



# Challenges in Implementing Mosque-Centred Cash *Waqf*-Based Micro-Financing Model in Selangor State

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## ABSTRACT

Economic contribution of medium, small and micro-enterprises (MSME) is considered as one of the vital sectors of the nation. Micro-enterprises emulate a key role in creating job opportunities for the workforce and significantly contributes to the GDP of the country. Despite being an important force in an economy, micro enterprises experience several issues and challenges in accessing external finance. After consulting key industry stakeholders, a sustainable cash *Waqf* based micro financing model was proposed and developed targeting micro enterprises in Selangor state of Malaysia. This study attempted to explore the potential regulatory and legal challenges in implementing above proposed model. This study carried out semi structured interviews with three practitioners from leading *Waqf* and mosque administrative institutions in Selangor state in Malaysia. The outcomes of the interviews found that, the proposed model is not contradicting with the existing legal and regulatory provisions subject to minor revisions and necessary approval from relevant authorities. The study outcome highlights the relevance of cash *Waqf* based micro finance institutions and providing necessary training for stakeholders of the proposed model is an important factor for the sustainable adoption. The outcome of this study may enlighten policy makers and *Waqf* administrators for implementing Islamic social financial solutions using *Waqf* assets and provide framework for usage of *Waqf* assets in a sustainable manner.

## 1. Introduction

Micro enterprises are emerging as a significant sector of economy as it constitutes significantly to gross domestic product (GDP) and provide livelihood opportunities to thousands of people. The development of the micro enterprises sub-sector is significant in ensuring shared prosperity and growth of nation. Small Medium Enterprises (SME) sector provide significant contribution in poverty alleviation because micro enterprises make up more than 75 percent of total SMEs in Malaysia. However, for micro enterprises securing from finance from established financial institutions' is a challenging exercise as the risks associated with latter are unavoidable. Despite the continuous efforts from the government of Malaysia by supporting with series of financial schemes and human capital development initiatives to develop the micro enterprises. However, the sector is

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surrounded with several least attended issues. According to the results of series of studies, Malaysian micro enterprises encounter problems in securing finance. Considerable number of micro enterprises was unsuccessful in obtaining financing from financial institutions as they rated as a business entity associated with excessive risks. The lack of availability of collaterals to securitize the financing facility, higher cost of financing, difficulty in providing a proper forecast of future cash inflow of the business and lack of creative business plans is among the factors that act as barriers to them from obtaining finance from mainstream financial institutions.

A series of studies highlighted that; Malaysian Micro enterprises face constrains in accessing to the finance. Majority of micro enterprises faced difficulties in obtaining external financing as they are rated as a market segment associated with higher risk (Duc et al., 2008). According to Haniff, Akma, & Lee, (2017), the key concerns cited by financial institutions for denial of financing are substandard financial track records and unsatisfactory credit history recorded at the Central Credit Reference Information (CCRIS), due to record of defaults or delinquency, low capital contribution, record of continuous losses and higher leverage. Addition to above, failure to provide information such bank statements, income tax returns or management accounts to assess repayment capacity and credibility concerns such as record of misuse of firm's funds for personal use by owners were major concerns. (Haniff et.al 2017). The requirement of collateral, higher cost of financing, difficulty in providing business operational details and lack of creative business plans is among the factors that act as barrier to them from obtaining finance (Imtiyaz, 2022). Similar to their conventional counterpart, majority of the Islamic financial institutions are reluctant to finance due to risks associated with such Micro enterprises. Lack of interest in serving micro enterprises by contemporary commercial banks, could be due to several reasons such as economic non-viability, Limited availability of funding, lack of expertise in managing the business, lack of availability of collateral to securitize the facility, credit risk, uncertain nature of business and legal structure of business (Thaker et al., 2017). Islamic banking sector would be considering broader objectives rather than focusing on a high-risk segments like microfinancing (Ariffin et.al, 2019) These objective based reasons and risk aversive phenomenon, arises for requirement of an Islamic microfinance institution to serve the financing requirements of Micro enterprises. There is a possibility of bringing in the *Waqf* endowments into the Islamic microfinance framework to finance the Micro enterprises.

The mosque is an important center for religious and other social, economic, and cultural activities of Muslims. Mosques are utilized for daily prayers, delivering lectures, conducting religious classes for minor and adults, organizing and coordinating developments programmes of the village and various other services. Mosques are managed by group of trustees organized as an entity called as Mosque Administration Committee (*Ahli Jawatan Kuasa -AJK*). They are entrusted for administrating religious affairs and manage the activities of mosques. Appointment and operational activities of these AJK's are under the supervision of the SIRC. As *Mutawalli* of *Waqf* assets in the state, PWS could engage members of these mosques administration committees (AJK)'s as their agents to handle the administrative task of the process of mosque-based cash *Waqf* financing model at village level in Selangor state. Directing certain administration and operational tasks of the model to mosque-based administration committee (AJK) will reduce the workload of PWS officials in tasks of identifying the finance needy Micro enterprises, post financing supervision of the business activities and collection of repayments etc. This will minimize the default risk by Micro enterprises as the business is operating at village level and owners of Micro enterprises are regularly interact with the mosque administration committee (AJK) officials on day-to-day basis. This strategy substantially reduces the operational costs of the *Waqf* manager compared to other SME finance providers on tasks of post financing monitoring. Also, with the availability of modern online payment gateways, financing and repayments could be arranged via virtual means as well thus minimizing the role of handling cash

transactions by Mosque administration committee (AJK) officials.

Considering the importance and contribution of the micro enterprises of Malaysia, this study formulated a cash *Waqf* based micro financing model. In order to explore the practical implications of the model, this study conducted an in-depth analysis on prospects and challenges in utilizing members of mosque administration committees (AJK) as agents of PWS and exploring the views of relevant stakeholders on adoptability and sustainability of the suggested model. Implementing a financial model requires several levels of approvals and endorsements from various policy making and regulatory organizations. This study attempts to explore views of officials of SIRC and PWS on adoptability and sustainability of the proposed model.

This study aims to explore prospects and challenges in utilizing members of mosque administration committees (AJK) as agents of PWS. Further study aims to explore the potential regulatory and legal challenges from the view of relevant stakeholders. Specifically on the challenges on adoptability and sustainability of the model suggested in the study.

The significance of this study will be two-fold, namely impact on society and Islamic economic sector. Implementation of proposed model may enable micro entrepreneurs to secure much-needed financing for their projects. The potential recipients of financing will be mostly Muslims and the majority of them are ethnically Malays. Currently the government of Malaysia is making tremendous efforts to encourage an entrepreneurial culture among the Muslims and to absorb them into the business sector as entrepreneurs rather than depending on employment opportunities in the public and private sector. The proposed model will encourage more Muslim youth to undertake business opportunities as their business ideas are translated to a reality via availability of hassle-free *shariah*-based financing schemes. Furthermore, the Malaysian government is spending large amount of public funds on subsidies and grants to empower poor and low-income families in urban and rural areas.

Guiding the poor and low-income households to self-sufficiency through entrepreneurship will enhance their lives and eradicate poverty among them as well. Thus, the government can divert such funds to other priority development activities of the nation. Furthermore, this model will pave the way to reduce the workload of Microfinance institutions which are mostly dependant on government grants to support micro enterprises. In addition, to the above this study will explore new avenues for idling *Waqf* assets to utilize in full capacity and income derived from such financing activities that could help the sustainability of *Waqf* assets against inflationary economic conditions. The income derived from financing activities also could be utilized to support recipients of *Waqf*, to whom *Waqf* assets are entrusted by initial donors.

Following section discuss about analysis of available literature on the issues and challenges in financing micro enterprises. There after study outlines the research methodology adopted followed analysis of the data collected and detailed discussion on findings. Finally, a section summarizes the study with the conclusions.

## 2. Literature review

### 2.1. *Waqf* as Islamic Social Financing Tool

*Waqf* played a major role in providing social services to the society in Islamic state throughout the history as an Islamic social financing tool. The primary objective of having a *Waqf* system in the Muslim society is for sustainable and uninterrupted provision of religious based services (Including maintenance of Mosques), Islamic education (operating universities and religious schools), social welfare and socio-economic assistance to the needy and other sundry needs of the Muslims. Cash *Waqf* as an innovative financial tool is, indeed, a new product in the arena of Islamic finance and

banking sector (Razak et al., 2021).

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

**Table 1.** Amounts collected as *Waqf* by the PWS

	General (Cash) <i>Waqf</i>	Special <i>Waqf</i>
2014	8,030,089.00	18,350,268.00
2015	7,061,854.00	25,325,048.00
2016	7,869,136.00	35,136,363.00
2017	7,751,908.00	38,900,662.00
2018	10,044,756.00	32,068,559.00
2019	10,770,305.00	35,110,720.00
2022	11,311,279.00	51,968,000.00
2023	11,480,535.00	69,553,000.00

Source: Perbadanan Wakaf Selangor (2023)

This section reviews the literature of about the case *Waqf* based micro financing models. There are notable conceptual models suggested by various studies in the same context.

Cash *Waqf* gained popularity among Islamic economists as an innovative financial tool for Islamic social financing. Nurrachmi (2012) described that, the funds endowed in institutions of cash *Waqf*, can be either invested or loaned out to earn income and target projects that would be beneficial to the general public. A series of studies was conducted on the application of Cash *Waqf* for financing of small businesses particularly micro enterprises (Mafaza et al., 2021).

Cizakza (2011) suggested a model where the cash *Waqf* could be utilized to meet the social objectives in the society by providing financing assistance for the entrepreneurs through the concept of partnership (*mudharabah*). He further suggested that cash *Waqf* could be used as microfinance tool to help the poor and small entrepreneurs (Cizakza, 2011). However, the concept of *mudharabah* is considered as the riskiest mode of contract among the micro finance practitioners.

Laahasna (2010) suggested a cash *Waqf* model to enable the financial services for SMEs in Malaysia including contracts of debt and equity financing. The investment of cash *Waqf* could be channeled via contracts such as *Mudharabah*, *Murabahah*, *Bai Bithaman Ajil*, *Ijarah*, *Istisna*, and *Musharakah* for SMEs in Malaysia. However, Laahasna (2010) focused on the entire SME industry in Malaysia whereas the current study specifically focuses on micro enterprises.

Thaker et al. (2016) developed a model known as an integrated cash *Waqf* micro enterprises investment (ICWME-I) for micro enterprises in Malaysia. The ICWME-I suggests an alternative mode of financing micro enterprises to start-up or develop their business by utilizing cash *Waqf* fund. Further to the above, the study discusses the human capital development of micro entrepreneurs as well. The suggested model is based on *Musharakah* partnership concept, and the providing of cash *Waqf* directly in the form of cash for micro financing is not compliant with the existing religious rulings of SIRC's and only the benefits derived from cash *Waqf* could be given as finance in a form of cash. Further, providing cash to micro entrepreneurs and accounting for profit sharing as per partnership contract are challenging exercises considering the nature of micro entrepreneurs. Further, the above study lacks a detailed operational aspect of the model in the context of its practicality.

Kachkar (2017) suggested a cash *Waqf* based model, Cash *Waqf* Refugee Microfinance Fund (CWRMF) to extend microfinance for refugees around the world. This model includes a takaful scheme where refugees will guarantee each other on mutual understanding. However, the model did not consider local legislations and *Waqf* procedures, especially, in the case of Malaysia where, *Waqf* assets are administered by SIRC's. Further to above, the model has not considered the role and involvement of *Waqf* administrators.

Rana et al., (2020) proposed a *Waqf* based micro financing model as a poverty alleviation tool, where cash *Waqf* is invested in the businesses of micro entrepreneurs under the Mudarabah financing arrangement. However, the study overlooked the regulatory and operation aspects of the model, especially on disbursing the *Waqf* in the form of cash to the micro entrepreneur and practical issues in accounting for profit under the *Mudhrabah* arrangements. Addition to the models proposed by the contemporary authors, the study reviews the models being practiced which are based on cash *Waqf* and other philanthropy in different legislations. Common feature of these models, operations of the models are based in mosques.

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

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

Further, there are numbers of models suggested in the previous studies, that empirically tested however did not suggest an operational framework considering practical, legal, and regulatory barriers in handling cash *Waqf* based models, as administrating *Waqf* is a subject matter of state governments in Malaysia. Further, the above studies did not stress on risk minimizing strategies to minimize the moral hazard issues surrounding cash *Waqf* based micro financing. Further, these

models suggest financing products based on partnership contracts such as *mudharaba* and *musharaka*. However, existing *Waqf* enactments in Malaysia do not support the direct provision of cash from cash *Waqf* funds as financing facilities. Therefore, this study suggests an *Ijarah* financing arrangement to overcome the above constraints and risks. This study attempts to overcome the limitations identified in above contemporary models by suggesting a model named as mosque based sustainable financing model for micro enterprises using cash *Waqf* (MOSFEN). This model is a form of asset financing contract between the PWS and the micro enterprises. The members of mosque administration committees (AJK officials) will act as agent between the PWS and micro enterprises. This model will apply *Ijarah* based asset financing as mode of finance. Deploying AJK Officers as agent of PWS is strategy use for liaising, application verifying, post finance monitoring and repayment collection procedures. The study anticipate above strategies will significantly minimise the risks involved in micro financing.

### 2.3. Introducing the “Mosque based financing model for micro enterprises using cash *Waqf*” (MOSFEN) in Selangor of Malaysia.

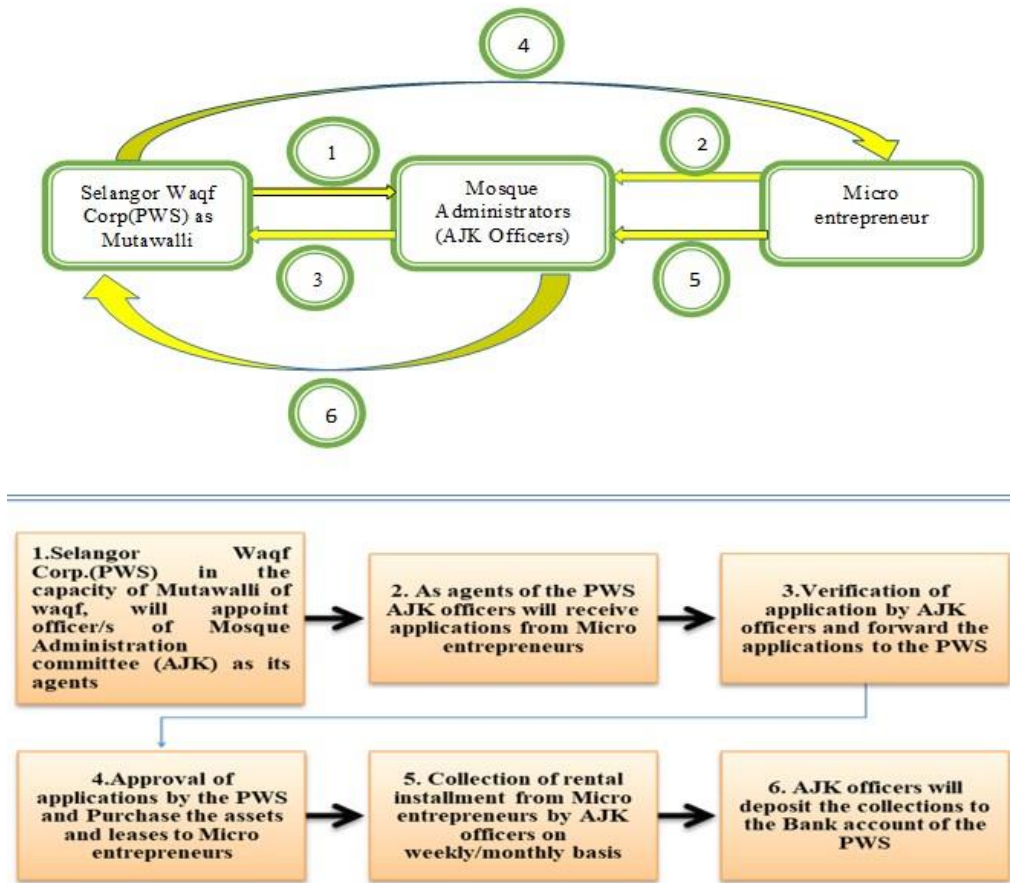
Considering above challenges and obstacles faced by micro enterprises, this study tries to formulate a financing model for micro enterprises for using cash *Waqf* as source of finance. This model intent to apply the Islamic financing principal of *Ijarah* based financing. In this case PWS will act as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

As depicted on the Figure 1, According to the model the PWS will appoint a person or group of individuals from Mosque Administration committee (AJK) as agent of the *Mutawalli* and such agency appointment has provisions in *Waqf* enactment of Selangor state. Micro enterprises within the vicinity of mosque may forward applications for *Ijarah* financing for use assets for various business purposes through the appointed AJK officers (agent of *Mutawalli*). AJK officers will carry out the initial screening of application including verification on the prospects of the business, credit worthiness of the applicants and other moral factors. Thereafter applications will be forwarded to PWS with their recommendations. After reviewing the application and PWS will finally decide on the approval of financing. In case if the application is successful the *Mutawalli* will release the finance to the Micro entrepreneur from endowed cash *Waqf* funds collected through the Selangor state cash *Waqf* programmes. In return Micro entrepreneur should handover rental instalments to appointed AJK officers at the mosque on weekly or monthly basis (i.e., after the noon prayers on every Friday or last Friday of the month). AJK officers will deposit the rental collections to the bank account of PWS. Further an appointed AJK officers are entitled to an agency fee from the rental income of PWS.

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



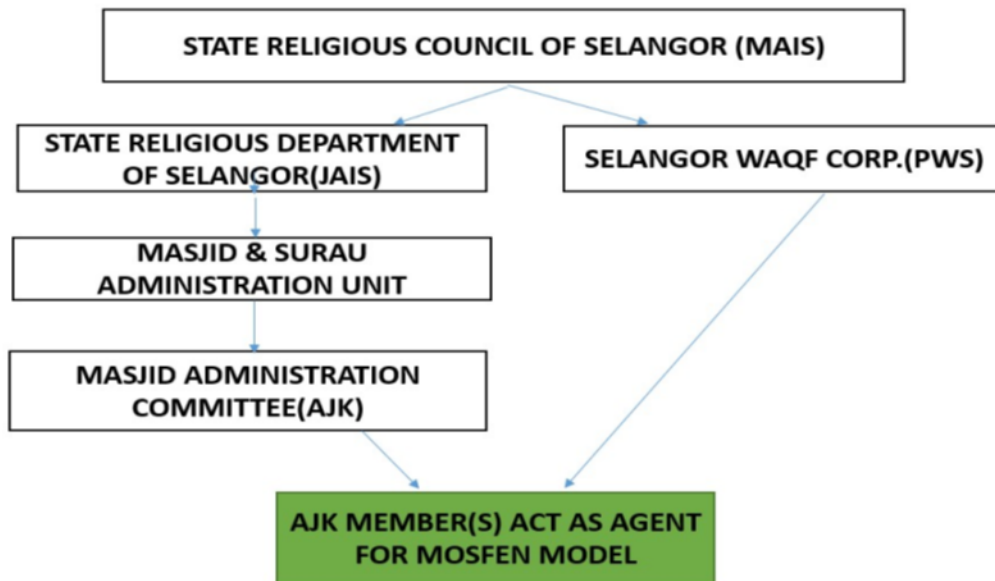
**Figure 1.** Process flow of the model



**2.4. Governing structure of the MOSFEN model**

As depicted in the Figure 2, the Institutions namely PWS and JAIS are under the purview of MAIS. According to the proposed MOSFEN model, The PWS will enter into an agreement with Mosque Administration Division of JAIS in order to hire the service of AJK member in the capacity of agents. The PWS will appoint an individual or group of individuals from Mosque Administration committee (AJK) as agents of the *Waqf* manager. Micro entrepreneurs who live within the vicinity of the mosque will forward applications for financing to the PWS through the appointed AJK officers (agent of *Waqf* manager). AJK officers will carry out the initial screening of application including verification on the prospects of the business feasibility, credit worthiness of the applicant and moral factors. Thereafter application will be forwarded to the PWS with their recommendations and an update will be given to applicant as well. After reviewing, the application the PWS will finally decide on the approval of financing.

To identify the challenges of implementation and sustainability of the proposed MOSFEN model, this study conducted an in-depth discussion with the stakeholders in the relevant regulatory and administrative agencies.

**Figure 2.** Governing Structure of the MOSFEN Model

### 3. Research methodology

This study conducted interviews using semi structured format to gather primary data. According to Ryan et al., (2009) semi structured interviews provide more lenience to the process of interview despite having prearranged open-ended questions as semi structured interviews may have unexpected responses and issues. The interview questions are designed to the gauge the various aspects of challenges in implementing the proposed model in micro financing in Malaysia. In order to answer the research questions, officials from Perbadanan Wakaf Selangor (PWS), Yayasan Wakaf Malaysia (YWM) and State Islamic Religious Department Selangor (JAIS)) were interviewed. Table 2 depicts the profile of the interviewees. The discussion of the findings includes quotes from interview participants. The quotations of interviewees are numbered (R1 to R6) with references to the respondent's profile.

**Table 2.** Profile of Interviewees

No	Institutions	Position	Codes
1	Perbadanan Wakaf Selangor	Head of Finance Division	R1
2	Yayasan Wakaf Malaysia (YWM)	Executive Officer- Research and Waqf Division	R1
3	State Islamic Religious Dept, Selangor (JAIS)	Senior Assistant Director- Masjid Administration Division-	R3

Generally, all interviews were conducted in the English language except for few interviews, which were conducted in Malay language. The interview conversations were recorded through a digital recording device. To ensure the uninterrupted flow, interviews protocols and procedures have fulfilled requirements such as the well-prepared list of questions, date and time and location of interviews conducted, Information about interviewees and positions held by them. Thereafter



gathered data were transcribed into written format and analysed thematically in order to narrow down to the common themes which represented views of participants. The qualitative data analysis part of this study is divided as sections of data reduction, data display and conclusion. (Sekaran and Bougie 2010). This study adopted the thematic analysis for interview data analysis processes. According to Yin (2015) in qualitative studies, there are five major steps in the process of thematic analysis: (a) Compiling, (b) Disassembling, (c) Reassembling, (d) Interpreting, and (e) Concluding. The study identified themes that were explored from the respective interviewees according to the requirement of the research question. After thematic analysis, the study identified related themes for the research question.

#### 4. Results and Discussion

The total of three interviews were conducted with official from PWS, YWM and JAIS. These interviews were specifically focused on practical challenges in implementing the model suggested by the study. These challenges include utilizing cash *Waqf* for Ijarah based micro financing and appointment of AJK officers as agent of PWS. The data collected by the study identified seven major themes and these themes are presented in Table 3

**Table 3.** Categorical themes and Interview questions

Categorical Theme	Interview Questions
Role of the PWS	a) What do you think about the role of PWS in handling this model? b) Do you suggest PWS should directly handle the MOSFEN model or need to set up micro financing entity or subunit?
Legal issues in appointing agents	a) What are the legal and regulatory issues may arise when using AJK as an agent of PWS in this model? b) What is your suggestion to overcome above regulatory issues in this regard?
Maintaining the Impartiality of AJK Officers	a) Whether AJK members are capable to handle procedures impartially and genuinely of MOSFEN model?
Sustainability of the model	a) what factors contribute to the sustainability of adopting MOSFEN model?
Challenges in implementation of the model	a) What are the likely challenges in implementing the above MOSFEN model?
Launching the model	a) In general, if you can get the approval from Mufti and Bank Negara Malaysia, are you able to launch this model?

The total of 03 interviews were conducted with official from PWS, YWM and JAIS. These interviews were specifically focused on practical challenges in implementing the model suggested by the study. These challenges include utilizing cash *Waqf* for Ijarah based micro financing and appointment of AJK officers as agent of PWS. The data collected by the study identified seven major themes and these themes are presented in Table 3

##### 4.1. Role of the PWS

The participating interviewees were asked about their views on the role of the PWS as financial provider in the suggested MOSFEN model. Also, participants were asked whether the PWS with

current capacity, can handle the model or need a specialized subsidiary for handling the aspects of the model. All the participants (n=3) agreed that the PWS should set up a dedicated subunit or department if they are willing to handle the role of micro financing as suggested in the MOSFEN model. In addition to above a few participants opined that in initial stage the PWS should launch the model as pilot project covering one or two mosques in Selangor state. Below are the some of the opinions of participants that were derived from interviews:

*"I think it (The model) is a good one, as I mentioned this will be a pilot project for us. Even we can complement with Lembaga Zakat Selangor, our siblings under the MAIS. Maybe we can collaborate with them in terms on how to filter the micro entrepreneurs and also collaborate on training, because they are providing training also. I think for the first 3 to 5 years of launching this structure, we need sub-unit. If the project is a success, maybe we can setup just institute like AIM and TEKUN."* (R1)

*"The role is to monitor the AJK officer and to shortlist the candidates who will be successful recipients. The PWS have to monitor the progress of the project. Because we don't know how AJK officers will manage the project. In terms of the governance of the funds also, the PWS has a very crucial role. We don't want the financing to be given to entrepreneurs is being mismanaged even though it is a small amount. They should setup a subunit for this type of micro financing, because there are teams for handling the asset, Waqf asset and other departments. Therefore, a micro finance department/unit should be setup to ensure the program can run smoothly."* (R2)

*"They need to have a dedicated team to handle this matter. Setting up an entity will ensure higher success rates in terms of better focus, project monitoring, better knowledge and understanding and proper accountability."* (R3)

According to the above findings all the participants opined that the PWS has to set up a dedicated subunit or department to undertake the role of microfinancing as suggested by the MOSFEN model. Further participants highlighted that a separate unit would enhance the focus and accountability of the task. Addition to above views interviewees mentioned that the PWS can initiate the suggested model with a pilot project as well. Table 4 summarizes the responses as below:

**Table 4.** Role of the PWS

Participant's Opinion	R1	R2	R3	Total
a Dedicated microfinancing unit under PWS	✓	✓	✓	3/3
b Better focus	✓	✓	✓	3/3
c Accountability	✓	✓	✓	3/3
d Pilot Project	✓	n.a	n.a	1/3

#### 4.2. Legal issues in appointing agents

The participating interviewees were asked about their opinions on legal and regulatory issues in appointing AJK officers as agents of the PWS as suggested in the MOSFEN model. Addition to that also asked them about the strategies to overcome such issues. All participating interviewees (n=3) agreed that there are no legal or regulatory barriers in appointing AJK officers as agent of the PWS and further interviewees from PWS and JAIS (n=2) highlighted that the LZS are currently appointing officers from respective localities to verify the living conditions of the Asnaf (eligible recipients) of

Zakat funds. Addition to above, all the participating interviewees suggested to formulate clear guidelines and SOPs from PWS and JAIS on the role of AJK officers. Below are some opinions of participants that were derived from interviews.

*“Actually, we have done this for Waqf khas (specific Waqf), where we appointed around 5 people to collect Waqf khas from selected mosques and suraus. So, I think that specific person can also be the AJK officers for this model as well. Yes, there is possibility to appoint AJK officer as an agent because we are allowed to do so. I don’t see this as an issue but, I think there must also have staff from PWS when collecting repayments (from micro entrepreneurs) after Jumaat prayer. It is because the chances to do fraud is high when we are talking about the public fund. So, there should be two persons from masjid AJK officers and 1 staff from the PWS should be in the committee or bureau of microfinance. I think we have to go to Bank Negara in order to obtain permission, because when we were doing the unit trust project, we went to Shariah Committee of Bank Negara to get the approval.” (R1)*

*“Utilizing AJK member is good because they already know their society well rather than other people. Currently, they can focus on their own society like qariah. Just like amil for zakat, they (The PWS) have to do an agreement (with AJK officers) to be appointed as agent. The agreement must state the rules and SOP etc., so they have to comply/obligate with the agreement. When the agreement is there, the risk of misconducts will be reduced. When there is an agreement, it will help to reduce this kind of problem’s must setup a focus group, In Yayasan wakaf, we have shariah committee and investment and finance committee, but before we go to these 2 types of committee, we consulted the Department of AG (attorney general) also we discussed with Legal Affairs Division, on the related legal issues and we collect the feedback and we present it to our shariah and finance committees, but with Perbadanan Wakaf Selangor, they have their own committee and for fatwa, they can go to their Mufti where the Mufti have their own regular meeting so they can present this issue and also get feedbacks from the State Legal Advisor.” (R2)*

*“If the PWS is okay with appointing agents, we also okay with it. But we must take the approval from our board including Mufti. But initial proposal should come from PWS, these are just a matter of paper procedures. If the PWS approved, we don’t have any problems. But the structure or system on how to manage the model, PWS must do the initiative, such as SOP or structure about what should we do include mentioning process flow. [...] But we must look on how the technicality of the system. Because it is a bit complicated. First of all, PWS must give the authority to the masjid AJK officers. This is similar to the case of verifying Asnaf where the AJK officer must get the appointment letter from Lembaga Zakat Selangor (LZS) to verify the asnaf and collect money etc. This system also the similar the LZS, must have letter from PWS to appoint someone as the collector. Now we are applying this into a new model. Currently there is no agents in wakaf matters, it is all done by staffs of the PWS. The PWS officer is the one who find the money, such as put donation box (tabung) to collect the money. But if masjid AJK officers can act as the agents, it is much more preferable as it is more convenient for the public. The Appointing agents must have approval from the relevant department for example, JAIS. For wakaf matters they must have the source of power (puncakuasa) and should have the proper guidelines because it involves money collection from other people (micro enterprises) in form of rental etc. So, it must have proper procedures from the JAIS and PWS.” (R3)*

According to the above findings all the participants opined that there is no legal or regulatory obstacle in appointing AJK officers as agents of the PWS subject to prior approval from relevant authorities such as Securities commission of BNM, Office of Mufti of Selangor and JAIS. Further to above, participant highlighted the importance of formulating clear SOPs and guidelines for the role of AJK officers as suggested in the MOSFEN model. Table 5 summarizes the responses as below:

**Table 5.** Legal issues in appointing agents

Participant's Opinion	R1	R2	R3	Total
a Possibility of appointing agents	✓	✓	✓	3/3
b Clear SOPs and guidelines for AJK officers	✓	✓	✓	3/3
c Safety Protocols	✓	n.a.	✓	2/3
d Approval from relevant authorities	✓	✓	✓	3/3

Source: Authors' own

### 4.3. Maintaining the Impartiality of AJK Officers

The participating interviewees were asked about their opinions on maintaining the impartiality of the AJK officers while performing their role according to the MOSFEN model. All the participating interviewees on this matter (n=3) opined that the AJK officers should abide to the rules and regulations stipulated and their performances are to be appraised on periodical basis. Further to above participating interviews suggested that noncomplying AJK officers be replaced. Following is the some of the views expressed by the participants that were derived from interviews:

*"As I said earlier, that the PWS should also have one or two our staffs to handle the model, because there has been lot of cases when you put only our staff, theft happen and also when you put AJK officer only, also there are cases of thefts happen. It must have a checks and balance system."* (R1)

*"The PWS have to do interviews and assessments on their performance so that at the end of the year, we look at their improvement. If it is good, then we continue appointing the same person but if it is not then we have to change to another person."* (R2)

*"We have the regulations, so just need to follow the regulations, then it's okay. If have any problem, we give them advice. But if they still do not want to follow the regulations, then they will face legal action or will be terminated from the role."* (R3)

According to above findings the participating interviewees agreed that there should a proper checks and balance system to be implemented on the operational aspects of the MOSFEN, especially on handling of finance matters. Further to above interviewees suggested to review their performances on periodical basis and take appropriate corrective measures accordingly. Table 6 summarizes the responses as below:

**Table 6.** Maintaining the Impartiality of AJK Officers

Participant's Opinion	R1	R21	R3	Total
a Checks and balance systems in operations	✓	✓	✓	3/3
b Periodical Performance reviews	n.a	✓	✓	2/3
c Compliance	✓	✓	✓	3/3
d Corrective measures	n.a	✓	✓	2/3

This study recommends to developing a training program for potential AJK officers on the operational aspects of the MOSFEN models and strengthening the legal and contractual binding

between AJK officers and PWS in order to ensure the good governance, transparency and accountability.

#### 4.4. Sustainability of the model

The participating interviewees were asked about their opinions and suggestions on maintaining the sustainability of the suggested MOSFEN model. Majority of participating (n=3) interviewees opined that the continuous commitment from all stakeholders including AJK officers is an important factor for sustainability of the model. Further to above Three participant mentioned that continuous training is also important for the sustainability. Additional to above a participant highlighted the importance of including a Takaful cover for the MOSFEN model in order to cover the unforeseen losses. Below are the some of the opinions and suggestions mentioned by the interviewees.

*“If you provide funds on Ijarah with an expectation of a return and AJK officers will receive an agency fee for their service from PWS, yes, it is sustainable. Also, commitment of all parties involved and continuous training also important. What happen if the entrepreneur going to bankrupt? Must have a solution. What happen if the person collapsed? For that you must be ready, one thing is Insurance. Are there any insurance options for the MOSFEN model? Include a small takaful cover is my suggestion for improvements. In some instance people keep forgetting that they are obligated to pay back. People assume that the if the funding from the government does not need to pay back. People forget about their have taken a loan and treat it as zakat. But when they get the lawsuit, they start to be paying the money back. This means that, legal action will bring much help in these programs. So sometimes you need to take legal actions as well.” (R1)*

*“Every part of this model, meaning this PWS, AJK and entrepreneurs have their own parts and responsibilities to ensure that this model can be sustained. If PWS is the only one who committed compared to the other two, then the model will be collapsed.” (R2)*

*“Since you’re giving in the form of product or machinery, you have to go do regular inspections whether they’re running their business or not, if they are not running the business, we must have some rights to collect it back so that we can give it to someone else who really needs it. because sometimes they will take it, they will get the product for 6 months then they find it difficult to run the business, then they will just keep it and we also don’t know whether they still running or not, so better for us have regular check up on them. we have to give them training also, how to expand their business. Some small gathering, bring someone who success in that particular business to give them briefing; how he success in the same business. Just like a helping each other, share their ideas to bring them up because if we give financing it doesn’t mean we helped them. We have to guide them in the business, because they don’t know how to expand their business.” (R3)*

Based on above findings, Majority of participants agreed that the continuous commitment of all parties of the suggested MOSFEN models an important factor for sustainability. Further to above, the interviewees opined that providing necessary training to AJK officers and participating micro entrepreneurs, compensating the AJK officers for their service, including a Takaful cover for leased assets in the model and implementing proper agreements and control measures are important steps in maintaining the sustainability of the model. Table 7 summarizes the responses as below:

**Table 7.** Sustainability of the model

	Participant's Opinion	R1	R2	R3	Total
a	Commitment from all parties involved	✓	✓	✓	3/3
b	Remuneration for AJK officers	✓	n.a	✓	2/3
c	Continuous training	✓	n.a	✓	2/3
d	Takaful cover for MOSFEN model	✓	n.a	n.a	1/3
e	Proper agreements and control measures	✓	✓	✓	3/3

#### 4.5. Challenges in the implementation of the model

The participating interviewees were asked about their views on likely challenges in implementing the MOSFEN model. The Participants highlighted different perspectives on the matter. One participant highlighted that there will be major challenges as the source funds were provided by the PWS. However, the interviewee raised the safety concerns of the assets financed. Another participant highlighted the possibility of default as a challenge. Further to above another interviewee opined that qualifications gap between AJK officers who are living in urban and rural areas, is a likely challenge in implementing the model. Below are the some of the opinions mentioned by the interviewees:

*“The fund itself from the PWS, so I think there is no problem about implementation, but I think in order to take care of the asset itself, the risk is quite high. Actually, the useful life of the asset should be prolonged, maybe more than 5 to 10 years. [...] we also depreciate them (assets) in the financial statement because it is the procedure, and it is human made law but not from the shariah. When we charge the rental, it is not based on market value, it’s actually on the property, so it is not possible to charge the depreciation value to the lessee.” (R1)*

*“The challenges come from the development of the project, such as default on the project or default from the borrowers where leads to NPL (non-performing loans), this problem also happens in banks so it could happen also in this project as well. We can implement like, AIM where they collect the loan instalments on weekly basis. The size of loan instalments, we have to keep it as low as possible in microfinance.” (R2)*

*“In the First instant we can’t include all Masjids in the state for this model. Maybe we could select few masjids as a pilot project. AJK officers of some mosques are able to handle some are unable. We have 3 regional categories for mosques as urban, sub-urban and Rural mosques. Rural people have different mentality and education levels. For example, Kuala Selangor and Sabak Bernam is different than the Petaling and Gombak.” (R3)*

According to above findings, the participating interviewees opined different perspectives on challenges in implementing the suggested MOSFEN model. Notable opinions were challenges in safeguarding the assets, chances of defaults and qualification gaps of AJK officers depends on the demographical changes. Table 8 summarizes the responses as below:



**Table 8.** Challenges in Implementing the model

	Participant's Opinion	R1	R2	R3	Total
a	Safety of Assets leased	✓	n.a	n.a	1/3
b	Chances of defaults	n.a	✓	n.a	1/3
c	Qualification gaps of AJK officers	n.a	n.a	✓	1/3

This study recommends a comprehensive Takaful cover by PWS to mitigate risks the asset misplacements and mishandling risks. The suggested training program for AJK officer to be designed in such a way that it addresses the inefficiencies arose as result of the qualification gap due to geographical factors.

#### 4.6. Launching the model

The participating interviewee from the PWS was asked about his opinions about the possibility of launching the suggested MOSFEN model subject to necessary fatwas, permissions and approvals are to be obtained from the Office of Mufti at MAIS and the Securities Commission of Bank Negara Malaysia. Below are his views on the matter derived from the interviews:

*“If God willing, yes, we can launch this with no other issues. As long as your targeted clients are general public and beyond (Zakat) asnaf, because of that there are no issues on this model. Again, it is also subject to approval of MAIS. If they approve, then it is ok. Since this model target the general Muslims, this is a better option.” (R1)*

Based on above finding, the participating interviewees from the PWS and JAIS agreed that the suggested MOSFEN model is adoptable for operations subject to the approval from relevant authorities. Also highlight the model as better option because it targets the general Muslims irrespective of zakat receiving status.

## 5. Conclusion

Finding reveals that the PWS require the establishment of a separate subunit or department for cash *Waqf* based microfinancing and the model to be implemented in a pilot project basis selecting few masjids in the Selangor state. Findings further reveal that there the PWS has the authority to appoint agents for specific roles. These findings further support the important feature of the suggested MOSFEN model which is the appointment of AJK officers as agents of the PWS. However, participating interviewees highlighted the importance of issuing clear SOPs and specific guidelines on the conduct and impartiality of AJK officers. Finding on the sustainability of the suggested model reveals that the continuous commitment of all parties involved is essential and to ensure the security of the leased assets to be protected through a Takaful cover. Further findings suggest that the qualification gap between AJK officers living in urban, semi-urban, and urban are a potential limitation for the implementation of the model. Finally participating interviewees from the PWS and JAIS agreed that the suggested model could be successfully adopted after the necessary approval from the Office of Mufti at MAIS and the Securities Commission of Bank Negara Malaysia. Further, it is important to note that, an extended survey among AJK officers to identify their preparedness to undertake the administration task of the model, would provide more insights about the practical challenges and nullify the limitations of this paper.

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