THE ROLE OF ISLAMIC MICROFINANCE IN EMPOWERING THE MICRO ENTREPRENEURS IN MALAYSIA DURING PANDEMIC

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Abstract

COVID-19 outbreak has been causing adverse effects globally. The pandemic has shaken the entire world so much, that it has become an unprecedented health crisis. In Malaysia, the government adopts a number of preventive measures to curb the spread of the virus, one of which is by imposing Movement Control Order (MCO). Notwithstanding the successfulness of the initiative in controlling the pandemic, it has now led to the negative economic consequences. Small businesses particularly the micro entrepreneurs are among the most affected sector. This is due to the restrictions imposed by the government to conduct business activities. Nonetheless, it is believed that Islamic microfinance has the ability to empower the micro entrepreneurs. Therefore, this study aims to plumb the depths of the role of Islamic microfinance in assisting the micro entrepreneurs particularly with regard to the pandemic situation. The library research and content analysis have been adopted to achieve the objective. The result shows that Islamic microfinance can play a vital role to help the micro entrepreneurs to sustain during COVID-19. It is hoped that the study could contribute towards the better practice of Islamic microfinance.

Keywords: Islamic Microfinance, COVID-19, Micro-entrepreneurs, Economic Impact, Movement Control Order

INTRODUCTION

The first quarter of 2020 embarks upon the greatest challenges faced by everyone around the world through the emergence of a new virus called COVID-19. This virus was identified in Wuhan, China on 31 December 2019 and it rapidly spread around the world leading to a global health crisis. According to World Health Organization (WHO) the name of the virus is first known as severe acute respiratory syndrome...
coronavirus 2 (SARS-CoV-2) because the virus is genetically related to SARS outbreak (World Health Organization, 2020). However, on 11 February 2020, WHO announces the official name of this disease as COVID-19 following the guidelines developed by OIE and FAO. Centres for Disease Control and Prevention (CDC) then added that COVID-19 is abbreviated from the name coronavirus disease 2019 in which “CO” stands for corona, “VI” for virus and “D” for disease (CDC, 2020). On 11 March 2020, WHO declares this outbreak as pandemic followed by the increasing cases of the infected patients and fatalities in many countries. The new discovered strain of coronavirus is the type of virus that causes respiratory infections in humans. The symptoms are usually fever, cough, flu and this virus might also attack the respiratory system which can lead to death. However, there are also patients that do not show any symptom but can also infect other people (Lekhraj Rampal et al., 2020).

Malaysia is also not excluded from this outbreak. The first case was identified on 25 January 2020 when 3 Chinese citizens travelled to Malaysia from Singapore (Bernama, 2020a). Unfortunately, the tourist had a close contact with the infected person in Singapore. The first case of COVID-19 in Malaysia propelled the Ministry of Health (MOH) to take a preventive measure by choosing 34 hospitals and screening centres as the main quarantine and screening test centres for COVID-19 patients. However, the infected cases of COVID-19 in Malaysia rapidly increased from the person with a history of travel abroad to the person who has never travelled abroad but had close contact with the infected person. On 12th March 2020, Malaysia reported its first sporadic case of COVID-19 where the infected person neither travelled to an affected area nor had contact with an infected person. The first cluster of covid-19 reported was the religious event that took place in Sri Petaling Mosque that led to the highest positive cases reported in Malaysia which is 553 cases reported on 16 March 2020 (Bernama, 2020b). Tan Sri Muhyiddin Yassin, the Prime Minister of Malaysia announced that the Movement Control Order (MCO) had taken place on 18 March 2020 until 31 March 2020 to curb the spread of the virus. This measure took two weeks and all the non-essential services had closed down and only essential services were allowed to operate during this period.

During this MCO, all businesses, schools, offices, and universities were not allowed to operate and the only essential services allowed were supermarkets, gas stations, pharmacies, hospitals, and banks. The new norm of work and study has shifted from offices and learning institutions to home, using the online platform and everyone was urged to stay at home. The preventive measure issued by the government resulted in many business closures including the manufacturing and service sectors (Hairul Anuar, 2020). The effect of the MCO is really felt by small businesses especially micro businesses. Most of these micro entrepreneurs are self-employed and they depend on the daily wages as their source of income (Che Omar et al., 2020). The closure of the business can really hit this group and it will surely lead to the increasing rate of poverty. As a result, World Banks estimate that COVID-19
could push 71 million people into extreme poverty in 2020 (World Bank, 2020). This scenario will create extreme poverty in countries that are already struggling with poverty. The increasing number of poverty is also significantly higher in developed and developing countries. Hence, the effect of covid-19 gives clear picture that this pandemic has not only created the health crisis but also the economic crisis throughout the world.

The worst scenario has yet to be discovered but the Malaysian government is now taking a serious step to prevent the adverse effect of covid-19. A lot of incentives have been issued by the government to help the sectors hit by covid-19 not excluding the B40 and M40 communities in Malaysia. One of the ways is through the microfinance. Microfinance is seen to be a good way to help the micro entrepreneurs to sustain and operate once the MCO is lifted. This financing is one of the tools used to help the poor by providing them small scale financing for them to operate their own businesses. The government is now channelling the initiative through microfinance institutions such as Amanah Ikhtiar Malaysia (AIM), TEKUN Nasional and other banks such as Bank Simpanan Nasional (BSN) and others under this scheme. This study will look into shariah compliance microfinance known as Islamic microfinance as the core subject of this study. Islamic microfinance can be one of the tools to reduce poverty and great instrument during this covid-19 pandemic. Islamic micro financing is totally different from the financing services offered by other microfinance institutions. Thus, this study is done to explore into the role of Islamic microfinance to reduce the impact of COVID-19 towards micro entrepreneurs.

An Overview of Islamic Microfinance

Microfinance has been popularized by Professor Muhammad Yunus in Bangladesh. The idea of this financial services started through the establishment of Grameen Bank in 1983. The main objective of this program is to establish an effective strategy to alleviate poverty and to empower the rural people through entrepreneurship (Mizanur Rahman & Ahmad, 2010; Obaidullah, 2008). This is done by giving small scale financial services to the poor client so that they get involved in profit generating activities to enhance their quality of life. The poor people are the targeted group because they are often neglected from the mainstream banking system (S. Khan, 2009). The mainstream financial institution always asks for collateral which most of the poor people cannot afford. This scenario has widened the gap between the poor and rich people because poor people would not be qualified to get financing from traditional banks and this inevitably leads to the economic inequalities. The idea is being recognized all over the world and this is the reason for Professor Yunus being awarded the Noble Peace Prize in 2006.

Through this achievement, the idea has been adopted in many countries as the strategy to alleviate poverty and economic empowerment. However, most of the poor people in Islamic countries cannot benefit from this program because this it is not
With most of the Islamic countries now facing extreme poverty, the idea to adopt microfinance as a tool to alleviate poverty is among the best mechanisms. This model is being adopted the sharia principles so that financial products and services can be offered to the clients including Muslims (Hassan et al., 2013). For example, Murabahah, Musyarakah Mutanaqisah and qard al-hassan are among the widely-adopted concepts in structuring the microfinance products (Abdullah et al., 2017). Moreover, the Islamic microfinance design is being integrated with Waqf and Zakat in order to develop charity-based Islamic microfinance (Haneef et al., 2013). From this view, the Islamic microfinance objective is totally a contrast from the conventional microfinance. Even though the idea came from the latter model, this program has successfully reduced the poverty in many countries. The differentiation between these financial services is as follow:
Table 1: Comparison Between Islamic Microfinance and Conventional Microfinance

<table>
<thead>
<tr>
<th></th>
<th>Islamic Microfinance</th>
<th>Conventional Microfinance</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Financial resource</strong></td>
<td>External resource, customers’ savings, zakat, waqf etc.</td>
<td>External resource, customers’ savings</td>
</tr>
<tr>
<td><strong>Financing instrument</strong></td>
<td>Various instruments of Islamic finance, e.g. murābahah, ṣaḥīḥ, ṣaḥāl-ḥasan, mushārakah.</td>
<td>Interest-based loan</td>
</tr>
<tr>
<td><strong>Target population</strong></td>
<td>Moderate and extreme poor</td>
<td>Moderate poor only</td>
</tr>
<tr>
<td><strong>Target group</strong></td>
<td>Family and women</td>
<td>Women only</td>
</tr>
<tr>
<td><strong>Debt load</strong></td>
<td>Client and spouse</td>
<td>Client only</td>
</tr>
<tr>
<td><strong>Modus operandi</strong></td>
<td>Stressing on the aspects of religious value and Shari’a compliance</td>
<td>Secular (not complying with Shari’a)</td>
</tr>
</tbody>
</table>

The Islamic microfinance model is built on capital injection and Islamic principles. As a result, it differs in terms of its business and the principles that have been outlined by Islam (Noipom, 2013). In addition, other important differences include the ban on usury in Islamic financial instruments related to Islamic microfinancing principles. It is clear that Islamic financing differs from the conventional microfinancing in terms of the objectives and purposes as well as the principles used.

In Malaysia, the Islamic microfinance institution is being divided into two types namely: non-poverty-centric microfinance and poverty-centric microfinance. Islamic banks and cooperatives are being referred as non-poverty centric because this institution is focusing more on profit rather than the social objective, even though this financial provider claims to offer Islamic microfinance. Other Islamic microfinance institutions such as AIM can be regarded as poverty-centric because this institution focuses on the economic development of poor people and poverty alleviation through
entrepreneurship. The objective of AIM is similar to the main objective of microfinance:

- To reduce poverty among poor and low-income households in Malaysia by providing micro credit financing to finance activities that can increase income.
- To produce entrepreneurs from the poor and low-income groups.
- To provide continuous financial facilities, guidance and training to entrepreneurs from poor and low-income families.

RESULTS AND DISCUSSION

Government Initiative to Help Micro-Entrepreneur During COVID-19

In order to fight the economic impact of the COVID-19 pandemic, Malaysian Prime Minister Tan Sri Muhyiddin Yassin, has introduced PRIHATIN Rakyat Economic Stimulus Package on 27 March 2020 (Yassin, 2020). The package aims to strengthen the economy including the micro, small and medium businesses in Malaysia. Out of the total value of RM250 billion, RM100 billion has been allocated for businesses including small and medium enterprises (SMEs). On 6 April 2020, an additional RM10 billion was allocated to reduce the financial burden of SMEs and to ensure job retention. Some of the following initiatives are as follows:

1. Special Relief Facility (SRF)
2. All Economic Sectors (AES) Facility
3. Micro Credit Scheme
4. Special Grant for micro SMEs
5. Micro Sector Business Recovery Financing Scheme (CBRM)
6. Wage Subsidy Programme
7. Extension of The Moratorium
8. 6-Month Lease Exemption

As Malaysia is now entering the recovery phase, Tan Sri Muhyiddin Yassin announced the Short-Term Recovery Plan (PENJANA) targeted towards “Empowering the People”, “Propelling Businesses”, and “Stimulating the Economy” on 5 June 2020 (Ministry of Finance Malaysia, 2020). The initiative aims to support the micro and small businesses. Some of the highlighted initiatives might be useful for micro business owner in Malaysia who are affected by COVID-19 as follows:

1. Increased Financing Option

The government is now taking further steps to help micro entrepreneurs through several initiatives to increase the financing option of this group.

- PENJANA Microfinancing
PENJANA microfinancing is one of the government initiatives that help the micro-SME entrepreneurs during this recovery phase. The government allocates RM 400 million to offer further funding support that will be provided to SMEs at a subsidised interest rate of 3.5% per annum as aggregated approved financing capped at RM50,000 per enterprise, and RM50 million specifically earmarked for women entrepreneurs. According to The Malay Chamber of Commerce Malaysia (DPMM), the RM400 million Micro Financing Fund was announced as part of the National Economic Revival Plan (Penjana) will be able to help 40,000 micro-enterprises in the country (Nordin, 2020). This initiative is being channeled to TEKUN Nasional and BSN. Abd Halim added that there are about 950,000 SMEs in the country where 70% or 665,000 of them are micro-SMEs that require capital around RM20,000 to RM25,000. This initiative was also aiming at creating more micro-enterprises and to promote the entrepreneurship. Hence, it will also boost the economy and create more jobs.

- **Bumiputera Relief Financing**
  Bumiputera Relief Financing (BRF) is an initiative provided by the Ministry of Finance Malaysia (MOF) through Pelan Jana Semula Ekonomi (PENJANA) in providing support to Bumiputera entrepreneurs and businesses due to the pandemic of COVID-19 which resulted in the global economic downturn (Perbadanan Usahawan Nasional Berhad, 2020). This initiative is to ensure the recovery and sustainability of the Bumiputera entrepreneurs to adopt the new business model suitable with the norm of the present market and environment. Through this initiative RM 500 million will be dedicated to Bumiputera-owned Shariah-compliant businesses. The initiative is being channeled to Perbadanan Usahawan Nasional Berhad and the financing amount from RM100,000 – RM1 Million.

2. **Digitalization of SME business**

The digital economy has been playing an increasingly significant role during this pandemic and these tough times have called for a "swift action" to adopt the announced measures.

- **Micros and SMEs E-commerce Campaign**
  Registered micro-businesses and small and medium-sized businesses can gain on-board training, sales subsidies and promotional incentives to promote e-commerce. This will be introduced through a co-funded partnership with Malaysia Digital Economy Corporation (MDEC) and participating e-commerce sites such as Boost, Foodpanda, Grab and other platforms (Malaysia Digital Economy Corporation Sdn Bhd, 2020).
Digitalization

The government through Ministry of Finance (MOF) is working together with Bank Simpanan Nasional, SME Bank and Malaysia Digital Economy Corporation (MDEC) in managing the grant to eligible Small & Medium Enterprises (SMEs) to adopt digitalization in daily operations. The Government would provide grants and loans to qualifying businesses to aid in the development and implementation of technology. Such funding will be offered under programs such as the SME Digitalization Matching Grant of RM100 million, the SME Technology Transition Fund of RM500 million and the Smart Automation Grant of RM100 million. This will lead to the growth and creativity of companies in Malaysia, as the Malaysian Government previously declared the digitization of the economy through Industry 4.0 National Strategy to improve communication and technical creativity.

The Role of Islamic Microfinance in COVID-19 Recovery

The coronavirus pandemic that causes the drastically unprecedented situation has caused a negative impact toward the economy. The movement control order was issued by the government to curb the spread of covid-19 from hitting the economic sector badly. More businesses are now permanently close and the workers are terminated due to the economic downturn. The people are now forced to be self-employed and depend on daily wedges, making them more vulnerable during this pandemic. Moreover, the micro business is more affected during this time compared to the other business. This is because it does not have enough financing to sustain the business and they are more likely to depend on daily operations.

In addition, this pandemic is now changing the new way of life. The word “new norm” has now become strangely common during this time. The way of work, learning, business, way to talk, way of distancing is now changing due to covid-19. The strain of the covid-19 enforces the social distancing making micro entrepreneurs critically affected. This business is more likely to rely on customers coming into their shops, and thus, they are at a particular disadvantage. To ensure the sustainability of micro entrepreneurs, Islamic microfinance needs to play as vital role to help the clients during this covid-19 recovery phase. Hence, there are several practices to be considered:

1. Ensuring the Continuity of Services

During this hard time, poor people are among the most vulnerable group affected by covid-19. Most of the people work by opening micro and small businesses to support their lives. In addition, they also depend on the daily income without any proper and formal financing as sustenance. With the aid of Islamic microfinance, this type of people who is always excluded from the
traditional banking sector to have an access to financial services. This will surely help themselves to generate their own income through micro entrepreneurship. However, during this covid-19, these vulnerable people had to close their businesses and their business and income are disrupted, in effect. Some businesses had to close their operation to cut the high operation costs such as lease, workers’ salary and many more (Che Omar et al., 2020). This scenario also creates a new business lifestyle as the business needs to change the business operation to avoid close contact with the customers. This will surely increase the operation cost of the micro business. Islamic microfinance with the support from the government and other cooperate institutions is now taking steps to make sure this group of people are not left behind (Q. Khan, 2020). Islamic microfinance such as AIM is now making sure that the micro business can continue their services using a lot of financial aids channelled by the government to microfinance institutions and other relief measures through the extension of the moratorium and to structure back the loan repayment. This is done to help the business continuity after the MCO is lifted. Hence it will reduce the financial impact for not being able to operate during MCO and this will create more demands from the customers.

2. Towards Digitalization

The urge towards digitalization of Islamic microfinance has created demands from people who are now confined in their own homes. The digital transformation has always become key agenda of late, but COVID-19 has made it even more of a priority during this time (Acker, 2020; Strusani & Houngbonon, 2020). The new norm that is now changing the lifestyle of the people is now also changing lot of situations. People now need to maintain 1-meter social distancing, they need to keep wearing mask in public, to avoid any handshaking and to maintain self-hygiene. This new norm is also changing the lifestyle of all the people in various other workplaces and businesses. Government is now recommending the general public to make contactless payment and business now needs to make sure that the premises follow the social distancing. Moreover, more business is now going toward branchless business. Islamic microfinance is not excluded from this. As people are now able to get out from their houses, they tend to rely on the technology to ease their affairs. During this time, more people are using mobile or online financial services (Fabeil et al., 2020). With a strategic mechanism in place, digital financial services will make it easier for disadvantaged groups to open accounts, make payments, transfer money, repay loans and better manage their overall costs and finances – both during COVID-19 and beyond. Moreover, Islamic microfinance is strengthening their own call centre so that people can always communicate with them anytime anywhere. This is because, most of the Islamic microfinance customers are vulnerable people, the digital financial
services may not be too convenient for them. Some of the customers’ demographic and background also need to be given attention. In a conclusion, digital financial services are much safer and also provide easy access without one having to travel so far. Customers will gradually need this innovative for the digital product, communication and services to help them with their business in this challenging time.

3. **Deferment of Loan Payment**

To ease the burden of cash flow during this covid-19, many Islamic microfinance institutions are now granting the moratorium facility on loans and financing repayments up to six months (Bull, 2020). Moratorium can be regarded as period delays that equate the monthly instalments. This means that the client has a certain period of time before they need to start paying the fixed monthly mortgage. During covid-19, Loan repayments are suspended. Many MFPs simply have offered clients a few months’ relief in the form of a repayment moratorium in which repayments are optional. In other cases, regulators have stepped in to allow providers to offer moratorium or to require a moratorium to be granted upon request, or indeed to mandate a moratorium across the board. The institution also gives the customers option to restructure the repayment time of the loan and this is done to ensure that the monthly burden of individuals and businesses whose income has been affected by the pandemic can be relieved.

4. **Education and Awareness of Islamic Microfinance Among the Poor Population**

Although the agenda to eradicate poverty has been around for a long time, the knowledge of microfinance is still not widespread. This is compounded by the promotion of less financing products. The efforts of the Ministry and government agencies have come in the form of a special scheme to promote the field of entrepreneurship which is expected to be a key sector to reduce poverty. Through government initiatives, the grants as well as additional funds introduced can provide positive input to entrepreneurs to obtain their capital and reduce operating costs, and they can especially help in terms of eradicating poverty. This is due to the fact that the ideas and practices of microfinance have been scientifically proven in terms of the reduced poverty rate. Indirectly, these poor people know the right channel for them to get out of poverty and realise that the economic impact will indeed have the worst impact on them if no action is taken by this group to address the issue of poverty.
5. A Better Digital Entrepreneurship Support Program

Entering the recovery phase during covid-19, the business sector is now changing the way the business is conducted. Indeed, border closures and lockdowns have limit the buying power of the consumer. This situation has led to many businesses to switch the strategy of their business continuity. However, within the uncertain economic landscape, this business is now benefit this challenges into new digital economy transformation while operating their own business. Having access to the digital economy is crucial to make sure that small businesses do not fall through the crash during this pandemic. However, despite this transformation, micro and small businesses need to compete with other business to stay relevant during this time. People and customers are now changing their buying power through the online platform. Hence, it is crucial for small businesses to change the operation as well. For example, Malaysia Digital Economy Corporation (MDEC) announces that it is in partnership with online learning Coursera to drive digital capability among Malaysians. The aim of this program is to increase the Digital knowledge of this group and making them ready to enter the new world of digital that is needed through the time of pandemic. The knowledge of digital platform needs to be spread widely to the micro entrepreneurs to ensure the sustainability of the micro industry. The government’s initiative to provide grants and loans to eligible enterprises to assist with the technological advancement will surely help the micro entrepreneurs with the digital entrepreneurship support program during this COVID-19.

CONCLUSION

In a nutshell, the world is currently battling the COVID-19 pandemic. This disease has slowed down the global economy and its impacts cause unprecedented crisis as it attacks public health systems and results in multi-dimensional implications. The deteriorating economy has badly affected most of the businesses even more so, the micro businesses due to their lack of savings and prevalence in the hardest-hit sectors. Alternatively, Malaysia is now giving a lot of initiatives to help vulnerable people and to boost the economy when the MCO is lifted. However, the after-effect of this pandemic also adds to the burden that they have to face. The optimizing role of Islamic microfinance is now being used as one of the solutions to reduce the impact. MFIs have played a significant part in lifting people out of poverty and contributing to the financial inclusion of the poorest population. Through Islamic microfinance, the micro-entrepreneur is allowed to achieve their financial independence through entrepreneurship. Ensuring the survival of these businesses, providing financial services to ensure the continuity of the business is crucial. Government is now providing a grant scheme channelled through Islamic microfinance to boost the economy as well as to provide a relief measure during this recovery phase. Most
importantly, the aim now is to expedite the digitalization of finance that allows interactions to be done digitally and employees to work remotely, thus allowing MFIs to continue operations. Thus, Islamic microfinance plays a crucial role during this COVID-19 pandemic to help micro entrepreneurs to sustain and use the measures strategized to face this global challenge.

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