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Enhancing Access to Finance Amongst Asnaf Micro Entrepreneurs: How Can Islamic Fintech in Zakat Institutions Play a Role?

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Abstract

While the ideal case is that micro entrepreneurs should gain easy access to finance as they require more financial supports, traditional financial institutions often reject their financing applications due to the high risk associated with this segment. Thus, an alternative channel to enable micro entrepreneurs to gain access to financing is urgently needed. This study aims to explore the potential application of Islamic FinTech to expand financing outreach in zakat institutions. In achieving its objectives, this study examines the current state of microfinancing which includes the market size and players, existing financing schemes available, current issues and challenges facing microfinancing providers and potential FinTech applications that can be adopted by the microfinancing industry, particularly the zakat institutions. A critical analysis of the market is important as a starting point in comprehending Asnaf micro entrepreneurs who are facing this financial difficulty. It is believed that zakat institutions can play an effective role in enhancing access to finance for the underserved. This study is only limited to the Malaysian context but can be further extended in more comprehensive empirical research. The findings will assist zakat institutions in formulating their FinTech financing strategy and provide an alternative approach to improve micro entrepreneurs' access to finance as well as their repayment capability. © 2023, The Author(s), under exclusive license to Springer Nature Switzerland AG.

Author Keywords

Access to finance; Asnaf micro entrepreneurs; Islamic FinTech

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