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IMPACT REPORT

ISLAMIC MICROFINANCE

A CASE STUDY OF BANK KERJASAMA RAKYAT MALAYSIA



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ISLAMIC MICROFINANCE IMPACT REPORT:

A Case Study of Bank
Kerjasama Rakyat
Malaysia

DECEMBER 2023

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Executive Summary

Microfinance is proven effective for poverty reduction and socioeconomic development, but its impact varies. This research focuses on the impact of Islamic microfinance from Bank Rakyat on its customers. Ninety-three respondents for survey and thirty respondents for interview sessions are engaged in various sectors received micro-finance (amount from RM5,000 to RM50,000)

“The impact of Islamic microfinance is multi-layered, influencing areas such as income/sales, asset accumulation, savings and financial management, business impact and job creation, household impact, religious obligations, and digital upskilling.”

Results vary, with some experiencing increased income and sales, leading to business expansion, while others face challenges, especially during the COVID-19 pandemic. Despite setbacks, customers adapted by reinvesting savings, demonstrating resilience. Job creation varied, contributing to local employment for some but limited to family members for others. Household impact ranged from improved living conditions to struggles, especially in meeting educational and nutritional needs during financial hardships. Fulfillment of religious obligations varied due to financial constraints. Digital platform adoption varied, indicating a need for further upskilling.



Islamic microfinance has had a positive, albeit varied, impact on its customers, offering financial growth and stability for many, while also highlighting areas for improvement, particularly in the face of unforeseen challenges like the pandemic

INTRODUCTION

“Microfinance is now widely recognized as a significant tool for poverty reduction and women's empowerment and as a prospective financing method for banks, financial institutions, and non-governmental organizations (NGOs). Countries with a robust microfinance system have significantly reduced poverty and improved women's socioeconomic conditions”.

This research focuses on microfinance as a key player in improving the lives of Malaysia's low-income group. Practicable income is crucial to promote microfinance facilities, allowing funding for small trading and improving the financial condition, especially for low-income households. Despite interest in becoming micro traders, individuals face challenges in accessing capital from banks or financial institutions. Islamic financial institutions play a crucial role in improving the economy by providing platforms for deposits, financing, and other financial activities.

Microfinance is a potent strategy for empowering the underprivileged and enhancing their income-generating capability. This research explores the idea of a performance and measurement impact study specifically for microfinance. The findings can serve as a guideline for developing a unique impact measurement model for each financial institution, contributing to the sustainable growth of the Islamic finance industry and achieving maqasid Shariah and Value Based Intermediation (VBI) goals.

Financial Leverage Theory

Leverage or financial leverage is an investment where borrowed money or debt is used to maximize the returns of an investment, acquire additional assets or raise funds for the company.

From a bank's viewpoint, leveraging means borrowed funds to increase possible profits. For a borrower, it is like using a magnifying glass to increase the power of their investment. While it can boost profits, it also raises the risk of losses if investments do not perform as expected.

Microfinance

The United Nations defines poverty as more than just a lack of economic resources but also as a violation of human dignity. The World Bank extends this definition to include inadequate access to education, healthcare, and infrastructure, emphasizing the multifaceted nature of poverty (Gupta & Sharma, 2021). Having a steady income is considered crucial for advancing socioeconomically and breaking the cycle of poverty.

Microfinance, a popular method for poverty reduction and economic growth in developing nations, enables vulnerable individuals to access small loans to start businesses, thus breaking the poverty cycle (Chu & Luke, 2018; De Haas, 2021). Microfinance is recognized as a powerful tool for fighting poverty by providing basic financial services like credit, savings, insurance, and fund transfers (Uddin & Hossain, 2020).



Issues and Challenges

Pakistan

Despite significant strides in microfinance implementation in Pakistan, challenges persist. The Akhuwat Foundation, a successful Islamic Microfinance Institution, faces sustainability and market outreach challenges, attributed to a lack of knowledge, financial literacy, and religious convictions (Azmi & Thaker, 2020). The 2008 financial crisis, rising prices, and inadequate education further impact microfinance effectiveness. Operational costs and poor transportation systems hinder accessibility, affecting the overall performance of microfinance in Pakistan (Khan & Muhammad, 2018).

stability, impede the performance of Islamic microfinance institutions (Azmi & Thaker, 2020).

Indonesia

Islamic microfinance institutions in Indonesia grapple with governance and management issues, including complex models, insufficient internal controls, unreliable reporting, and ineffective regulation of donations. Lack of legal rulings and inadequate infrastructure pose challenges to the growth of Islamic microfinance in Indonesia (Azmi & Thaker, 2020).

Yemen

Yemen faces challenges in regulating and supervising microfinance due to a lack of specific laws for Islamic microfinance institutions. The newness of the microfinance concept, scarcity of skilled personnel, and poor promotion of Islamic microfinance services contribute to challenges in Yemen (Alshebami & Khandare, 2014). Infrastructure issues, including basic utilities, security, transportation, and foreign currency

Malaysia

Malaysia microfinance institutions face some challenges especially on funding. Subsidized microcredit programs, considered a social cost, create political challenges, leading to higher nonperforming loans. To maximize potential, integrating establishment of an association for self-sustainability (Siwar & Talib, 2001).



Awards and Recognitions

Bank Rakyat has consistently distinguished itself through a multitude of awards from 2018 to 2021, underscoring its commitment to excellence across diverse domains. Notably, the year 2020 witnessed Bank Rakyat achieving the pinnacle as The Most Sustainable Islamic Bank at the 10th Global Islamic Finance Awards (GIFA), solidifying its

position as a leader in sustainable financial practices. In 2021, the bank continued to shine, securing the Excellence CSR at the Bumiputera Business Excellence Awards and the prestigious Company of The Year Award for Overall Excellence in Social Empowerment at the Sustainability and CSR Awards 2021.

BANK RAKYAT AND ISLAMIC MICROFINANCE

Commencing its foray into microfinance in 2007, Bank Rakyat Malaysia Berhad swiftly evolved as one of a cornerstone of Islamic microfinance in Malaysia. Initially, Bank Rakyat Malaysia Berhad offering a diverse array of products tailored specifically for Small and Medium Enterprises (SMEs) and B40 families. The fiscal year 2022 witnessed Bank Rakyat steadfastly pursuing its commitment to support individuals, Micro, Small, and Medium Enterprises (MSMEs), and cooperatives, aiming to build resilience in the face of a disruptive economic landscape. Aligned with the National Entrepreneurship Policy 2030 (NEP2030), the Ministry of Entrepreneur Development and Cooperatives designated Bank Rakyat as a crucial agency, reflecting the institution's pivotal role in fulfilling national developmental goals.



In 2022, Bank Rakyat continued its trailblazing journey, earning accolades that further underscored its commitment to corporate social responsibility. The Golden Globe Tigers Awards 2022 conferred upon the bank the Corporate Social Responsibility of The Year and Outstanding Social Impacts awards, reaffirming its dedication to making a positive impact on society. The World Brands Foundation (TWBF) recognized Bank Rakyat as the Iconic Brand of The Year with The Brand Laureate, and it received the Special Promoting Award Housing Credit

Guarantee Scheme (SJKP) by Syarikat Jaminan Kredit Perumahan Berhad (SJKPB). Additionally, Bank Rakyat secured the title of The Top Cooperatives for 2021 by Suruhanjaya Koperasi Malaysia (SKM), highlighting its excellence in the cooperative sector. The bank also received the Industry Excellence In Corporate Social Responsibility (CSR) by Malaysia Top Achievers 2022 and the Excellence In Personalisation Marketing 2021 by the Marketing Excellence Award.

Microfinance Products Offered by Bank Rakyat

The success story of Bank Rakyat's Microfinance initiative unfolds as a transformative journey, marking its inception in 2007 and culminating in impactful achievements in FY2022. Commencing operations in just few branches, the microfinance venture has since blossomed into a dynamic force, now boasting an extensive array of products tailored for the growth of Small and Medium Enterprises (SMEs) and B40 families. The pivotal role of Bank Rakyat in the financial landscape is evident in its resolute commitment to supporting individuals, Micro, Small, and Medium Enterprises (MSMEs), and cooperatives, aligning with the Government's National Entrepreneurship Policy 2030. Serving as a key agency under the Ministry of Entrepreneur Development and Cooperatives, Bank Rakyat's influence extends to facilitating entrepreneurial development, as exemplified in the Bank Rakyat 2025's (BR25) Small and Medium Enterprise and Cooperative (SMEC) Business Blueprint.

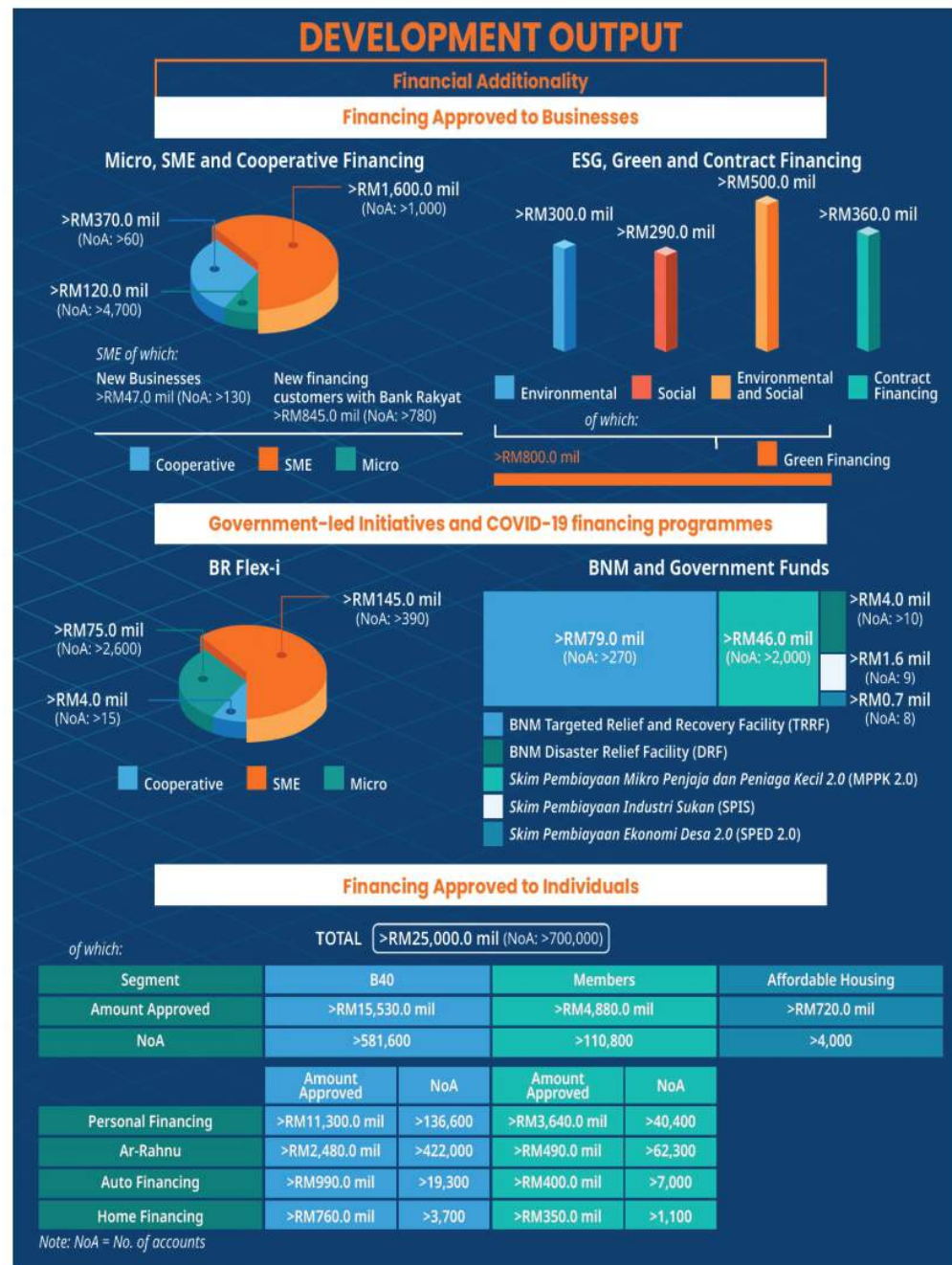
The success narrative is underscored by the bank's position as the country's largest Development Financial Institution (DFI), with ambitious plans to further accelerate financing to MSMEs and cooperatives, reaching at least RM7.0 billion by the end of 2025. Actively contributing to Bank Negara Malaysia's financial inclusion agenda, Bank Rakyat envisions an inclusive financial system that caters to the needs of all segments of society, especially the underserved.

In FY2022, the bank's unwavering commitment translated into tangible outcomes, with total financing exceeding RM2.10 billion approved for over 5,800 MSMEs and cooperatives, reflecting a substantial year-on-year increase. Noteworthy is the bank's support for

Environmental, Social, and Governance (ESG) financing segments, with nearly RM1.1 billion granted to over 25 customers. This includes more than RM800.0 million falling under Green Financing and Climate Change and Principle-based Taxonomy (CCPT) classification, attesting to the bank's dedication to sustainable practices.

The success story takes on a more profound meaning in the face of challenges, as exemplified by the BR Flex-i financing program, designed to aid the recovery of MSMEs and cooperatives post-COVID-19. The program's impact is evident in the approval of a total amount exceeding RM225.0 million to over 3,000 MSMEs and cooperatives by December 2022, showcasing a remarkable year-on-year increase.

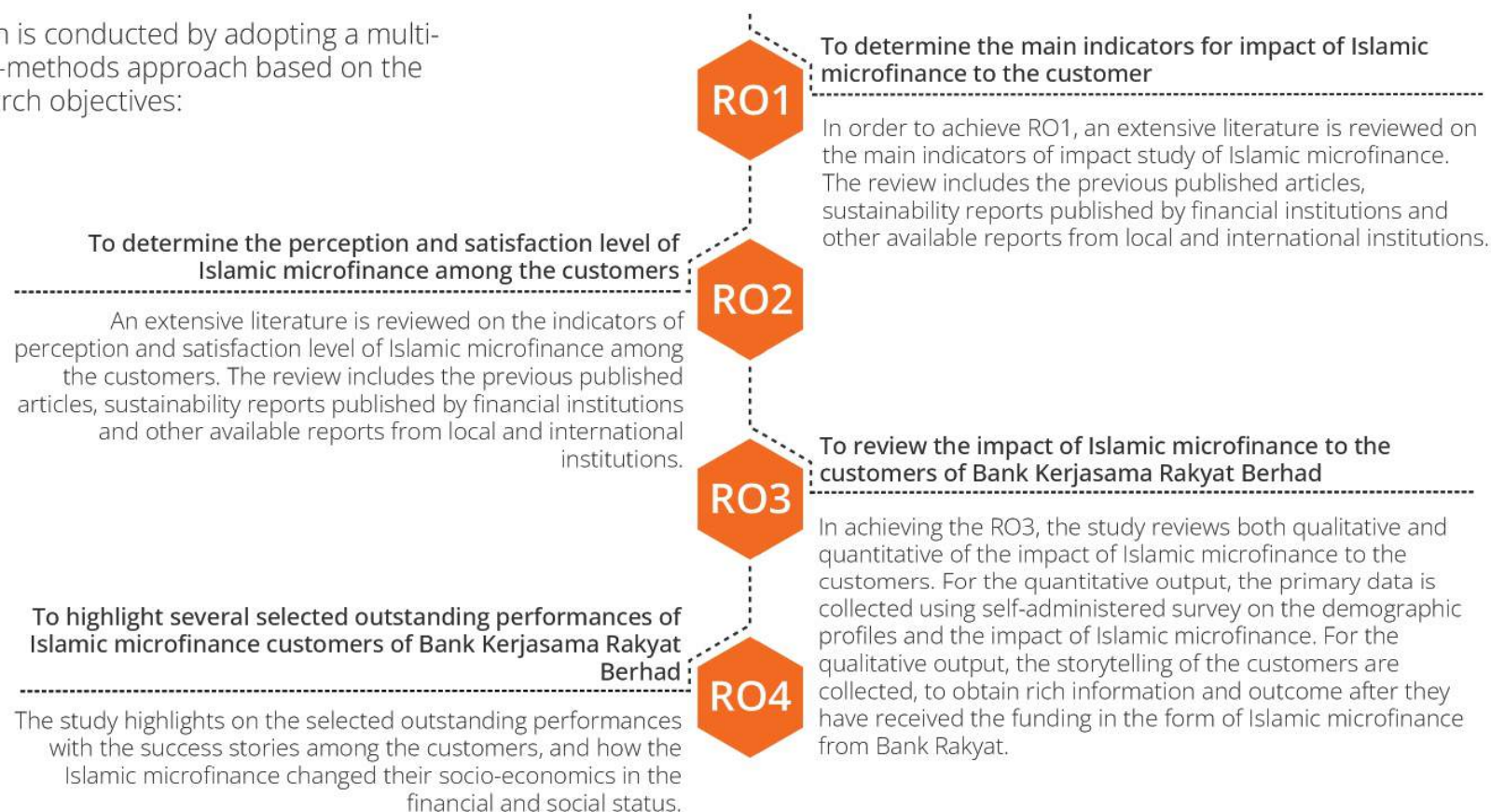
Moreover, Bank Rakyat's proactive involvement in various national initiatives, such as the Bank Negara Malaysia's Targeted Relief and Recovery Facility (TRRF), where around RM79.5 million was approved for more than 270 SMEs, illustrates the bank's role in supporting the larger economic ecosystem during challenging times. The approval of more than RM4.0 million for over 10 MSMEs under the BNM Disaster Relief Facility (DRF) 2022 further underscores the bank's commitment to alleviating the financial burdens caused by external disruptions, such as floods.



Source: Bank Rakyat Annual Report 2022

About the Research

The research is conducted by adopting a multi-stage mixed-methods approach based on the stated research objectives:



Instruments and Sampling

This study employs primary data in order to achieve the research objectives. Also, the library research is adopted as the additional information to support the primary data. Primary data is an original source for research in the form of raw data, which is needed to be collected, processes analysed. The study refers to several reports on the indicators of impact measurement of the Islamic microfinance along the following dimensions: access to financial services, business impact, household impact, financial management, and resilience. These key indicators should be the focus of the impact study for the Islamic microfinance. The study uses two instruments to collect the primary data. First is self-administered survey; and second interview with the targeted Islamic microfinance customers across the selected areas of Malaysia.

Development of the Indicators for Impact Study

In the pursuit of understanding the transformative effects of microfinance, this study delves into a set of key indicators that encapsulate the multifaceted dimensions of its impact on customers. These indicators serve as the cornerstone for evaluating the intricate outcomes of microfinance initiatives. The indicators draw insights from diverse sources. The study refers to these selected six reports related to impact study on microfinance.

- 1 ● Bank Negara Malaysia (2022). Annual Report 2022
- 2 ● Bank Islam Malaysia Berhad (2022). Bank Islam Sadaqah House Impact Report 2022
- 3 ● 60 Decibels Microfinance Index (2022)
- 4 ● Amanah Ikhtiar Malaysia: BORANG PBMR (2023)
- 5 ● Abd Halim, S., Selvaratnam, D. P., & Bakar, N. A. (2013). Pembasmian Kemiskinan Melalui Program Amanah Ikhtiar: Kajian Kes Cawangan Kota Setar, Kedah.
- 6 ● World Bank (2007). Impact Evaluation for Microfinance: Review of Methodological Issues

Comparison of Selected Report on the Key Indicators of Impact for Microfinance

(1) Bank Negara Malaysia 2022	(2) BIMB Sadaqa House 2022	(3) 60 Decibels Microfinance 2022	(4) Amanah Ikhtiar Malaysia 2023	(5) Journal Article 2013	(6) World Bank 2007
<ul style="list-style-type: none"> • Business Growth • Employment • Financial Resilience • Digital Upskilling 	<ul style="list-style-type: none"> • Income/ Sale • Asset • Saving • Job Creation • Digitalization 	<ul style="list-style-type: none"> • Assess • Business Impact • Household Impact • Financial Management • Resilience • Others 	<ul style="list-style-type: none"> • Income • Expenses 	<ul style="list-style-type: none"> • Asset – Land and house • Total Monthly Expenses • Kitchen Appliances • House Appliances 	<ul style="list-style-type: none"> • Enterprise Income • Consumption or Income Levels (Poverty) - Housing Conditions, Assets. • Consumption Smoothing - Insurance (illness, death, theft) • Wider Impacts - children education and nutritious • Spillovers (social impact) - impact on non-participants, ie: the whole village get benefit from microfinance

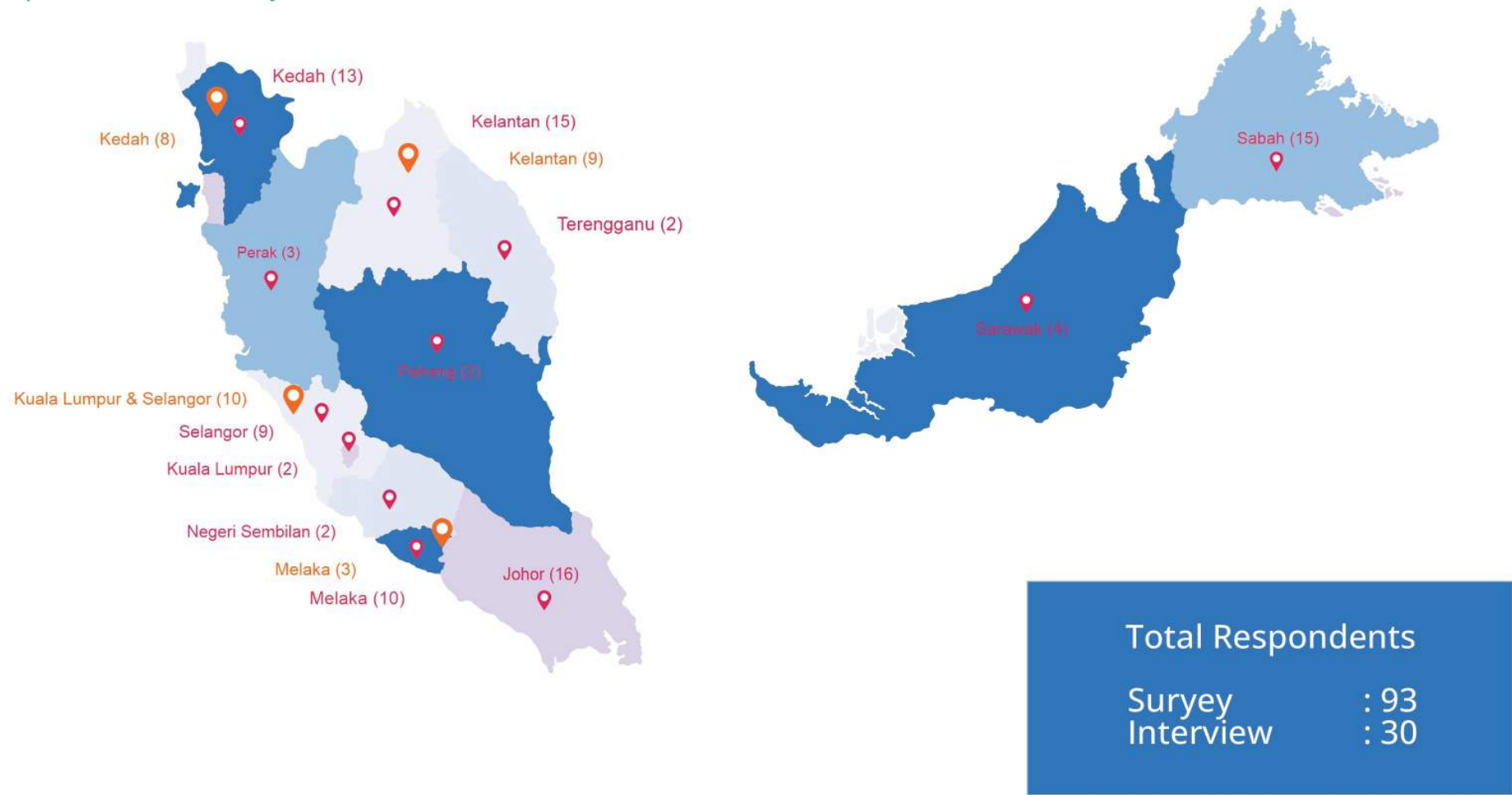
Development of Main Indicators of Islamic Microfinance

The Main Indicators of Islamic Microfinance	1. Income / Sale
	2. Asset Growth
	3. Financial Resilience and Management
	4. Business Impact (Job Creation)
	5. Household Impact (Children Education and Nutrition)
	6. Religion Obligation (Sadaqah, Zakat and Hajj)
	7. Digital Upskilling

Data Collection

The study collects data using two instruments, survey and interview.

Respondents Received by State





PERCEPTION AND SATISFACTION LEVEL OF ISLAMIC MICROFINANCE CUSTOMERS

Perform Transactions at Bank Rakyat are Easy



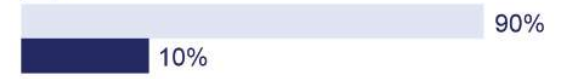
Bank Rakyat is Always Ready to Solve Customer Problems



Bank Rakyat Provides Products and Services That Meeting the Needs of Customers



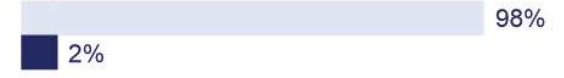
Bank Rakyat Always Offers Competitive Profit Rates for Customers



Bank Rakyat Operates Entirely Based on Shariah Principles and Islamic Values



Bank Rakyat Performs Its Duties with Trust and Adheres to the Principles of Justice According to the Al-Quran and As-Sunnah



Disagree Agree

“Seven key criteria, namely: the ease of transactions, the bank's readiness to resolve customer problems, the alignment of its products and services with customer needs, competitive profit rates, adherence to Shariah principles and Islamic values, and the performance of duties with trust and justice in accordance with the Al-Quran and As-Sunnah.”

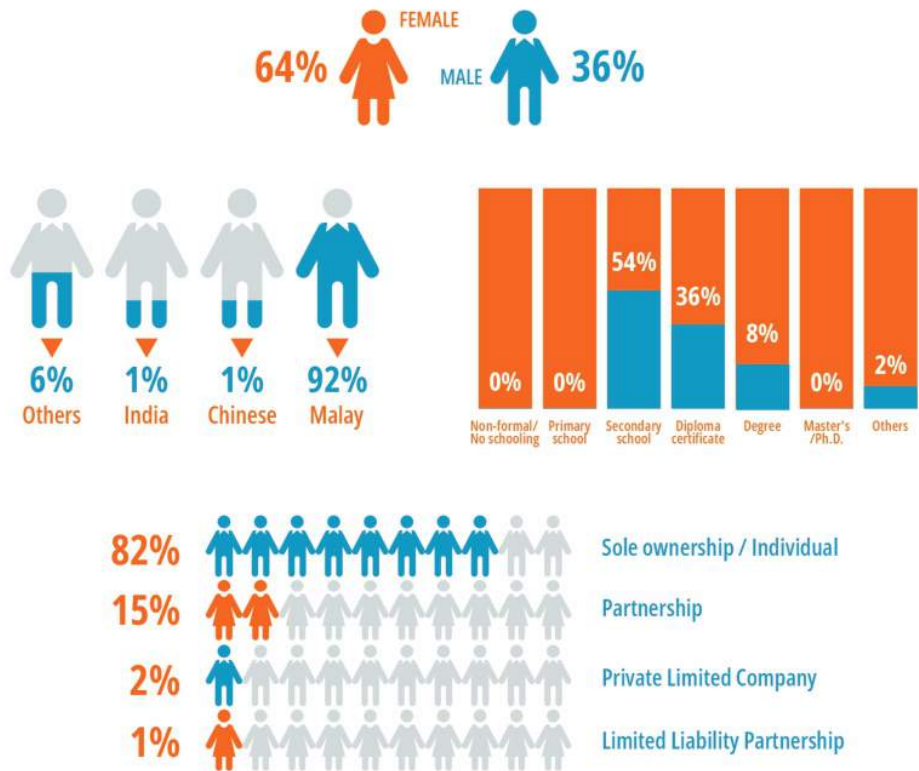
The perception and satisfaction levels of Islamic Microfinance customers, specifically those of Bank Rakyat, are assessed based on several key criteria. These include the ease of transactions, the bank's readiness to resolve customer problems, the alignment of its products and services with customer needs, competitive profit rates, adherence to Shariah principles and Islamic values, and the performance of duties with trust and justice in accordance with the Al-Quran and As-Sunnah. The evaluation of these factors reflects the bank's

commitment to providing an Islamic banking experience that is not only financially beneficial and customer-friendly but also deeply rooted in Islamic ethical and religious principles. Customers' satisfaction levels could be influenced by the extent to which Bank Rakyat fulfils these criteria, balancing the practical aspects of banking, like ease of transactions and competitive rates, with the ethical and religious dimensions, such as Shariah compliance and principles of justice and trust.



**IMPACT OF ISLAMIC MICROFINANCE
TO THE CUSTOMERS OF
BANK RAKYAT
(DESCRIPTIVE ANALYSIS)**

Respondents' Demographic Profiles



Payment Behaviour By The Customers (Descriptive Analysis)



Impact on the Development of the Business

In analyzing the impact of Bank Rakyat's Islamic microfinance on business development across financing categories, unanimous agreement was observed in the 1,000-5,000 and 15,001-20,000 ranges. Notable consensus was found in the 5,001-10,000 and 45,001-50,000 brackets. Minimal disagreements were present in the 10,001-15,000, 20,001-25,000, and 45,001-50,000 categories. The 25,001-30,000 and 30,001-35,000 ranges showed unanimous agreement. Notably, respondents who omitted financing details predominantly agreed. Overall, of the 87 respondents, six disagreed, while 81 agreed on the positive impact of financing on business development.

Impact of Financing Amount on the Development of the Business

Financing Amount Received from Bank Rakyat	Disagree	Agree	Total
1,000-5,000		2	2
5,001-10,000	1	21	22
10,001-15,000	2	4	6
15,001-20,000		6	6
20,001-25,000	2	1	3
25,001-30,000		9	9
30,001-35,000		5	5
35,001-40,000		2	2
40,001-45,000		1	1
45,001-50,000	1	21	22
(blank)		9	9
Total	6	81	87

Impact on Monthly Revenue by Sector

The table illustrates the impact of receiving Islamic microfinance on monthly revenue across different sectors. In the services sector, 24 respondents agreed, with only 1 disagreeing. Food and beverages showed a similar trend, with 25 agreements and 4 disagreements out of 29 respondents. Manufacturing had unanimous agreement from 8 respondents. In agriculture, all 4 respondents agreed, while construction and beauty/spa sectors had unanimous agreement from 2 respondents each. Retailing had 10 agreements and 1 disagreement, while fashion and apparel had unanimous agreement from 10 respondents out of 11. Overall, out of 87 respondents, 6 disagreed, and 81 agreed that their monthly revenue increased after

receiving Islamic microfinance, with variations across different sectors.

Impact on Monthly Revenue by Sector

After Receiving Islamic Microfinance, My Monthly Revenue from Business Activities is Increase (Based on Sector)	Disagree	Agree	Total
Services	1	24	25
Food and Beverages	4	25	29
Manufacturing		8	8
Agriculture		4	4
Constructions		2	2
Retailing	1	10	11
Beauty and Spa		2	2
Fashion and Apparel		10	10
Total	6	81	87

Monthly Payment by Sector

The table presents the assessment of delays in monthly payments based on sectors following the receipt of Islamic microfinance. In the fashion and apparel sector, all 6 respondents agreed that there were no delays. Beauty and spa, manufacturing, construction, and agriculture sectors also reported unanimous agreements with 2, 2, 8, and 3 respondents, respectively. In the food and beverages sector, 20 respondents agreed, while 9 disagreed, resulting in a total of 29 respondents. For services, 24 respondents agreed, with 1 disagreement. Retailing had 10 agreements and 1 disagreement out of 11 respondents. Overall, out of 87 respondents, 12 disagreed, and 75 agreed

that there were no delays in monthly payments after receiving Islamic microfinance, with variations across different sectors.

Impact on Monthly Payment by Sector

No Delay in Monthly Payment (Based on Sector)	Disagree	Agree	Total
Fashion and Apparel		6	6
Beauty and Spa		2	2
Food and Beverages	9	20	29
Manufacturing			2
Constructions		8	8
Services	1	24	25
Agriculture	1	3	4
Retailing	1	10	11
Total	12	75	87

Monthly Payment by Revenue Level

The table illustrates the influence of revenue levels on monthly payments after obtaining Islamic microfinance. In the 1,000-5,000 revenue bracket, 36 out of 46 respondents agreed there were no delays, while 10 disagreed. For the 5,001-10,000 range, 20 respondents agreed, and 2 disagreed out of 22. In the 10,001-15,000 and 15,001-20,000 brackets, 9 and 1 respondent(s) agreed, respectively, with no disagreements. For the highest revenue bracket (20,001 and above), 9 respondents agreed with no disagreement. Overall, out of 87 respondents, 12 disagreed, and 75 agreed that there were no delays in

monthly payments after receiving Islamic microfinance, categorized by different revenue levels.

Impact On Monthly Payment by Revenue Level

No Delay in Monthly Payment (Based on Revenue)	Disagree (2)	Agree (3)	Total
1,000-5,000	10	36	46
5,001-10,000	2	20	22
10,001-15,000		9	9
15,001-20,000		1	1
20,001 and above		9	9
Total	12	75	87

Impact of Income/Revenue on Saving

Table illustrates the relationship between income levels and respondents' perceptions regarding the sufficiency of their savings to cover unexpected business losses after receiving Islamic microfinance. In the lowest income bracket (1,000-5,000), 34 respondents agree, and 12 disagree, totaling 46 respondents. Similarly, in the (5,001-10,000) bracket, 19 respondents agree, and 3 disagree, totaling 22 respondents. The trend continues with 9 agreeing and 9 disagreeing in the (10,001-15,000) bracket, 1 agreeing and 1 disagreeing in the (15,001-20,000) bracket, and 7 agreeing and 2 disagreeing in the (20,001 and above) bracket. Overall, 70 respondents agree, and 17 disagree that their savings are sufficient to cover

unexpected business losses, providing insights into the perceived financial preparedness across different income ranges.

Impact of Income/Revenue on Saving

After Receiving Islamic Microfinance, My Savings are Sufficient to Cover Unexpected Business Losses	Disagree	Agree	Total
1,000-5,000	12	34	46
5,001-10,000	3	19	22
10,001-15,000		9	9
15,001-20,000		1	1
20,001 and above	2	7	9
Total	17	70	87

Impact of Revenue/Income Level on Zakat Payment

The table outlines the impact of revenue/income levels on Zakat payment after receiving Islamic microfinance. In the 1,000-5,000 income bracket, 33 out of 46 respondents agreed that they have started paying Zakat, while 13 disagreed. For the 5,001-10,000 range, 16 respondents agreed, and 6 disagreed out of 22. In the 10,001-15,000 bracket, all 9 respondents agreed. Similarly, in the 15,001-20,000 range, 1 respondent agreed with no disagreements. For the highest income bracket (20,001 and above), 7 respondents agreed, with 2 disagreements. Overall, out of 87 respondents, 66 agreed and 21 disagreed, indicating that they have started paying Zakat after receiving Islamic microfinance, categorized by different income levels.

Impact of Revenue/Income Level on Zakat Payment

After Receiving Islamic Microfinance, I Have Started Paying Zakat (Income from Business)	Disagree	Agree	Total
1,000-5,000	13	33	46
5,001-10,000	6	16	22
10,001-15,000		9	9
15,001-20,000		1	1
20,001 and above	2	7	9
Total	21	66	87

Impact of Revenue/Income on Children Education

The table demonstrates the impact of revenue/income levels on children's education after receiving Islamic microfinance. In the 1,000-5,000 income bracket, 40 out of 46 respondents agreed that their children have better access to education, while 6 disagreed. For the 5,001-10,000 range, 20 respondents agreed, and 2 disagreed out of 22. In the 10,001-15,000 bracket, all 9 respondents agreed. Similarly, in the 15,001-20,000 range, 1 respondent agreed with no disagreements. For the highest income bracket (20,001 and above), 9 respondents agreed with no disagreements. Overall, out of 87 respondents, 79 agreed that their children have better

access to education after receiving Islamic microfinance, categorized by different income levels.

Impact of Revenue/Income on Children Education

After Receiving Islamic Microfinance, My Children Have Better Access to Education	Disagree	Agree	Total
1,000-5,000	6	40	46
5,001-10,000	2	20	22
10,001-15,000		9	9
15,001-20,000		1	1
20,001 and above		9	9
Total	8	79	87



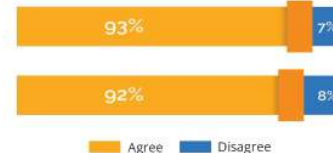
The data reveals a fascinating landscape where Islamic microfinance emerges as a key player in enhancing educational opportunities for children, emphasizing its broader positive impact beyond financial assistance. Additionally, a noteworthy majority of respondents actively participate in paying Zakat, underlining a strong commitment to charitable giving within the community. The data further indicates that, irrespective of income levels, a significant portion of individuals feel financially secure, both in handling unexpected business challenges and avoiding delays in monthly payments. Interestingly, a substantial number of respondents report increased monthly revenue post-receiving Islamic microfinance, highlighting its instrumental role in fostering economic growth for participants.

Impact of Islamic Microfinance to the Customers of Bank Rakyat (Descriptive Analysis)



Income/Sale

After Receiving Islamic Microfinance, My Business Income Increase



After Receiving Islamic Microfinance, My Business is Growing



The analysis reveals a substantial positive impact on business income, with a majority (72%) agreeing and an additional 21% strongly agreeing that their business income has increased after receiving Islamic microfinance. Dissent is minimal, as only 6% disagree and 1% strongly disagree, suggesting that the financial support has been a significant factor in enhancing business income for the majority of respondents. Furthermore, a positive outlook prevails, as 70% agree and 22% strongly agree that their business is growing after receiving Islamic microfinance. Dissenting opinions are limited, with only 7% disagreeing and 1% strongly disagreeing. The data underscores a general sense of optimism and progress among the participants in terms of business growth.

Asset Growth

After Receiving Islamic Microfinance, My Business Assets Have Increased



For the majority (63%), there is agreement that business assets, such as land, houses, or machinery, have increased after receiving Islamic microfinance. However, a notable minority (21%) disagrees, suggesting varied outcomes and perceptions regarding the impact of Islamic microfinance on business assets.

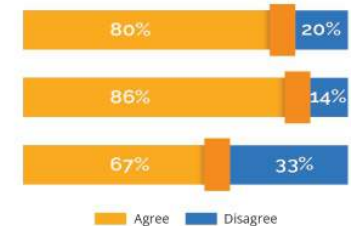


The consolidated analysis from the combined table reveals a consistently positive impact of Islamic microfinance on various aspects of the respondents' lives.

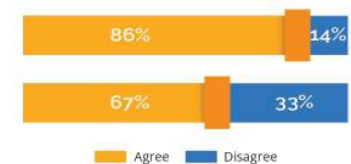


Financial Resilience and Management

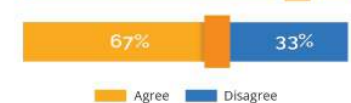
After Receiving Islamic Microfinance, My Savings has Improved



After Receiving Islamic Microfinance, No Monthly Payment Delays



After Receiving Islamic Microfinance, My Savings Are Sufficient to Cover Unexpected Business Losses

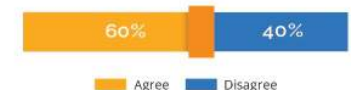


The data indicates positive influence, with 68% agreeing and 13% strongly agreeing that their savings have improved after receiving Islamic microfinance. Dissent is present, as 18% disagree, and 1% strongly disagree, highlighting varied perceptions regarding the impact of Islamic microfinance on personal savings. Moreover, a high level of financial punctuality is evident, with 62% agreeing and 24% strongly agreeing that they experience no delays in monthly payments. Conversely, a notable minority (14%) reports delays in monthly payments, indicating a varied scenario among the surveyed individuals.

Besides, a majority (55%) agrees, and 11% strongly agree that their savings are sufficient to handle unforeseen business setbacks after receiving Islamic microfinance. However, a significant portion (30%) disagrees, and 3% strongly disagree, suggesting diverse outcomes regarding the effectiveness of Islamic microfinance in building financial resilience.

Business Impact (Job Creation)

After Receiving Islamic Microfinance, the Number of Employees has Increased



A notable portion (53%) agrees, and 7% strongly agree that the number of employees has increased after receiving Islamic microfinance. Dissent is substantial, with 38% disagreeing, and 2% strongly disagreeing, indicating a mixed impact on employment across businesses.

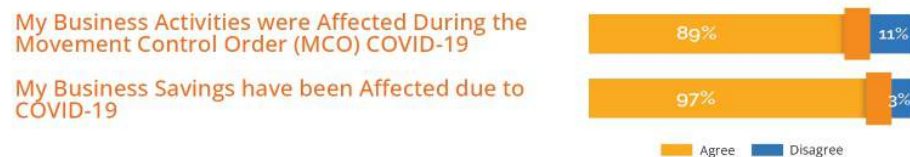
Household Impact (Children Education and Nutrition)



A significant majority (78%) agrees, and 11% strongly agree that the quality of food has improved for their families after receiving Islamic microfinance. Dissent is minimal, with 10% disagreeing, highlighting a widespread positive impact on household nutrition. Furthermore, the data indicates a positive effect, with 78% agreeing and 13% strongly agreeing that their children have better access to education after receiving Islamic microfinance. Dissent is present, with 8% disagreeing, and 1% strongly disagreeing, showcasing varied experiences in educational improvements.

Besides, a significant majority (74%) agrees, and 14% strongly agree that they can now afford basic home equipment due to Islamic microfinance. Dissent is present, with 13% disagreeing, indicating varied outcomes in terms of improving living conditions through the acquisition of home equipment.

Impact on Covid-19



The data reveals a substantial impact, with a combined 95% indicating that their business activities were affected during the Movement Control Order (MCO) COVID-19. Only a small fraction (6%) reports no impact, underscoring the widespread challenges faced by businesses during the pandemic.

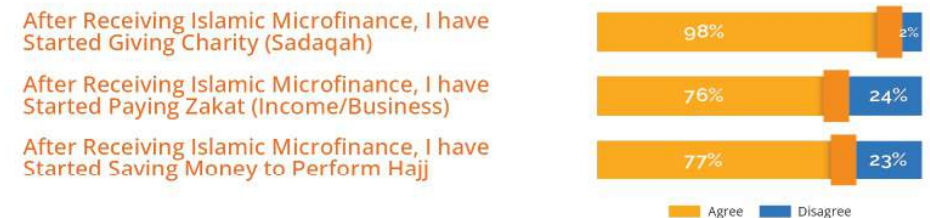
Moreover, a majority (96%) acknowledges the negative impact of COVID-19 on business savings, with 41% agreeing and 55% strongly agreeing. A very small fraction (3%) disagrees, highlighting the pervasive financial strain on businesses during the pandemic.

Digital Upskilling



A significant majority (88%) indicates that they have been able to use digital technology for their business after receiving Islamic microfinance. Dissent is present, with 11% disagreeing, suggesting varied levels of adoption and utilization of digital solutions among the respondents.

Religion Obligation (Sadaqah, Zakat and Hajj)



An overwhelming majority (98%) agrees that they have started giving charity (Sadaqah) following the receipt of Islamic microfinance. A negligible fraction (2%) strongly disagrees, emphasizing the positive impact of Islamic microfinance on fostering charitable behaviors.

Furthermore, a significant majority (76%) reports that they have started paying Zakat after receiving Islamic microfinance. Dissent is notable, with 23% disagreeing, indicating varied responses in adhering to this religious obligation post-receiving financial support. Meanwhile, for 77% of respondents, the data indicates that they have started saving money for performing Hajj after receiving Islamic microfinance. Dissent is notable, with 23% disagreeing, suggesting diverse responses regarding the impact of Islamic microfinance on enabling savings for this religious duty.



IMPACT OF ISLAMIC MICROFINANCE TO THE CUSTOMERS OF BANK RAKYAT (NARRATIVE ANALYSIS)

Customers' Experiences of Having Access to Financing

Next section analyses the specific impacts of Islamic microfinance on these customers, capturing specific impacts according to seven (7) main dimensions of impact microfinance; 1. Income / Sale; 2. Asset (business); 3. Saving / Resilience / Financial Management; 4. Business Impact/ Job Creation; 5. Household Impact - children education, nutrition; 6. Religion Obligation - Zakat, Haji; and 7. Digital Upskilling.

The study also proposes the impact assessment tools for Bank Rakyat as the framework for evaluating the effectiveness of Islamic microfinance programs. This matrix could assess various dimensions of impact, such as economic empowerment, adherence to Islamic financing principles, and overall customer satisfaction, offering a comprehensive view of how Islamic microfinance influences the customers.

Impact of Islamic Microfinance to the Customers of Bank Rakyat (Narrative Analysis)

Case 1

Food Truck Coconut Shake

Financing amount: RM50,000
Business sector: F&B
Monthly business revenue: RM500
Location: Selangor

1. Fluctuation in income impacts financial stability. Gross income provides a basic level of business sustainability but net profit is low, affecting personal income.
2. Acquisition of assets (ie. lorry) has improved business operations.
3. Limited savings capacity due to variable income and immediate expenses.
4. Income supports essential family needs but is vulnerable during crises like COVID-19.



Case 2

Kambing Golek Golek

Financing amount: RM50,000
Business sector: F&B
Monthly business revenue: RM4,000
Location: Selangor

1. Shifted to new social media (ie. TikTok) for more generating income.
2. Downsized from owning two shops to operating solely in Selayang.
3. Faced substantial financial struggles post-COVID.
4. Business downsizing suggests reduced business capacity and impact.
5. Financial struggles likely impact household stability. A need for further digital upskilling.



Case 3

Barbershop

Financing amount: RM30,000
Business sector: Services
Monthly business revenue: RM35,000
Location: Kuala Lumpur

1. Significant recovery and growth post-MCO.
2. Operation of multiple business locations.
3. Indicating a proactive approach to financial management and resilience.
4. Positive impact with growth in employment from 6 to 18 employees post-MCO. Showing business expansion and job creation.
5. Fulfills religious obligations by paying zakat and assisting new businesses.



Case 4

Stall Nasi Lemak

Financing amount: RM50,000
Business sector: F&B
Monthly business revenue: RM14,000
Location: Kedah

1. Fluctuation in income impacts financial stability. Gross income provides a basic level of business sustainability but net profit is low, affecting personal income.
2. Acquisition of assets (ie. lorry) has improved business operations.
3. Limited savings capacity due to variable income and immediate expenses.
4. Income supports essential family needs but is vulnerable during crises like COVID-19.



Impact of Islamic Microfinance to the Customers of Bank Rakyat (Narrative Analysis)

Case 5

Car Workshop

Financing amount: RM10,000
Business sector: Services
Monthly business revenue: RM20,000
Location: Melaka

1. Sales from business provide a stable income RM20,000 per month.
2. Owns an enterprise and workshop.
3. Efficient allocation for expenses.
4. Number of staff increased.
5. Regular pays zakat and has performed Umrah.
6. Has QR code and E-wallet transactions at the car workshop to facilitate payments by the customers.



Case 6

Batik Canting

Financing amount: RM40,000
Business sector: Manufacturing
Monthly business revenue: RM10,000
Location: Kelantan

1. Post-COVID, sales affected with debts and reduced earnings.
2. Financial management is challenging. Savings are reinvested in the business.
3. COVID-19 led to the closure of three shops. Employs a small team.
4. Focus on business sustainability.
5. Was a zakat payer, currently unable due to debts.



Case 7

Restaurant Arabic Cuisine

Financing amount: RM10k + RM40k
Business sector: F&B
Monthly business revenue: RM9,000
Location: Kedah

1. Significant recovery and growth post-MCO.
2. Operation of multiple business locations.
3. Indicating a proactive approach to financial management and resilience.
4. Positive impact with growth in employment from 6 to 18 employees post-MCO. Showing business expansion and job creation.
5. Fulfills religious obligations by paying zakat and assisting new businesses



Case 8

Café Western Food

Financing amount: RM50k + RM30k
Business sector: F&B
Monthly business revenue: RM70,000
Location: Kedah

1. Achieved 70k monthly post-COVID.
2. Prioritized business premises over personal assets.
3. Effective handling of business finances.
4. Employed around 10 staff members.
5. Provided better education and nutrition for the children.
6. Regular zakat payment, completed Umrah.
7. Leveraged on the platforms like Grab, Food Panda



Case 9

Coffee Shops

Financing amount: RM50,000
Business sector: F&B
Monthly business revenue: RM60,000
Location: Kedah

1. Sales fluctuated during the pandemic but increased post-COVID.
2. Business assets grew.
3. Managed finances during the pandemic despite rising costs.
4. Employed five people during the pandemic. Potential for future hiring.
5. Pays personal zakat. Plans to pay zakat from business income next year.
6. Initiated a delivery service during the pandemic.



Case 10

Café at Factory

Financing amount: RM50,000
Business sector: F&B
Monthly business revenue: RM12,000
Location: Melaka

1. Income increased from RM100,000 to RM150,000 (increase 50%).
2. Owns 4 premises and vehicle for business.
3. Effective financial management.. Having some savings to cover expenses for 3 months.
4. 40 employees in the premise (canteens).
5. Income from business able to supports family needs.
6. Pays zakat and contribute sadaqah regularly (every Friday).
7. Saving for Hajj and Umrah.



Impact of Islamic Microfinance: Evaluation Decision Matrix

Respondents (Initial)	Income/ Sale	Asset	Saving/ Financial	Business Impact	Household Impact	Religion Obligation	Digital Upskilling	Overall Score	Status
SM	2	2	2	2	2	2	1	13	(Moderate)
NS	1	1	1	1	1	1	2	8	(Low)
MS	3	2	3	3	3	3	3	20	(High)
AE	3	3	2	3	3	3	1	18	(High)
NL	3	3	3	2	2	3	2	18	(High)
MR	2	2	1	2	2	1	3	13	(Moderate)
FD	2	2	3	2	2	3	2	16	(Moderate)
NA	3	2	3	3	2	3	3	19	(High)
MS	2	2	2	2	2	2	2	14	(Moderate)
RB	2	3	3	3	3	3	2	19	(High)



Based on the table the summary of selected ten (10) interviewees, further analysis is conducted to quantify the impact from qualitative result. Table below presents a rating scale for assessing the impact of Islamic microfinance on these ten (10) interviewees.

The Rating Scale - Low (1), Moderate (2), High (3) that measure across several parameters including income/sales, assets, savings/financial management, business impact, household impact, religious obligations, and digital upskilling.

Each respondent is given a score for each parameter, leading to an overall score. The respondents, such as SM, NS, and others, show varied levels of impact from Islamic microfinance in their lives, with overall scores ranging from as low as 8 to as high as 20. This matrix effectively captures the diverse effects of Islamic microfinance on individuals, highlighting significant





SUCCESS STORIES OF ISLAMIC MICROFINANCE CUSTOMERS OF BANK RAKYAT

The Success Stories

From 30 interviewees, the study selected 11 interviewees about the success stories from the impact of Islamic Microfinance on various aspects of their lives. These aspects include total financing amount, business sector, income/sales, asset accumulation, savings and financial management, business impact and job creation, household impact (such as children's education and nutrition), religious obligations (like zakat and sadaqah), and digital upskilling. The interviewees come from various business sectors, primarily food & beverage, and their experiences highlight diverse outcomes in terms of financial growth, business expansion, and personal well-being. Some have seen significant growth in income and assets, while others faced challenges, especially during COVID-19, affecting their financial stability and ability to contribute to household and religious obligations. The summary also indicates a mixed degree of digital adoption, with some interviewees effectively using digital platforms for business, while others struggle with this transition.



JS (F&B)

Amount MF: RM50,000



"Our business is not just a livelihood; it's a legacy for our children. We're exploring international markets like in London where there's a demand for our products. The business journey is not just about financial gain but about building good relationships and maintaining integrity."



"I am not old; But I believe that what I do is for the benefit of the children who will come as they are still learning. Perhaps not for my children maybe for my grandchildren. We think about the future because we are in this business for the sake of Allah seeking blessings in our lives and the blessings of our parents. I don't have grand aspirations. If I were to buy a house it would be a modest one. We've never dreamed of owning extravagant assets"

RA (F&B)

Amount MF: RM5,000



MS (Barbershop)

Amount MF: RM10,000
+RM30,000



"Because I'm trying to help my staff. I will set up shops for them for those who have worked with me for a long time. I will prepare a shop for my worker and teach them how to manage it. I thought it was easy because I had prepared a shop where they didn't have to worry about making a living. In doing so I have created an entrepreneur".

One of my plans is also to produce entrepreneurs from my staff. My plan is to open 10 branches and produce 10 entrepreneurs from my staff. From these 10 entrepreneurs I will teach them how to develop their business and make their job more successful and later on they can do it like me like 7-Eleven Speedmart etc. Not only will I succeed with my business but I will also help to create many successful entrepreneurs. I am more focused on my employees. They want to grow. They are not just employees. They are entrepreneurs. A successful entrepreneur is one who can create other successful entrepreneurs."

MA (Services)

Amount MF: RM50,000



"It started because I knew from my friend that the process is easier compared to other banks".

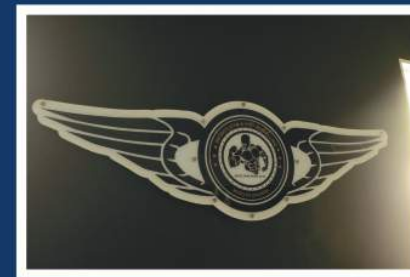


"It's called Bank Rakyat, so it's really for the people. I don't have savings for Hajj yet. But God willing, next year I want to go for Umrah. In business, patience is key. There will always be a phase where we are down."



WA (Services)

Amount MF: RM25,000



"Business demands hard work and dedication, yet it also requires surrendering control, acknowledging that success is not solely in our hands but also dependent on divine providence. In the unpredictable flow of customers and income, as seen in my gym experience, resilience and adaptability are key. We must constantly strive to maintain quality and attract loyal clientele, understanding that each market has its unique characteristics and demands. Ultimately, wise financial management, such as leveraging savings and loans effectively, is crucial in sustaining and growing a business."

MF (F&B)

Amount MF: RM50,000



"Seizing opportunities, no matter how small, can be the stepping stone to success; as I found with my initial venture into YouTube and food content, which led to unexpected orders and the eventual opening of my shop. Embracing change, especially in marketing, is essential for business growth, as shown by the shift in focus to platforms like TikTok, balancing the ease of selling with the impact on traditional markets. The journey from starting with personal funds to creating a brand is a testament to perseverance and passion; I didn't just survive, I thrived in my role as the 'Chief of Everything Officer' for my brand, Abu Taha. Understanding and adapting to your market is key, as my decision to diversify our menu with Western options illustrates, aiming to appeal to a broader audience without losing authenticity."



NA (F&B)

Amount MF: RM50,000
+RM30,000

"Success in business isn't just about having financial resources; it's equally about having the right knowledge. Without it, even the best financial planning falls short. In the face of economic challenges, adaptability is key, as demonstrated by my decision to scale down operations and focus on essential roles to maintain sustainability. A positive mindset and strategic marketing are essential, especially in uncertain times; it's about finding opportunities in every challenge and continuously engaging with the market to stay relevant."



MN (F&B)

Amount MF: RM30,000
+ RM50,000

"Even in the midst of challenges like COVID-19, I discovered that adversity could be a catalyst for highest income, highlighting the resilience and potential of our food business. Strategic thinking, like changing our purchasing methods to buy in bulk for lower costs and renting storage space, demonstrates the importance of adapting business strategies to manage competition and material costs effectively. Focusing on affordability, like offering meals under RM 8, shows the value of understanding and meeting customer needs to receive a positive response. Lastly, leveraging data and impressions for targeted marketing without significant costs illustrates the power of efficient and innovative marketing strategies in business."



SH (Apparel)

Amount MF: RM30,000



"True business success lies not just in financial investment but in acquiring knowledge, as without it, even the most abundant resources cannot guarantee success. Continuous learning and mentorship are vital; they teach us how to generate wealth from minimal resources and the indispensable role of marketing in business survival and growth. Economic challenges demand flexibility and innovation; my own experience of downsizing to part-time staff in response to market conditions underscores the importance of adaptability in sustaining a business. Understanding market trends and customer psychology, especially in uncertain times, enables effective strategies like dynamic pricing and negotiation with suppliers, turning every challenge into an opportunity for growth."



MI (Agricultural)

Amount MF: RM10,000

"Embarking on a business journey right after my studies, I chose to innovate in the field of agro farming, developing sustainable feed for livestock, which not only meets a crucial need but also reflects a commitment to ecological responsibility. Inspired by my elder brother during a time of scarce job opportunities, we ventured into breeding livestock and growing feed, adapting our business model to changing market conditions and rising costs. Facing the challenges of the COVID-19 pandemic, we experienced significant financial pressures, but our perseverance and adaptability allowed us to slowly generate income and sustain our business. This journey underscores the essence of resilience and innovation in business, demonstrating that even in the face of adversity, consistent effort and a focus on market demands can lead to success."



RO (F&B)

Amount MF: RM10,000
+RM50,000



"In times of uncertainty, like during the pandemic, our ability to adapt and continue serving essential needs demonstrated the resilience and relevance of our business. Our journey, marked by steady growth, reflects the dedication and hard work we've invested in serving our community. Balancing quality with cost, maintaining strong relationships with suppliers, and prudent financial management are the cornerstones of our success. Each challenge we've faced has been a stepping stone, teaching us the value of adaptability and the importance of diversifying our approach to meet varying needs across different settings."

PAGE BREAK

Meet our PROJECT TEAM MEMBER



WAY FORWARD



Strategic Recommendations for Bank Rakyat

Strategic recommendations for Bank Rakyat, drawing from analytical insights, from the input of this study. The study provides some recommendations which the Bank may focus on financial impacts, customer experience, and financial product diversification. Data analytics can be leveraged to gain deeper insights into customer behaviours, enabling the bank to offer personalized services and products, thus improving customer satisfaction and loyalty. Furthermore, diversifying financial products to include more tailored options can address the varied needs of its customer base. This comprehensive approach, grounded in data-driven strategies, can position Bank Rakyat as a forward-thinking and customer-centric institution in the banking sector.

Customer Segment Upward Mobility

To facilitate customer upward mobility segment from microfinance to SME segments

How Bank Rakyat Can Provide Strategies

Bank Rakyat can offer personalized business development support and gradual credit/financing enhancements. This approach, backed by data-driven insights, would enable customers to smoothly transition, grow their businesses, and effectively manage larger-scale financial products and services.



Examples from Case Studies

RH would like to expand the business from food and services, to agriculture sector. She and the husband plan to buy a piece of land for fish farming. The estimated price of the land is RM250,000, which she should be as the SME segment customer.

Customer Data Management

Centralized customer data management

How Bank Rakyat Can Provide Strategies

Bank Rakyat can enhance customer data management by investing in robust CRM systems, employing data analytics for personalized services, ensuring data security and privacy compliance, and regularly updating data to reflect current customer profiles.



Examples from Case Studies

This strategy will streamline business strategies, operations, improve customer engagement, and support targeted product offerings.

Financial Impact

The total financing amounts varied among respondents, indicating differing levels of financial support needed and obtained. This variation also reflects the diverse requirements of different business sectors, predominantly in the food and beverage industry.

How Bank Rakyat Can Provide Strategies

Tailored Financing Solutions:

Islamic banks should consider offering more tailored financing solutions that cater to the specific needs of different business sectors. Customized financing packages can address varying requirements, like asset acquisition, working capital needs, or business expansion. Products like Murabahah (cost-plus financing) and Ijarah (leasing) can be tailored to different business needs.



Examples from Case Studies

- RS (Sambal Kak Chah) utilises the financing for purchasing raw materials
- MB (Shamida Restoren) used financing for the purpose of constructing the premises' infrastructure.
- SH (Kupirasi Cafe) used the financing to expand the premises.
- Bank Rakyat can offer leasing-based contract ie. machinery.

Financial Impact

How Bank Rakyat Can Provide Strategies

Asset Management and Expansion:

Several respondents acquired significant business assets, like lorries, property, vehicles, and food trucks, which helped in their business operations. This acquisition of assets indicates an investment in business growth and expansion.



Examples from Case Studies

- RS leverage a high asset base for business expansion.
- RS has high savings from the business, which led to asset acquisition, ie. a 4-wheel drive vehicle for the business operation.
- SH purchased the building for the expansion of the business premise.
- NH capitalize on high incomes to enhance financial stability and explore additional avenues for business expansion.

Business Performance and Growth

The respondents experienced fluctuating income levels, with many seeing a significant drop in earnings post-COVID-19, indicating the pandemic's impact on small businesses. However, some respondents demonstrated positive growth in income and business expansion post-COVID-19, suggesting resilience and

How Bank Rakyat Can Provide Strategies

Flexible Repayment Plans

Recognizing the fluctuating income levels of small business owners, especially during crises like the pandemic, banks should offer flexible repayment plans. This flexibility can include grace periods, adjustable repayment schedules, or reduced instalment plans during challenging times.

Agility and adaptability: Bank Rakyat to expedite the actions and decisions to response to the difference of economics environments.



Examples from Case Studies

- SZ experienced higher sales collection during COVID-19 due to the online platform.
- Specific facilities are needed to suit the economic environment.

How Bank Rakyat Can Provide Strategies

Business Training, Capacity Building and Motivation Services

Bank Rakyat can provide advisory services to help customers manage their businesses more effectively by outsourcing training, capacity building, and motivation. This could include guidance on financial management, asset utilization, and strategies for business growth. The services can also include training and workshops on business management and skills.



Examples from Case Studies

- Bank Rakyat can provide customer training by outsourcing, which is embedded in the microfinance program. Example: Pn. Rashidah needs training to sharpen her business skills.
- Peer group support to encourage business growth depends on economic situations. Example: Persatuan Peniaga-peniaga Kecil Melayu (PPPKM) in Selangor actively provides networking and business opportunities for members.

Savings and Financial Management

The respondents' capacity for savings and financial management varied, with some showing limited savings capacity due to variable income and immediate expenses. Others managed their finances effectively, maintaining a balance between

How Bank Rakyat Can Provide Strategies

Cross-Selling Products

Bank Rakyat can provide cross-selling and after sales services, such as Term Deposit account, to enhance micro savings among entrepreneurs.

Provide risk protection ie. microtakaful for the customers.

Customers should have proper bookkeeping to segregate personal expenses and business. Bank can use the records for assessment of the customers.

Bank Rakyat may include personal and business financial management.



Examples from Case Studies

- SU (Coconut shake) has difficulty saving, some portion of the money due to lack of surplus from business income.
- MR Focus on financial management and debt reduction strategies. He considers digital strategies to boost sales and reduce costs. He explores ways to increase business resilience.
- ER, "For saving I have ASB. I have ASB and I have Tabung Haji. I separate the salary into three. One is ASB then Tabung Haji. The other is saving emergency. I separate the three."
- SZ has strong opinion on gold investment in order to preserve the value of her asset.

Employment and Economic Contribution

Some businesses demonstrated a positive impact by creating employment opportunities, thus contributing to local employment and economic activity. The growth in employment, in some cases post-COVID-19 is a notable indicator of business recovery and expansion.

How Bank Rakyat Can Provide Strategies

Job Creation and Staff/Community Development Programs

Islamic banks can initiate or support programs that focus on job creation and community development. Such programs can be aligned with the principles of Islamic finance, emphasizing social welfare and economic development.



Examples from Case Studies

- Entrepreneurs rely on staff performance in their business activities, which is a factor in the business's success. Example: SH (M.Co Barbershop)
- RO (Kantin Kilang) has specific strategies to ensure welfare and staff performance, ie. sadaqah Jumaat.
- Employment on need basis as and when is needed. Example: IQ (KAZ agronomy resources), give job opportunities to the local community.
- Staff is also one of the major costs in the business. Due to cost rationalization, has to retrain the staff to reduce the operation cost. Example: FA has a few staff before, but needs to stop employing any staff to reduce the cost.

Socio-economic Impact

The business income supported essential family needs, including children's education and nutrition. However, financial struggles during the pandemic likely impacted household stability for some respondents.

How Bank Rakyat Can Provide Strategies

Bank Rakyat can consider regularly monitoring the socio-economic impact of the customers on the quality of life for family members and using this feedback to improve and innovate financial products and services continuously.



Examples from Case Studies

- HI said that despite the economic challenges, the family situation, including children's education, remains stable.
- SU (Minah Satay), plan to transfer and sustain and expand her business to her family legacy.
- SH (M.Co Barbershop) planning to produce successful entrepreneurs in the barber segment for the future generation
- ME give sponsorship for bicycle teams during the bicycle tournaments

Religious Obligations and Causes

Respondents' participation in religious obligations like zakat varied, with some being consistent despite financial challenges, indicating a commitment to religious and social responsibilities.

How Bank Rakyat Can Provide Strategies

Donation and zakat funds for financial hardship: Considering the importance of religious obligations like zakat, Bank Rakyat can establish funds specifically for clients facing financial hardship. These funds can help support small business owners in maintaining their operations and fulfilling their religious duties during tough times.



Examples from Case Studies

- RO allocates a portion of sadaqah to her staff every Friday, and give sadaqah to the mosque every month to hire Ustadz to teach Al-Quran to the kids in the neighbourhood community.
- MH, produce gazebo for waqf purposes and from his business income, he widely participated in humanitarian programs such as assisting victim of flood and earthquake

Digital Adaptation and Skills

The adaptation to digital platforms and utilization of digital payment systems were mixed among respondents. Some struggled with the transition to online sales, while others effectively used digital platforms for business marketing and sales, showing adaptability and digital competence.

How Bank Rakyat Can Provide Strategies

Feedback and Continuous Improvement:

Regularly gather feedback from customers on their digital needs and challenges. Use this feedback to improve the bank's digital support services continuously.

Digital Advisory Services: Offer advisory services that help businesses transition digitally. This could involve guidance on setting up online stores, digital marketing strategies, and using data analytics to enhance business operations.

Support for E-commerce and Online Presence: Assist customers in establishing and enhancing their online presence. This can include support for website development, e-commerce setup, and establishing a social media presence.



Examples from Case Studies

- RA expressed the need for training for marketing purposes, using TikTok to promote the business.
- SM consider digital marketing to enhance business visibility and growth. The business uses an online ordering system i.e. Grab and FoodPanda.
- In the segment of fashion sector, PSZ rely on online platform such as TikTok and Facebook to promote and sell the clothes product.
- MU (Shamieda restaurant) relies on Facebook for marketing for his restaurant. At the same time, customer can order through Facebook platform.
- FI relies on TikTok marketing for his restaurant.



Bank Kerjasama Rakyat Malaysia Berhad is the **BIGGEST** cooperative bank in the country and the second largest Islamic financial institution in terms of asset size.



Proposed Islamic Microfinance Impact Assessment Tools

The study proposes 2 templates for impact assessment tools for Islamic Microfinance. The tool is structured to evaluate the social, economic, and religious impacts of Islamic microfinance to the customers. This involves assessing how effectively these initiatives align with Islamic financial principles. The tool might include metrics for evaluating poverty alleviation, community development, and empowerment of the community. Additionally, the tool could incorporate qualitative measures, such as beneficiary satisfaction and changes in community dynamics, to provide a holistic view of the program's impact. This tool can be the framework which would help in systematically measuring the success of Islamic microfinance in achieving its dual objectives of social welfare and financial viability.

Instructions for Use:

- This tool should be completed collaboratively by the bank representative and the customer.
- Provide space for both quantitative data and qualitative insights.
- Analyze the data to understand the impact of financing and identify areas for improvement in banking services.

This structured approach aids in capturing comprehensive insights into the impact of Islamic banking services on customers, facilitating informed decision-making for service enhancement.

To create an assessment tool that quantifies the impact of Islamic banking financing on customers, especially small business owners, a structured approach with specific metrics can be adopted. This quantitative tool will focus on measurable aspects of the business and financial impact, enabling a more data-driven analysis.

Template 1 - Islamic Microfinance Impact Assessment Tool

Section	Item	Description/Question	Response/Details
General Information	Bank Name		
	Assessment Period		
	Customer Name		
	Business Sector		
	Type of Financing Received	(e.g., Murabahah, Ijarah, Mudarabah)	
Section 1: Business and Financial Impact	Financing Details	<ul style="list-style-type: none"> • Amount of Financing: • Purpose of Financing: • Financing Terms: 	
	Business Performance	<ul style="list-style-type: none"> • Annual Revenue (Before and After Financing) • Profit Margin (Before and After Financing): • Cash Flow Changes: 	
	Asset Management	<ul style="list-style-type: none"> • List of Assets Acquired/Improved: • Impact of Assets on Business Operations: 	
	Business Growth	<ul style="list-style-type: none"> • Changes in Business Size: • Number of Jobs Created: 	
Section 2: Operational Impact	Operational Efficiency	<ul style="list-style-type: none"> • Improvements in Business Processes: • Adoption of New Technologies or Practices: 	
	Household Impact	<ul style="list-style-type: none"> • Change in Family Income and Living Standards: • Ability to Fulfill Educational, Health, and Nutritional Needs: 	
Section 3: Socio-Economic and Personal Impact	Community and Religious Contribution	<ul style="list-style-type: none"> • Participation in Community Development Initiatives: • Compliance with Religious Obligations (Zakat, etc.): 	
	Customer Satisfaction	<ul style="list-style-type: none"> • Satisfaction with Bank's Services (Scale 1-5): • Areas for Improvement in Banking Relationship: 	
	Digital Adoption	<ul style="list-style-type: none"> • Use of Digital Tools in Business: • Impact of Digital Adoption on Business: 	
Section 4: Digital Transformation	Risk Management	<ul style="list-style-type: none"> • Strategies for Risk Mitigation: • Experience with Islamic Risk-Sharing Products: 	
	Resilience	<ul style="list-style-type: none"> • Business Stability during Economic Challenges: • Adaptability to Market Changes: 	
	Additional Comments/Feedback		

Proposed Islamic Microfinance Impact Assessment Tools

Template 2 - Comprehensive Islamic Microfinance Impact Evaluation Tool

Metric	Description	Before Financing	After Financing	Change (%)
Financial Metrics				
Total Revenue	Total income from all sources			
Profit Margin	Net profit as a percentage of revenue			
Cost Efficiency	Operating costs as a percentage of revenue			
Asset Value	Total value of assets acquired or improved			
Operational Metrics				
Business Size	Indicators (e.g., number of outlets, employees)			
Market Reach	Geographical or demographic expansion			
Technology Adoption	Level of digital tools usage (scale 1-5)			
Socio-Economic Metrics				
Employment Creation	Number of jobs created			
Community Engagement	Level of participation in community initiatives (scale 1-5)			
Risk and Resilience Metrics				
Financial Resilience	Ability to withstand financial shocks (scale 1-5)			
Market Adaptability	Ability to adapt to market changes (scale 1-5)			
Customer Satisfaction				
Satisfaction Level	Overall satisfaction with bank's services (scale 1-5)			

Instructions for Use:

- This tool should be used for both pre- and post-financing assessments.
- Gather data from financial records, operational reports, and customer feedback.
- Calculate the percentage change to evaluate the impact of financing.
- Use scales for subjective measures, where 1 is low and 5 is high.
- Analyze the data to understand the impact and identify areas for strategic improvement.

This quantitative assessment tool provides Islamic banks with a framework to measure the direct impact of their financing on customers' businesses, enabling them to understand the effectiveness of their services in contributing to customer growth and satisfaction.

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