THE CHALLENGES OF MICRO ENTERPRISES IN MALAYSIA AND THE PROSPECT FOR INTEGRATED CASH WAQF MICRO ENTERPRISE INVESTMENT (ICWME-I) MODEL

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Abstract: *Small and Medium Enterprises (SMEs) have been the backbone of economic growth of many economies. In Malaysia too, SMEs have played a role in contributing to the economy as Malaysia embarks on the journey towards achieving Vision 2020. However, SMEs contribution to Malaysian GDP is still comparatively low. The Malaysian government launched several programs and schemes to boost SMEs activities and development. Hitherto, however, the impact of these programs and schemes are yet to be felt. One reason is that most of the government funding goes to small and medium enterprises, while the largest contributor to SMEs - the micro enterprises have hardly considerable financing assistance. Micro enterprises are considered risky and strict loan conditions have been imposed on them such as collateral, proper support documents and good business track record. Unfortunately, most of them cannot fulfil these conditions. Furthermore, micro enterprises suffer from human resource deficiency. Most of them have less skilled human capital resources with low level of education. Thus, the present study intends to critically survey the literature on the subject. It uses explanatory analysis. Later, it proposes an Integrated Cash Waqf Micro Enterprise Investment (ICWME-I) model as a solution for microenterprises. This model is expected to effectively address their financial and human resource constraints and enhance their contributions to the national income. The study concludes with some suggestions for policy implications.*

Keywords: Micro Enterprises, Financing, Human capital Development, Integrated Cash Waqf Micro Enterprise Investment (ICWME-I) Model

1. INTRODUCTION

Small and Medium Enterprises (SMEs) have played significant role in world economies in terms of economic growth, employment and stimulating investments. In Malaysia, SMEs also continue to contribute to the economy as Malaysia embarks on the journey towards achieving Vision 2020. However, SMEs contribution to Malaysian GDP is still low compared to some Organization of Islamic Coopertion (OIC) countries such as U-A-E, Indonesia and Egypt, and several non-OIC countries such as Korea, Singapore, Vietnam and South Africa. The Malaysian government launched several programs and schemes to boost SMEs activities and their contributions to the development of the country. Hitherto, however, the impact of these programs and schemes are yet to be felt.

The extant literature has attributed the dismal contributions of SMEs to GDP to continuous problems they face largely in terms of financing, human resources, information technology, market accessibility, competition, bureaucratic red tape and unfavorable regulations. Most of these literatures, however, have examined SMEs as a single unit of analysis. There are few studies that have investigated the components of SMEs individually. Evidences in these studies show that most of the funding from the private sector and the government goes to the two components of SMEs, namely the small and medium enterprises. While the third component, the micro enterprises hardly receive considerable funding from private and public institutions (Hassan et.al, 2010; Selamat et.al, 2011). Micro enterprises are seen as risky business. Hence most of them have to rely on the internal funding from family members, friends and their savings. Furthermore, due to lack of funding and proper attention, micro enterprises suffer from human capital deficiency with low level of education and insufficient human capacity for development.

Ironically, it is the microenterprise that constitutes the largest component of SMEs in Malaysia. This situation brings to the fore several pertinent research questions. Is the dismal contribution of SMEs in Malaysia to the GDP the result of insufficient funding to the micro enterprise component? Is there any viable funding model that can mitigate the micro enterprise risk factor and at the same time harness its potential towards increased output? The present study adopts explanatory analysis to critically review the literature on the issues facing SMEs, particularly micro enterprises and suggests an Integrated Cash Waqf Micro Enterprise Investment (ICWME-I) model that has a potential of enhancing the development of micro enterprises in Malaysia.

2. AN OVERVIEW ON SMES IN MALAYSIA

Small and Medium Enterprises (SMEs) have been the backbone of economic growth for many economies. Statistics show that SMEs represent about 95 percent of the total business establishment in many countries, contribute over 65 percent of employment opportunities and over 50 percent of the Gross Domestic Product (GDP). In U.K. and U.S. for example, SMEs contribute about 85 percent and 51 percent to their GDP, respectively (Alasrag, 2006). Meanwhile in Japan, Korea, Taiwan and Germany, the SMEs constitute over 98 percent of their total establishments and contribute over 65 percent of employment and over 50 percent of their Gross Domestic Product (Amrina, 2009). Hence, SMEs occupy prominent positions in the overall national development strategy in most countries (Abdullah, 1999). Both developed and developing countries acknowledged SMEs as primary contributors to the growth and development of their economies.

Similarly, in Malaysia, SMEs are highly prioritized as Malaysia embarks on its journey towards achieving Vision 2020, a vision of becoming a developed country with high income and high-productivity, which can be realized by providing conducive environment for developing SMEs as the engine of growth and innovation through many policies (Razak, 2011). According to the recent statistics from Economic Census of SMEs' Profile (2011), SMEs constitute 97.3 percent of Malaysia's total business establishment, employ about 52.7 percent of the total workforce and contribute 32.5 percent to the Gross Domestic Product (GDP).

Compared to some OIC and non-OIC developing countries, SMEs' contribution of 32.5 percent to Malaysia's GDP is low relative to their representation in the total business establishment (97.3 percent). For example, in four OIC countries, as shown in Table 1, the SMEs' representation in their economy ranges from 93 to 97 percent while the contributions of SMEs to their economies range from 37 to as high as 60 percent. For example, SMEs in UAE economy represents 94.3 percent and they contribute 60 percent to the total GDP of the country. On the other hand, Egypt has 99.7 percent of SMEs' representation in its economy and they contribute 55 percent to the country's GDP.

Table 1: The Ratio of SMEs in Total Business Establishment to GDP Contributions in the Economies of Selected OIC Countries

Countries	SMEs Representation in the Economy (a)	SMEs' GDP Contributions (b)	Ratio (b/a)	Rank
UAE	94.3	60	0.636	1
Indonesia	100	57	0.57	2
Egypt	99.7	55	0.552	3
Morocco	93	50	0.538	4
Tunisia	97	51	0.526	5
Nigeria	97	37	0.381	6
Malaysia	**97.3**	**32.5**	**0.334**	**7**
Turkey	99.5	32	0.321	8
Pakistan	100	30	0.3	9
Saudi	97	29.1	0.3	10

Source: Author's computation

The contribution of Malaysia's SMEs to its GDP is also low when compared to some non-OIC member countries. Table 2 below presents the statistics from other parts of the world. For example, SMEs in Ghana constitute 92% of the business establishment, yet their total contribution to Ghana's GDP is high at 70%. Ghana is followed by South Africa where SMEs representation in the business establishment is 91% but their contribution to the GDP is about 56 percent. Meanwhile in the case of Vietnam the contribution of SMEs to its GDP is 40 percent although the SMEs representation in the business establishment is as high as 97.1 percent.

Table 2: The Ratio of SMEs in Total Business Establishment to GDP Contributions in the Economies of Selected Non-OIC Countries

Countries	SMEs Representation in Total Business Establishment (a)	SMEs' GDP Contributions (b)	Ratios (b/a)	Rank
Ghana	92	70	0.761	1
South Africa	91	54.5	0.599	2
Korea	99	49	0.495	3
Singapore	99	42	0.424	4
Vietnam	97.1	40	0.412	5
Argentina	98.2	40	0.407	6
Mexico	99	40	0.404	7
Malaysia	**97.3**	**32.5**	**0.334**	**8**

Source: Author's computation

The ratio for Malaysia's SMEs is only 0.334 (0.325/0.973). This ratio implies that although SMEs representation in the total business establishment in Malaysia is high, their contribution to GDP is relatively low compared to SMEs in other countries such as Ghana and South Africa where the ratios of SMEs contributions to GDP over the shares of SMEs in the two economies are very high at 0.778 and 0.599 respectively. In addition, Table 2 also indicates the ranking of Malaysia relative to other selected developing countries. Malaysia ranks lower at 9th place compared to countries like Ghana (1st place), Korea (3rd), Singapore (4th) and Argentina (6th).

These scenarios have raised several queries as to why SMEs in Malaysia contribute less to the GDP despite their large representation in the total business establishment in the economy. The subsequent section critically reviews the literature on the challenges facing SMEs in Malaysia **to identify the research gap**.

3. CHALLENGES FACING SMES IN MALAYSIA

The existing literatures have highlighted several problems confronting SMEs in Malaysia. Most of the literatures have discussed similar problems facing SMEs, namely financing, human resources, information technology, managerial inefficiency, bureaucracy, market accessibility and competition, among others.

For example, Hashim (1999) found that SMEs in Malaysia lack of capital and credit facilities, short of skilled workers and raw materials, posses inadequate infrastructure, lack managerial and technical expertise, faced market and knowledge constraints, and have limited application of new technology, which affected their growth and contribution to the economy. His findings are consistent with the general observation by Ting (2004) who identified five key challenges facing Malaysian SMEs. The challenges were lack of access to finance, human resource constraints, limited or inability to adopt technology, lack of information on potential markets and customers and global competition. He also argued that there was a high risk that SMEs would be wiped out if they did not increase their competitiveness in the new rapidly changing world of globalization.

Similarly, Saleh and Ndubisi (2006) identified high levels of bureaucracy in government agencies, difficulty in obtaining funds from financial institutions as well as from the government, lack of skilled workers, high competition from large companies and also limited access to technology and ICT as the major factors hindering efficient development of SMEs in Malaysia. Soon (2011) found that SMEs in Malaysia are exposed to external and internal challenges that hindered their growth and development. These internal and external environmental factors include lack of capabilities and resources, poor management, low technology, competition, economics and, technological, socio-cultural and international factors. These challenges affected the profitability, growth and success of SMEs in Malaysia.

Meanwhile, in the Malaysian SMI Development Plan 2001-2005, it is stated that SMEs in Malaysia were facing many challenges domestically as well as globally. These challenges directly influenced the growth of SMEs in Malaysia. The challenges include high global competition, limited capability to meet the market environment, limited capacity for technology management and knowledge acquisition, low productivity and quality output, lack of skilled human resources, and limited access to finance and capital.

The challenges facing the Malaysian SMEs are apparently shared by SMEs in other countries. For example, in India, The Trade India Newsletter (2007) reported that the SMEs contributed less to their GDP, roughly about 10 percent only although they represented more than 80 percent of the business establishments. This report stated that among the challenges that SMEs in India faced were technological backwardness, poor financial conditions, low levels of R&D, poor adaptability to changing trade trends, non-availability of technically trained human resources, lack of management skills, lack of access to technological information and lack of consultancy services.

Similarly, SMEs in Sub Saharan Africa (SSA) also face the same problems. A study by Tadesse (2009) found that lack of access to finance was the prominent factor that hindered the growth of SMEs in SSA. These are in addition to other problems such as lack of workplace, lack of technological capability, lack of knowledge of market environment and lack of skilled human resources. Furthermore, Bhutanese SMEs have the same story to tell. Moktan (2007) empirically surveyed 168 firms to examine the problems they faced. Based on his findings, the major constraints facing these SMEs were improper regulations, limited access to credit and poor infrastructure. Other less significant constraints included licensing procedure, lack of government support, lack of capital, lack of skilled labor, lack of market access, competition, unskilled labor, low technology and low FDI inflow.

Although most of these studies have discussed almost similar problems that have hindered the contribution of SMEs to their respective economies, they have only examined SMEs as a single unit of analysis. Such an approach cannot pinpoint and provide detail on the SMEs component that is mostly affected. There are few studies that have investigated these components of SMEs individually. Evidences in these studies show that most of the funding from the private sector and the government goes to two components of SMEs, namely the small and medium enterprises. While the third component, the micro enterprises hardly receive considerable funding from private and public institutions (Selamat et.al, 2011; Hassan et.al, 2010). Ironically, it is this component that should have received greater attention. This may explain why efforts towards SMEs by the government in Malaysia have not yielded the desired results.

4. GOVERNMENT PROGRAMS TOWARDS SMES IN MALAYSIA

In order to enhance and support the development of SMEs, the government of Malaysia has continued to provide many initiatives and schemes. For example, in 2004, the National SME Development Council of Malaysia (NSDC) formulated strategies for the development of SMEs and coordinate policies and programs across more than 15 Ministries and 60 Agencies (SME Annual Report, 2010/2011). Under the Ninth Malaysia Plan (9MP: 2006-2010), the government allocated a whooping sum of RM3.8 billion (2008) for the purpose of improving and developing SMEs (Hung & Effendi, 2011). This was followed by assistance programs that included infrastructure support, financial and credit assistance, technical and training assistance, extension and advisory services as well as marketing and market research.

In the year 2010, the government implemented 226 SME development programmes at the cost of RM7.1 billion (SME Annual Report, 2010/2011). Majority of the programs (73%) were for building capacity and capability with a financial expenditure of RM717.8 million, while other 38 programs designed to enhance access to financing, accounted for the biggest sum of the allocation at RM6.3 billion. The remaining 23 programmes were implemented to strengthen the enabling infrastructure at the cost of RM179.8 million (SME Annual Report, 2010/2011).

In the 2013 Budget of Malaysia, the government has allocated the sum of RM1 billion for SME Development Scheme to accelerate the growth of SME nationwide. This is in line with the recently launched SME Master Plan (2012 – 2020), which is seen as a *game-changer* for accelerating SME growth through innovation and productivity with an allocation of RM30 million (Budget Report, 2013).

Although such government programs and schemes were meant to help SMEs increase their output considerably, the percentage of their contribution to GDP proportionate to the percentage of budget allocation for their development has remained low. There has also been no substantial improvement in terms of their contribution towards output and value added. The percentage change in budget allocation between the year 2011 and 2005 is 87% (RM7.1 billion – RM3.8 billion/ RM3.8 billion). This compared to only 3.1% change in SMEs contribution to GDP between 2011 and 2005. In terms of output and value added, SMEs contributed 43.5 percent and 47.3 percent in 2003 respectively (Aris, 2006). However, these figures dropped drastically to 28.5 percent and 30.2 percent, respectively in 2010 (Economic Census: Profile of SMEs, 2011).

These figures raise concern about the effectiveness of the government programs and why they were not able to bring about substantial improvement in terms of SMEs contribution to the economy. Many studies have indicated that these governmental programs do not target the right component of SMEs - the micro enterprises, the largest composition in SMEs (Hamid, 2003). Besides, there is lack of awareness on the government program (Asri, 1999; Hashim, 2006) and lack of accessibility to government program (Asri, 1999).

There is therefore a need for investigating exclusively the challenges that micro enterprises face and whether the government programs and schemes and private funding have been able to effectively address these challenges. And if they have failed, what are the alternatives in place to enhance the role of micro enterprise to substantially contribute to the country's economy by virtue of being the largest SMEs component.

5. THE CHALLENGES OF MICRO ENTERPRISES IN MALAYSIA

Micro enterprises in Malaysia is defined as an establishment with less than 5 employees or less than RM 250,000 of the sales turnover for all sectors, namely agriculture, mining & quarrying, construction, services and manufacturing. The enterprises are largely dominated by the Bumiputra ethnic group in Malaysia (ETP Annual Report, 2011). The importance of these enterprises lies in its ability to bring social change, employment and income generating opportunities, exploring the talents of entrepreneurs, empowering the marginalised segments of the population, improving communities' standard of living, creating condition for sustainable livelihood and eliminating conditions of extreme poverty (Ladzani & Van Vuuren, 2002; Mogale, 2005; Tustin, 2001; ADB, 1997).

Micro enterprises constitute 77 percent of the total SMEs in Malaysia compared to the small and medium enterprises which constitute 20 percent and 3 percent, respectively (Economic Census: Profile of SMEs, 2011). Micro enterprises have also dominated almost all the sectors in Malaysia. For example, the bulk of SMEs in the services sector are micro establishments, representing over 79.0 per cent of the total SMEs in this sector. The manufacturing and agriculture sectors also show the same pattern where micro businesses are predominant, accounting for more than half, with 57.1 per cent and 56.3 per cent, respectively. This is followed by the construction sector, where the micro enterprises form about 45 percent (Economic Census: Profile of SMEs, 2011).

As micro enterprises comprise more than three quarter of the total SMEs and they have the largest shares in almost all the sectors, it is obvious that they are supposed to get the lion share of the schemes and programs offered by the government compared to the small and medium enterprises. However, this prominent group of SMEs seems to be lagging behind compared to the other two enterprises in terms of support particularly the support related to financing and human capital development.

For example, in 2010, the Malaysian government allocated RM 6.3 billion for financing SMEs programs. However, only 17.4 percent of micro enterprises access to this allocation (. It is worth noting that most of the government funds are channelled to SMEs through intermediaries, notably the banks, financial and micro credit institutions. As can be seen from Table 3, in 2010, almost 59 percent of the micro enterprises used internally generated fund as source of financing their businesses. Comparatively, the other two enterprises, small and medium enterprises, could easily utilised financing from external sources. For example, 33% of small and 51.7 % of medium enterprises had used external financing as a source of financing access to funds from financial institutions compared to only 17.4 percent for micro enterprises.

Table 3: Sources of Financing for SMEs in Malaysia, 2010

Type	**Banks, Financial/Micro Credit Institutions (%)**	**Shareholders/Internally Generated Funds (%)**	**Friends or Relatives (%)**	**Other Sources[1] (%)**
Micro	17.4	58.1	15	27.5
Small	33	49.8	12.8	31.4
Medium	51.7	47.8	8.7	32.0

Source: Economic Census: Profile of SMEs 2011

These statistics obviously indicate that micro enterprises face the problem of accessing external financing facilities, which have mostly benefited the small and medium enterprises. As micro enterprises constitute the largest share of SMEs, they should receive more financial support. This is to enable them to be competitive in contributing more towards the growth of the economy. On the contrary, micro enterprises have relatively very little access to external financing compared to small and medium enterprises. This indicates that there is a limited

[1] Government Financing, cooperatives

direct help in terms of external financing from the government for micro enterprises in Malaysia in spite of high competition among other enterprises.

Hassan et. al (2010) examined the financial constraints faced by the micro enterprise entrepreneurs in Malaysia. Based on their observation, they found that in general micro enterprise entrepreneurs face financial difficulties particularly during the start up. Although many programs have been provided by the government to support micro entrepreneurs financially, yet only 13% thus far have successfully received this funding. In addition, they found that the rigidity of the procedures to access financial programs hampers the smooth success of the programs.

Furthermore, Selamat et.al (2011) examined the challenges that affected the performance of micro-enterprise in Balik Pulau, Penang where most of the Malay ethnic group is concentrated. Using 21 respondents and in–depth interview, they found that most of the micro-entrepreneurs faced the problem of limited access to capital and low level of knowledge.

According to Aris (2007), micro enterprises have difficulty in accessing external financing due to lack of collateral, insufficient documents to support loan application, absence of financial track record, the nature of their business and long loan processing time. On the other hand, the financial institutions are also reluctant to extend financing for micro enterprises due to the risks involved in their business (Hassan et.al 2011).

The risk in micro enterprise business is compounded due to the poor quality of human capital. Many of the micro entrepreneurs have low level of education, low level of productivity and lack skills. Yet they do not receive sufficient fund from the government's financing programs to develop their human capital. Inspite of these financial difficulties, micro enterprises also provided with training or developmental programs to uplift the knowledge and skill of their human resource by the government agencies. However, a study by Hamdan et.al (2012) found that the training sessions provided by the program management teams are not effective to promote participants' capability in generating higher business profits which directly affect their skill development.

It is an obvious fact that proper access to finance helps small businesses or start-up businesses for liquidity purposes. With sufficient capital, they can operate their businesses smoothly and expand to higher stages of enterprises. However, without sufficient capital, they are unable to develop new products, conduct research and development in R&D, invest in information and communication technology (ICT), get more working capital for growth and meet the growing demand of the market (Ghosh & Rosa, 1997; Fogel, 2001; Mambula, 2002).

Meanwhile, for human capital resources, an individual with a higher level of education, experiences and proper training is confident in dealing with customers and financial institutions (Storey, 1994; Hashim, 2008; Hamdan et.al, 2012). He/she also will know about the skills of management, marketing, finance and information technology as he/she would have gained valuable experience in running a business. In contrast, absence of proper education level, training and experience among the entrepreneurs will affect the business operation.

In summary, evidences show that micro enterprises in Malaysia have hardly received considerable funding from financing institutions, which consider micro enterprises as risky businesses that lack collateral, have insufficient documents to support loan application and have no financial track record. Most of the micro enterprises have to rely on internal funding from family members, friend and their savings. Furthermore, this prominent group of SMEs also suffers from human resource deficiency. Most of these enterprises have semi-skilled human capital resources due to their low level of education, improper training and limited availability of relevant training courses.

Hence, apparently, it is evident that the existing conventional model is unable to cater for the financing and human capital needs of the micro enterprises. It is also unable to create a long-term sustainable growth for SMEs in general and micro enterprises in particular that can contribute to the Malaysian economy. There is therefore a need for developing a model that is able to overcome all the financing constraints [risk, collateral, documentation and track record] imposed on the micro enterprises. The new model should be able to provide sustainable fund at a low cost taking into consideration the risky nature of the micro enterprises. It should also provide funds without demanding collateral, documents to support loan and track record report. With proper funding, micro enterprises will also be able to overcome the problem of human capital development. Thus, the present paper proposes an Integrated Cash Waqf Micro Enterprise Investment (ICWME-I) model for enhancing the development of micro enterprises in Malaysia.

6. THE INTEGRATED CASH WAQF MICRO ENTERPRISE INVESTMENT (ICWME-I) MODEL

Waqf is a voluntary act of charity that comes under the general terms of *Sadaqah* and *Infaq*. Literally, the term Waqf refers to stay in perpetuity. The term is synonymous to *habs* which means to hold still. Hence, Waqf means stand still, hold still, not to let go (Ahmed, 2004). Technically, it may be defined as holding a *Maal* (an asset) and preventing its consumption for the purpose of repeatedly extracting its usufruct for the benefit of an objective representing righteousness and/or philanthropy for as long as its principal is preserved either by its own nature - as in land - or from arrangements and conditions prescribed by the Waqf founder (Kahf, 1998). In other words, Waqf means an asset or a property that has been withdrawn from circulation so that its yield can be used for charitable purposes.

The concept of investing Waqf properties is not new in Islam. Waqf in the early days of Islam had been invested using modes such as *Al-Hukr* (Indefinite-Lease Right), *Haqq al-Ijaratain* (the Dual-Lease Right) and *Istibdal* (Substitution of Waqf property). However, the concept of integrating Waqf in a joint venture with existing institutions is a new phenomenon, which has evolved due to the expediency of corporatization.

Several contemporary scholars have attempted to integrate Waqf into business models. They have proposed Waqf models that potentially could assist enterprises in running their businesses. Due to its unique characteristics, Waqf creates and preserves long-term assets that generate income flows or indirectly help the process of production and creation of wealth (Dusuki, 2008).

Elgari (2004) developed the idea of integrating Waqf with interest free loan or *Qard Hassan* to provide source of financing for the poor. Elgari had even proposed the establishment of a non-profit financial intermediary, that is called *qard hassan* bank, to provide interest free loan (*qard hassan*) to finance consumer lending for the poor. The capital of the bank would come from monetary (cash) *Waqf* donated by Muslims. Meanwhile, in the same year Cizakza (2004) also suggested a model in which the concept of cash Waqf can be used to meet the social objectives in the society. One use of such cash Waqf would be to provide financing assistance to entrepreneurs through the concept of partnership (*Mudharabah*).

Ahmed (2007) proposed Waqf based Islamic microfinance institution model for channeling funds to facilitate wealth creation for the poor as well as to address risk management related issues. The proposed concept of integrated Waqf with micro finance was expected to improve the socio-economic condition of the poor. The idea of Ahmed (2007) to Waqf based Islamic microfinance was extended by Hassan (2010) who suggested an integrated model of microfinance combining Zakat and Awqaf. This integrated model was expected to effectively resolve inadequacy of funds in the following ways: The microfinance institutions could use the Zakat fund to fulfill basic consumption needs and to provide capital investment and/or business initiation fund while the Waqf funds could be used for providing capital investment and working capital for micro businesses. Such an integrated model was expected to reduce the chances of loan defaults and provide a better opportunity of micro–entrepreneurs.

Karim (2010) also recommended that Waqf should be channelled to poor entrepreneurs to fulfil their needs. This need arises when most of the Waqf assets are being underutilized particularly in Bangladesh context. Through this channelling of Waqf fund, it would help to (i) ensure the participation of the poor in the business, (ii) empower the poor through Waqf based on the practices of various Islamic financial instruments and (iii) establish the productive entrepreneurial ventures by creative distribution of the Waqf assets to the poor individually or collectively

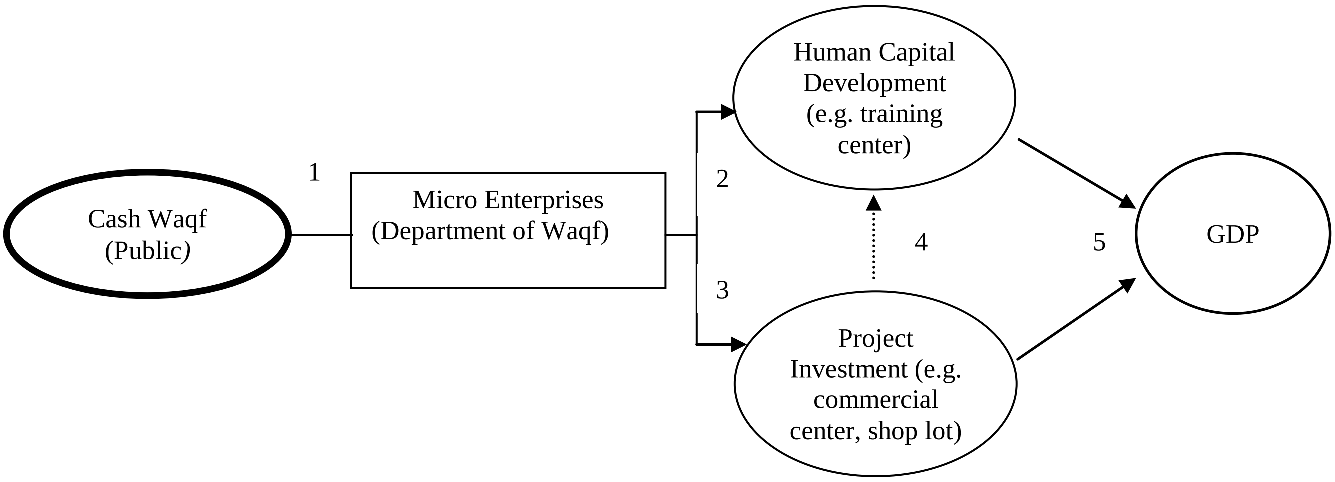
Furthermore, Muhammad (2011) developed a Waqf based microfinance that utilizes the fundamental Islamic finance contracts supported by Waqf sector to reduce the cost of capital and develop human capital. He integrated Ijara-Waqf contract, Mudarabah contract and Musharakah into a single model called Islamic Micro-Investment Model. This model involved a kind of cooperative venture between parties involved and each of these contracts has been treated separately as individual entities and later integrated into a single one. This model was envisioned to have the potential of fighting poverty as well as generating employment, bringing about capital growth, fulfilling faith satisfaction, improving skills and ensuring inclusiveness of both rich and poor micro-investors.

Meanwhile, Tohirin (2010) identified cash Waqf as a solution to lack of access to formal banking institution in Indonesia. Through proper utilization and investment of these cash Waqf assets, SMEs will be able to expand their business venture through partnership with cash Waqf institutions. This could contribute towards human investment through education and training hence increase the productivity of the recipients. The study by Tohirin (2010) has some similarities with the present study as both have focused on cash Waqf and SMEs. However, there are also major differences. The present study has focused on micro enterprises while Tohirin's work has discussed SMEs in general. Secondly, this study tries to integrate cash Waqf into micro enterprises unlike Tohirin's that has treated them as separate entities in partnership. Moreover the present work has extended the use of cash Waqf beyond financing investments to include human resource development.

The subsequent section discusses the conceptual framework of the Integrated Cash Waqf Micro Enterprise Investment (ICWME-I) model and its operational steps.

7. ICWME-I MODEL CONCEPTUAL FRAMEWORK AND ITS MODUS OPERANDI

Figure 1: Conceptual Framework of ICWME-I Model



Modus Operandi for ICWME-I Model

1) The Department of Waqf in the micro enterprise institution will collect Cash Waqf from the public and the corporate sector with the intention of creating perpetual Waqf. This department acts as a Mutawali of the fund.
2) The Department of Waqf will use this fund collected in the form of Cash Waqf for human capital development and project investment
3) In order to preserve the perpetual characteristic of Cash Waqf that is collected, the Department of Waqf will build at a subsidized cost modern training centres with the state of the art facilities for the micro enterprises human capital development. The facilities at the Centre will be useful for upgrading, improving and enhancing the human capital capacity and their skills.
4) Meanwhile, the other portion of the fund will be used to initiate or finance projects. In order to maintain the perpetual characteristic for the cash Waqf, the Department of Waqf in the micro enterprise will invest the fund in projects such as building commercial centers, shopping complexes and shop lots.
5) The Department of Waqf will lease shop lots in the commercial centres and shopping complexes to micro entrepreneurs at a subsidized rate. The Department can also extend lease to other non-micro entrepreneurs at the market rate. The Department will make use of the lease returns to cover the human capital development expenses.

6) In order to overcome the constraint of collateral in accessing external fund from other financial institutions, micro enterprises can use these projects [commercial centres and shopping complexes] as collateral for sourcing external financing from financial institutions.

Through this model, with its integrated structure and practical steps, the micro enterprises will be able to overcome the problems of financing and deficiency in human capital thereby enhancing their potential to contribute to the national income or GDP.

8. CONCLUSION

The present study has shown that micro enterprises represent the largest component of SMEs in Malaysia. They face financial and human resource challenges. Yet they have very little access to funding from both private and government sources. They are considered risky and strict loan conditions have been imposed on them such as collateral, proper support documents and good business track record. Unfortunately, most of them cannot fulfil these conditions. The study proposes an idea of Integrated Cash Waqf Micro Enterprise Investment (ICWME-I) model as a solution for micro enterprises to overcome their constraints and enhance their development and contribution to the national income. This model is also expected to serve as a material reference in the area of policy formulation for the different tiers of government, entrepreneurs and SMEs financing service providers.

Future research needs to refine ICWME-I model through focus group studies. The model should be validated through surveys to gauge the intentions of the stakeholder. Theories such as Theory of Reasoned Action (TRA) (Fishbein & Ajzen (1975) and Theory of Planned Behavior (TPB) (Ajzen, 1985) can be very useful in this regard. Finally, future research needs to address some of the constraints that this model will face in its implementation particularly the legal impediments since in Malaysia, the management of Awqaf comes under the purview of the religious departments.

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