	21.6
Both	15	14.7
Membership of MFIs		
1	89	87.3
2	11	10.8
3 and above	2	2.0
Islamic MFIs		
1	54	52.9
2	21	20.6
3	1	1.0
Not Applicable	26	25.5
Total	102	100.0

Source: Pilot Survey (2012)

It is vital to know the experience of respondents in dealing with MFIs. The survey result shows that less than half of them have the experience in MF programme from 1-2 years, one-third of them (32.4%) have experience 7 years and above, 17.6% of them have experience between 3-4 years whereas only few of them (9.8%) have the experience of MFP between 5-6 years (table 9). In other words, more than 60% of the respondents are involved in MFP for more than two years. This can be one of the reasons why the income and savings level of the majority of the respondents get increased (see table 4 & 5).

Table 9. Years in Microfinance Program and Sources of Loan

Item	Frequency	Percent
Years in Microfinance Program		
1-2	41	40.2
3-4	18	17.6
5-6	10	9.8
7 and above	33	32.4
Source (s) Loan		
MFIs	87	85.3
Banks	5	4.9
Family	5	4.9
Others	5	4.9
MFIs		
<500	5	4.9
500-1000	1	1.0
1001-1500	1	1.0
>1500	80	78.4
None Banks	15	14.7
<500	2	2.0
500-1000	1	1.0
1001-1500	1	1.0
>1500	4	3.9
None	94	92.2
To what extent do you consider yourself indebted?		
Highly Indebted	3	2.9
Moderately Indebted	43	42.2
Least Indebted	56	54.9
Total	102	100.0

Source: Pilot Survey (2012)

In relation to the sources of the loan, most of the respondents (85%) manage to get the loan from MFIs while very few of them (5%) receive loan from bank, family and other sources. Also, we are interested to know the amount of money they receive from the various sources. The survey result indicates that majority of the respondents (78%) receive loan from the MFIs which is more RM 1500 while only small numbers of them (4%) receive the same amount from the bank. It is one of the claims against MFIs that their members are always in the debt cycle. Here, our respondents feel that they are moderately indebted (42.2%) and least indebted (54.9%) (Table 9).

The justification is that the respondents income, saving and expenditure are expanding with the increasing level of loan amount over the years. According to the AIM officials, its takes 3 loan turn over to completely self-sufficient and it difficult to predict how long it will take to economically sound.

Table 10 describes the asset of the respondents and its value as well as the sources of income used in purchasing the items. As depicted in the table, about 98% of the respondents do not use funds from MFIs to purchase their assets. Only 1% of them use MFIs funds to purchase asset below RM5000 and another 1% purchase asset worth between 5001-10,000. The findings indicate that the respondents may have accumulated certain assets prior to joining the programs or the loan is not sufficient therefore they cannot buy assets from it alone. However, about 84.3% used other means to acquire their assets depicting the respondents seems to be more compatible with other alternative source of funding in purchasing assets while value of asset funded from other sources above 15000 of accounts for 12.0%.

With regard to the sufficiency and quality of the food, the table shows that majority of the respondents (90.2%) have enough food to eat for 30days, while only 9.8% do not have enough for thirty days. It also shows that majority of the respondents (57.8%) would not buy additional food item if their income doubles. In addition, 31.4% would like to spend less than 50% of the increase, 10.8% will spend between 50-79% of the increment. This means they have low marginal propensity to consume on their income indicating that they live above poverty line of the country.

Besides that, the quality and sufficiency of the food of the respondents also as observed by the researchers were 66% and 79% respectively. This commensurate with the living standard in Malaysia which is relatively high.

Table 10. Value of Assets funded from MFIs

Variable	Category	Frequency	Percent
Value of Assets funded from MFIs	Below 5000	1	1.0
	5001-10000	1	1.0
	Not Applicable	100	98.0
Value of Assets funded from Others			
	None	1	1.0
	Below 5000	1	1.0
	5001-10000	1	1.0
	10001-15000	1	1.0
	Above 15000	12	12.0
	Not Applicable	86	84.0
Enough Food for the last 30 days			
	Yes	10	9.8
	No	92	90.2
Marginal Propensity to consume			
	0%	59	57.8
	less than 50%	32	31.4
	50-79%	11	10.8
Ownership status of the respondents	Built on squatter land	1	1.0
	Own property	78	76.5
	Given by relative or others to use	5	4.9
	Provided by government	2	2.0
	Rented	16	15.7
Number of rooms	1-2	36	35.3
	3-4	52	51.0
	5-6	12	11.8
	7 and above	2	2.0

Source: Pilot Survey (2012)

Moreover, the table 10shows that majority of the respondents (76.5%) live in their personal shelters, 15.7% occupy rented property, 4.9% uses properties given by relative, while only 1% lives in a squatter land.

In terms of number of rooms, the table also shows that the houses with 3-4 accounts for 51.1%, houses with 1-2 rooms attracts 35.3%, houses with 5-6 rooms represents 11.8%, while only 2% of the respondents' houses has 7 and above rooms indicating that the household may be benefitting from the sub-urban area settlements where the land is much available and relatively cheaper compared to those living in the city.

4.2 Factor analysis

Factor analysis was computed and items correlated on at least .3 with Kaiser-Meyer-Olkin measure of sampling adequacy which was .587, above the recommended value of .5 Andy (2005, Hair 2010, Tabachnick2007), Kaiser (1974) cited in Andy 2005, KMO value of 0.5 and above is acceptable and that sample size of between 100-200 with communality of 0.5 acceptable. The Bartlett's test of Sphericity was significant ($\chi 2$ (300) = 2238.556,($p < .05$). The diagonals of the anti-image correlation matrix were all over .5, except for some items which were later deleted from the analysis. Finally, the communalities were all above .5 further confirming that most of the items shared some common variance with other items. Given these overall indicators, factor analysis was conducted with options 'if items deleted' (Table 18).

Principle components analysis was used because the primary purpose was to identify and compute composite involvement scores for the factors underlying the questionnaire. The initial eigen values showed that the first factor explained 14.090% of the variance, the second factor 10.812% of the variance, the third factor 6.737% of the variance and the fourth, factors had eigen values above 1, explaining 6.486% of the total variance. . Four, factor solutions were examined, using varimax rotations of the factor loading matrix. The four factor solution, which explained 44.263% of the variance, was preferred because of its theoretical support. The factor loading matrix for this final solution is presented in the table above.

The cronba`s alpha was found to be 0.75 indicating that the instruments is reliable with adequate internal consistency (Table 11).

Table 11 Factor Analysis (Test Result)

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.587
Bartlett's Test of Sphericity	Approx. Chi-Square	2238.556
	df	903
	Sig.	.000

4.3 Instrument development

The instruments are developed in four stages. First, previous studies were used to draft the first draft of the items. Second, the research team, after several meetings, itemized and agreed on the comprehensive instruments. Third, various experts were invited within the countries under study to provide their comments and fourth, pilot study was conducted in State of Selangor Malaysia so as to empirically validate the instrument. Means and standard deviation were taken and the average mean of all the 43 items is 3.285 while the variance is 0.544 indicating a relatively good measurement items.

Table 12. Constructs Validity

Construct	Items Statement	Comm	Mean	Std dev.
Islamic Microfinance (α = 0.350.)	I have difficulties accessing loan from MFIs	.648	2.00	1.227
	I do not receive sufficient/enough amount of loan to operate my business	.730	2.32	1.394
	I face difficulties to pay back my loan due to the terms and conditions of MFIs	.760	2.10	1.316
Takaful (α = 0. 65)	I do not have enough financial support when I am ill.	.675	2.41	1.155
	I do not have any financial support if I incur accident.	.689	2.31	1.126
	I do not have protection if my business incurs huge loss.	.788	2.79	1.345
	I do not have enough financial support for my family in my retirement.	.661	2.73	1.212
	I do not have adequate financial support when my family members incur accident.	.830	2.74	1.242
Waqf (α =0. 82)	Waqf can solve my capital problem to run the business..	.823	3.75	1.031
	Waqf can be used to providing health services in my community	.856	3.86	.965
	Waqf resources can be supportive in educating me.	.855	3.83	.868
	Waqf resources can be helpful in educating my wife and children.	.854	3.83	.857
	Waqf money can be used to set up business training centre for the poor in my community.	.849	4.00	.890
Human Resource (α = 0. 71)	I have not got enough chance to learn from training centre/formal/informal informal institutions to do business.	.705	3.25	1.440
	I have not gone to school to enrich my knowledge of directing the business.	.739	3.68	1.268
	I have not received any training on how to improve the quality of my product.	.802	3.40	1.388
	I have not got the chance to learn how to keep record of my business.	.718	3.37	1.342
	I have not received lesson from any MFI to improve my understanding and practice of religion	.769	3.04	1.400
Poverty Reduction (α = 0. 53)	I believe that the cost of borrowing is very high	.744	2.60	1.307
	I am still poor because much of my money is spent on family problems such as accident and illness.	.798	2.07	1.017

The table above shows the results of constructs validity as well as the items representing variables in the constructs. The communalities were all above 0.6 which is quite good for an exploratory or pilot test. The values of the constructs were all above 0.5 except Islamic microfinance construct. This may be due awareness questions that constitute good number of the constructs and these items were found to be low loaded and therefore were deleted from the further analysis. This also means the awareness about Islamic

microfinance is low. For acceptance purpose awareness must be created among the clients of microfinance about the existence and nature of Islamic microfinance. This may increase their consciousness to choose Islamic microfinance by implication the IWIMM model under study.

4.4 Model fitness

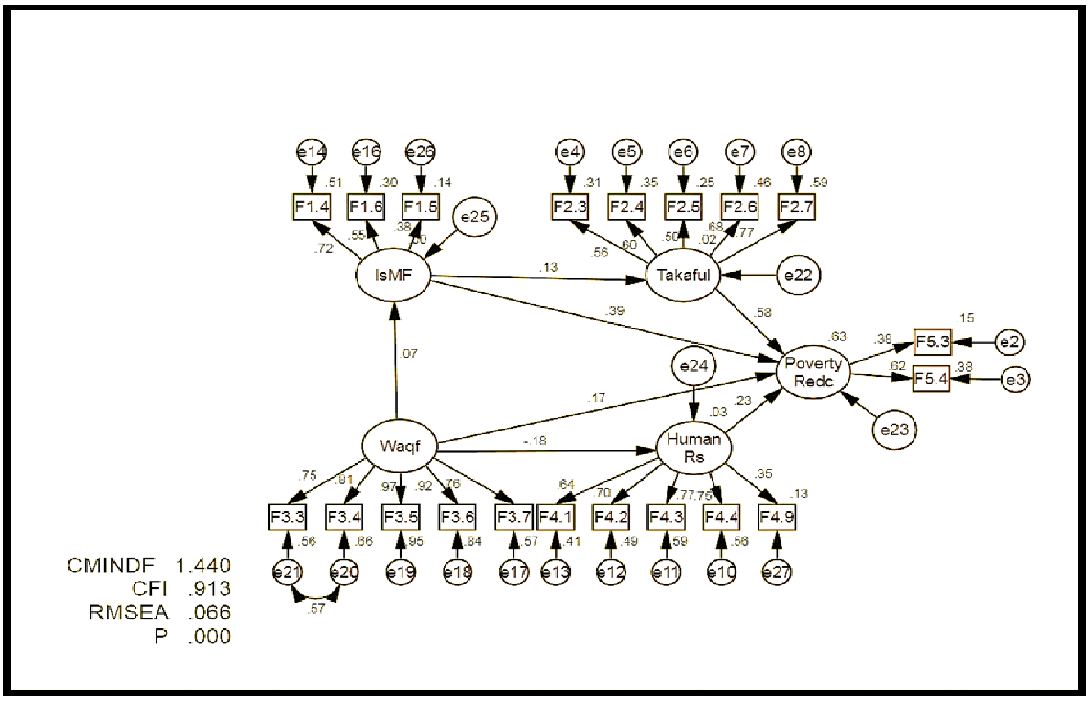
Initially, the baseline model reveals indices above the cut off indicating lack of fitness of the data into the model. However some of the fit indices for measurement model were adequate. The researchers therefore examined the modification indices (MI) where it was revealed that the measurement errors could be reduced by correlating few items on the waqf and these were allowed to be feely correlated. Similarly, theoretically and practically microfinance reduces poverty therefore a path was added into the model and significant improvement was made. In addition, waqf was also linked with the poverty reduction and the result confirms this assertions. Therefore in the revised model, reveals better fitting indicators. Yet, one of the indices was not acceptable (P-Value significant). Table 16 below reveals the model fit indices and their cut-off values.

Table 13. Model Fit Indices and its cut-off value

Fit Indices	Cut-off	Observed Values	Decisions
CMIN/DF	5	1.440	Accept the goodness of fit of the model
CFI	0.90	0.913	Accept the goodness of fit of the model
NFI	0.9	0.91	Accept the goodness of fit of the model
RMSEA	0.08	0.066	Accept the goodness of fit of the model
P	>0.05	0.00	Modify/proceed with caution

Table 13 represents the fits indices, their cut-off points as found in the literature, the value found in the research and finally the interpretation or decision rule based on the cut-off point and the research findings. Although some fit indices indicate acceptance of the model, one of the indices show otherwise. There are a number of these indices and researchers differ on the best indices and which to report among them. Generally, chi-square is reported. However, due its sensitivity to sample size, many researchers suggest to report at least three other indicators of goodness of fit such as CMINDF, CFI and RMSEA. A good-fitting model is one that is reasonably consistent with the data and so does not require re-specification (Kenny, 2011). In this study, normed chi-square (chi-square/df), CFI, RMSEA and P-value were reported. Overall the result reveals that the model does not fit the data well (figure 1) (Kline, p.60, 2005).Hence, the researchers revised the model which makes theoretical sense with significant improvement in the indices yet statistically is not significant (Kline, 2005, p.11; Kline, 2010). This, perhaps, is due to the nature of the sample that lives above national poverty line and the sample size. Kline (2011) also suggest minimum of 200 for a path model with 20 indicators. According Bentler and Chou (1987) and Hair et al. (2010) a ratio of sample size to free parameters should be 5:1. In the case of this pilot study with 43 free parameters, a minimum of 215 respondents should be targeted although, SEM software accepts as minimum as 100 sample size (Sahari, 2011).

Figure 2: Baseline Model



Moreover, the parameters estimate reveals mixed results. However, the parameters also show logical direction of the results except one path (waqf to human resource). The reason for this may be due to unavailability of the training facilities by the microfinance providers in Malaysia. The squared multiple correlations (SMC) show the reliability of the variables as 63% of variance in the endogenous variable is accounted by the exogenous variable (Tabachinik and Fidell, 2007).

Table 14. Detail Estimates result based on Maximum Likelihood

			Estimate	S.E.	C.R.	P
IsMF	<---	waqf	.087	.167	.518	.604
Takaful	<---	IsMF	.097	.108	.900	.368
Human_Rs	<---	waqf	-.269	.168	-1.605	.108
Poverty_Red	<---	Takaful	.452	.198	2.290	.022
Poverty_Red	<---	Human_Rs	.116	.084	1.392	.164
Poverty_Red	<---	waqf	.125	.111	1.127	.260
Poverty_Red	<---	IsMF	.221	.132	1.673	.094

Table 15. Hypotheses

Hypothesis	Decision
H1: Waqf reduces the cost of Capital in microfinance services	Not Supported
H2:Waqf influences human resource by providing training among clients of microfinance	Not Supported
H3: Islamic microfinance services provide safety net among the clients of microfinance	Not Supported
H4:Takaful reduces poverty effects among clients of microfinance	Supported
H5: Human resource development influences poverty level among clients of microfinance	Not Supported

Among these entire hypotheses only one was found to be significant i.e. impact of Takaful on poverty with parameter estimate of 0.58 (hypothesis 4). Again, this is due to the reasons mentioned earlier such as

small sample size and the extent the respondents understood the questions from the enumerators. This calls for revising the instrument by simplifying it as well as the model to meet the parsimony principle in SEM. It also requires further training of the enumerators as some of the participated enumerators attended only last 2 sessions out of five sessions the researchers organized.

5. Concluding remarks

Poverty dominates the agenda of developing countries, so also solutions to fight the poverty. The problem is more pronounced in OIC member countries. This is despite the abundance of human and natural resources, apart from the existing unutilized and underutilized Islamic economics institutions such as waqf. Recently, waqf is argued to support Islamic microfinance and achieve the sustainability of both institutions. The major objective of this study is to develop integrated waqf based microfinance for OIC countries. Specifically, the objective of the pilot study is to validate the instrument developed using empirical data in Kuala Selangor Malaysia. The result of the pilot survey shows that the instruments are valid and reliable except that it can be improved further. This inference is drawn also from the result of the constructs validity tests and the full-fledged structural equation modeling.

Apart from the field survey information uncovered the study have developed the communication skills of the enumerators that could not get the opportunity to observe the living and dwelling condition of the respondents. However, some limitations of the study are noticeable. Firstly, the study should be conducted in suburban areas of Selangor, while the remote areas of some other states like Kelantan, Sabah and Sarawak where relatively less well-off borrowers could provide better feedbacks. In addition, few Microfinance programs (except for AIM and SKIMSEL) are found in the selected area; otherwise, the study could generate diverse outcomes and supporting the proposed model.

Taken as whole, the study suggests modifying the model in order to achieve the goal of poverty alleviation in OIC member countries, particularly in Malaysia. It is therefore recommended that the further study should emphasize more on the sampling size, techniques and survey areas with proper instruments development.

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