

## Linkage Between Islamic Micro-Finance and Poverty Reduction in Malaysia

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**Abstract:** Poverty has become pervasive in Muslim societies partly because the poor has been excluded from the financial system. The main objective of this study is to explore the conceptual framework on the relationship between the products of Islamic micro-finance and poverty reduction in Malaysia. The study identifies different products used to develop entrepreneurial skills leading to individual's personal development, increased productivity and income and participation in economic and social life. The methodology of this study is qualitative research approach based on analysis of relevant documents. The finding of the study indicates that there is a significant increase in household income and a reduction in the incidence of poverty on Islamic micro-finance clients. The micro-credit is transformed towards a more flexible and convenient products to attract business and family needs of the poor. It was also found that other components of micro-credit such as micro-saving and insurance have received minimal study despite being crucial to social cohesion of small groups, communities or societies. The specialized products on education, health, housing and remittances suggests the poor demand more than just microloans.

**Key words:** Islamic micro-finance, poverty reduction, micro-credit, micro-saving, micro-insurance

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### INTRODUCTION

This study is an attempt to explore a conceptual framework on the relationship between the products of Islamic micro-finance and poverty reduction in Malaysia. The key issue distinguishing Islamic micro-finance from the conventional micro-finance lies in the provisions by the Islamic law (Shariah) prohibiting interest, speculation and uncertainty in business transactions. This motive has led to expanded range of products into micro-credit, equity and charity. The major objective of these products is to enable the beneficiaries to generate income, accumulate assets and protect themselves financially against unexpected adverse events. This approach towards financial inclusion has positive impact on the lives of the poor in terms of increased income and quality of life which in turn breaks the vicious cycle of poverty and achieves human well-being.

Poverty reduction occupies an integral part of all national plans of Malaysia in the last four decades. Studies by Zin (2013) concluded that Malaysia has been successful to have rapid economic growth that raised the living standard and eventually reduced the incidence of poverty. Although, Malaysia graduated from poor to middle income nation, vulnerable groups exist for geographical and societal reasons (Hatta and Ali, 2013).

To reduce income disparity across race and regions the New Economic Model (NEM) 2010 was formulated to, among other things, enhance the incomes of the bottom 40% of households whose average monthly household income is RM1, 500. This is in line with the concept of growth with equity that is the hallmark of all national plans (Hatta and Ali, 2013). The NEM incorporates a new approach to development which it defines as inclusive growth so as to raise productivity and incomes of the poor and enable them contribute meaningfully to national development. According to Xavier and Ahmad (2012), NEM has three primary goals: high per capita income target of USD 15,000-20,000 per year by 2020 premised on a 6.5% annual growth; inclusiveness (all racial communities to benefit from increased national wealth) and sustainable growth that does not compromise the quality of life of future generations. The Financial Sector Blueprint (2011-2020) set by the Bank Negara Malaysia, was the strategic instrument used to achieve the agenda for an inclusive financial system. While the macro-economic policies had a general perspective, the latter strategies were meant to argument the former's impact especially in the rural areas (Table 1).

Many rural societies are characterised with limited opportunities, low levels of education, inadequate health and nutrition and few skills. This result in much of the

Table 1: Incidence of poverty of population (%) by ethnic group/strata 2004-2012

Countries	2004	2007	2009	2012
Malaysia	5.7	3.6	3.8	1.7
Bumiputera	8.3	5.1	5.3	2.2
Chinese	0.6	0.6	0.6	0.3
Indians	2.9	2.5	2.5	1.8
Others	6.9	9.8	6.7	1.5
Urban	2.5	2	1.7	1
Rural	11.9	7.1	8.4	3.4

rural poor working as subsistence farmers or in insecure, informal employment that generates low incomes and perpetuating the state of rural poverty (Farrigan and Parker, 2012). As contained in the Financial Sector Blueprint 2011-2020, the financial inclusion policy in Malaysia is designed to achieve the vision of an inclusive financial system that best serves all members of society including the low-income and rural residents. It is to enable all citizens to have access to and usage of quality, affordable essential financial services to satisfy their needs towards greater shared prosperity. There are basically three range of products namely: micro-credit, savings and insurance (micro-takaful). micro-credit has been defined as the process of lending capital in small amounts to low income individuals and their microenterprises (Omar *et al.*, 2012). micro-savings products enhances periodical savings by low-income households to enable them fulfil long term goals such as starting a business, home ownership, education and to have a secure retirement. micro-saving play a vital role in protecting the poorest who face the risk of slipping back into poverty because of unforeseen circumstances (Tavanti, 2013).

Micro-insurance is that aspect of insurance for managing risks that impede the low-income households from breaking the vicious cycle of poverty. It is the defence of the vulnerable poor against specific risks in exchange for regular premium payments in proportion to the probability and cost of the risk involved (Akotey *et al.*, 2011). It is also essential that while the citizens benefit from economic progress, they can also contribute to balanced and sustainable economic growth and development.

**MATERIALS AND METHODS**

**The Islamic micro-finance conceptual model**

**Emergence of Islamic micro-finance:** Poverty is multidimensional and therefore requires different approaches to tackle. The international commitment in 2005 aimed to reduce the number of people living below a dollar by half in 2015 was essential in the global fight against poverty. It has called for new thinking to develop

strategies to attack its multifaceted dimensions. Donor agencies, NGOs, private investments and the support from governments have squared up and faced the challenge of poverty. The prospect of getting out of poverty was difficult because the poor was unable to generate income, build assets or attain educational level necessary to fight poverty. The financial institutions perceived the poor as un-bankable for their inability to own collateral security and have lower human capacity. micro-finance emerged as an economic development approach by extending small loans to that segment of the society that is financially excluded. In recent years, the Grameen model by Dr. Mohammed Yunus in the late 1970s has made its development very popular. Grameen model is based on the premise that the poor, especially the poorest of the poor can equally be productive if given the requisite funding. It was set up to provide credit to the poor rural households using group-lending method that emphasises joint liability among the group members (Omar *et al.*, 2012). The group-lending enabled Grameen bank to have a higher repayment rates than similar credit programmes using conventional lending practices. The micro loans were able to engage the poor in productive activities and provide a source of employment that generate income and better their lives. The experiment led to deposit mobilization especially in the rural areas and promoted socio-economic goals of the society. The credit recipients enjoy minimum banking services at a reasonable cost, with minimum documentation and simple loan procedure. Furthermore, financial literacy, business advisory courses to develop skills that are required to run a successful enterprise.

Islamic micro-finance is another innovation in micro-finance that aims to cater for those who prefer to live with the dictates of Islam in doing business. The foundation of Islamic micro-finance is imbedded in the Quran and Sunnah (teachings of Prophet Muhammad, Peace Be Upon Him) that aimed to promote trade based on profit and loss sharing and prohibition of interest, speculation and uncertainty in business transaction (Bhuiyan *et al.*, 2011). These prohibitions are the key issues that distinguishes Islamic micro-finance from the conventional micro-finance (Onakoya and Onakoya, 2013). Islamic micro-finance encourages Profit and Loss Sharing (PLS) arrangement in business because of the belief that that lead to more efficient resource allocation between the entrepreneur and the financier (Rahman, 2007). The micro-credit entails the usage of business asset based on loan or lease. micro-equity enables a business relationship when one party provide the capital while the other party manages the business. The charity aspect

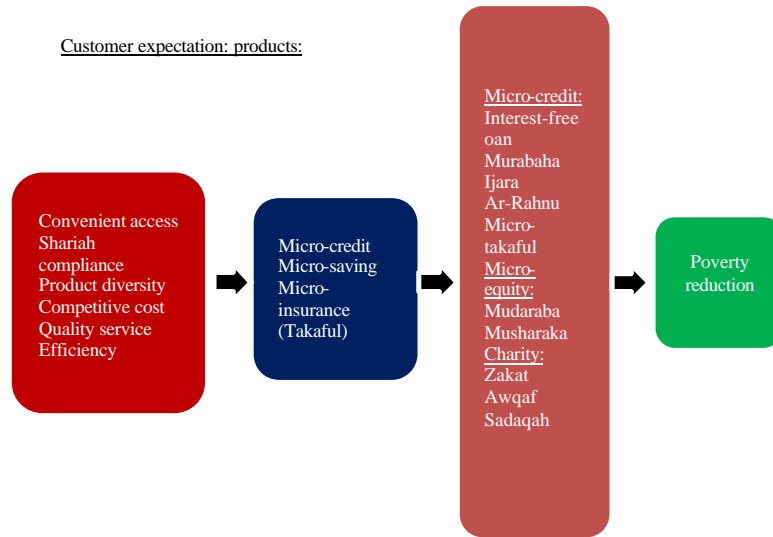


Fig. 1: Islamic micro-finance conceptual model

of Islamic micro-finance serves as a source of additional empowerment in the form of safety nets and for sustainability motives.

**Products of Islamic micro-finance:** The products of Islamic micro-finance are grouped into three broad categories as shown in Fig. 1, namely: micro-credit, micro-equity and charity. The micro-credit entails the usage of business asset based on loan or lease. micro-equity enables a business relationship when one party provide the capital while the other party manages the business. In micro-equity, factors of production are brought together while profit/loss is shared in line with agreed upon formulae. The charity aspect of Islamic micro-finance serves as a source of additional empowerment in the form of safety nets and for sustainability motives. Interest-free loan (QardulHasan) this is a micro-loan extended to a person that is repayable within a specified period. This loan is collateral-free and interest-free. The loan recipient is expected to repay the exact amount at maturity. Murabaha is a business relationship where the financier buys an asset and resell it to a client with a mark-up for immediate or deferred payment. This is a short-term financing that enables the client to own a business asset for immediate or deferred payment. Among the primary conditions for murabaha sale are the financier must own the commodity before selling it, the commodity must be tangible and the client must agree to the purchase and resale prices.

Ijara (leasing) the financier buys the asset (business equipment or tool) and lease it to a client for a rental fee. The financier (lessor) owns the asset but the

client (lessee) enjoy its benefit by paying the periodic rentals. Duration of the lease and related payments must be determined in advance to avoid any speculation while the owner ship of the asset and responsibility for its maintenance remains with the financier. Salam-this is financing of agricultural production whose repayments are based upon the sale of the products. Financing for the purchase of specified goods, usually for agricultural production while the payment is done after sales of the products. Bai-bi thaman Ajil (deferred payment) the financier or bank buys the goods according to the specification of customer while the customer pay a lump sum or instalmentally to the bank. This happens in credit sale of goods on a deferred payment mode. Istisna'a (commissioned manufacturing) a business relationship usually in construction and manufacturing where one party, the financier undertake to buy the goods and the other party agrees to manufacture them in accordance with specified arrangement. Sukuk-this is the investment of savings or excess liquidity in financial instruments that are shariah compliant based on the exchange of approved identifiable asset for instance, building, vehicle, etc. ArRahnu this is an Islamic pawn broking service that allows gold jewellery or other assets to be used as a surety against a credit. The valuable item serving as a collateral may be utilised as payment should the debt is not repaid within the agreed period. Takaful this is the equivalent of Islamic insurance that signify joint guarantee. Takaful is a mutual insurance scheme whereby each participant contributes to a fund that is used to support the group in times of need such as death, crop loss or accidents. The premiums paid by members are

invested in a Sharia-compliant investment. Mudaraba is a relationship between two parties, Rabbul-mal, the supplier of capital and mudarib, the entrepreneur that manages the business. While the Rabbul-mal provides the finance, the mudarib uses his managerial skills and expertise to drive the business to profitability. This is a trustee financing where one party acts as financier by providing the funds while the other party provides the managerial expertise in executing the project. Profits are shared according to a predetermined ratio while losses are borne entirely by the financier.

In Musharaka, parties contribute capital to run a business that gives them the right (to co-manage) not the obligation to manage the business. Musharaka can be used for assets or for working capital. Profits are shared in line with predetermined agreement while financial losses are born by the investor. Profit and Loss Sharing (PLS) provides benefit on longer term basis and improves risk management so that optimal efficiency is achieved among the providers of factors of production (Rahman, 2007). For the fact that it is productive in nature, it improves the linkage between real and financial sides of the economy. However, PLS is exposed to agency problems in the form of conflict of interests, moral hazards and adverse selection problems. This type of financing is characterised with huge operating costs particularly for micro and small enterprises that do not benefit from economics of large scale. It requires more regulations in reporting and transparency for profits and losses to be distributed justly. Critics of Islamic Finance argue that the return on sale and lease is perceived as interest and that the bulk of the current Islamic finance is more or less the conventional finance but given Islamic terminologies (Khan, 2010). Despite these criticisms, the structure present the business with sound basis as well as future prospects and the potential to develop into bigger business ventures with well-trained entrepreneurs. Major causes for default for the conventional micro-finance are diverting loan for consumption purposes and high interest rate; forcing the loan recipients' to sell their assets or further borrow in order to repay the initial loan, retarding the process of getting out of poverty (Laila, 2010; Rahman, 2007). There is evidence that suggest Islamic micro-finance has a comprehensive approach towards human empowerment, increased income and well-being.

## RESULTS AND DISCUSSION

**Determinants of micro-finance service delivery:** In order to achieve the vision of an inclusive financial system that best serves all members of society, the micro-finance

institutions have to be positioned in line with needs of the poor. The challenges ranges from convenient access to and usage of quality, affordable essential financial services to satisfy their needs.

**Outreach:** Rahman and Dean (2013) have identified that market penetration, sustainability, high transaction costs, and effectiveness as the major challenges of Islamic micro-finance. They argued that to make a greater impact, Islamic micro-finance need to have a wider coverage to explore different environments and get the right partners for its progress. An estimated 72% of people living in Muslim-majority countries do not use formal financial services. In a 2007 global survey on Islamic micro-finance, CGAP collected information on over 125 institutions and contacted experts from 19 Muslim countries. The survey and a synthesis of other available data revealed that Islamic micro-finance has a total estimated global outreach of only 380,000 customers and accounts for only an estimated one-half of one percent of total micro-finance outreach. The bulk of Islamic micro-finance supply is concentrated in Indonesia, Bangladesh and Afghanistan accounting for 80% of global outreach. While the demand for Islamic micro-finance products is strong, largely based on religious reasons, yet still the supply is not sufficient. The financial inclusion document has suggested the use of distributive agents in the form of post office, retail outlets, ATMs and electronic banking.

**Product diversity:** A global survey on Islamic micro-finance found that lack of product diversification to serve the various financial needs of the poor is among the critical issues for its success (Saad, 2012). The CGAP survey identified that over 70% of the products offered are murabaha while other products that are based on profit/loss sharing which represent the ideals of Islamic Economics are rarely explored. This has led many scholars questioning the authenticity of the current Islamic finance. According to Javaid, the uniqueness of Islamic finance theory generally is its focus on eliminating interest and providing alternatives based on profit and loss sharing. His finding suggested that by adhering to neoclassical concept of banking institutions and limiting the scope to only Islamize the financial products, it will be difficult to develop a healthy socio-economic environment-close to the respective ideals of Islam. It is argued that PLS mobilizes factors of production, encourages risk sharing and ensures distributive equity in income and wealth (Saad, 2010). A study was conducted by Saad (2012) on the possibility of introducing Islamic financial products to clients of Amanah Ikhtiar Malaysia. The survey consisted of 1,800

respondents from Kelantan and Perak states was to identify suitable Islamic micro-finance products to finance various types of business activities. The findings were that Murabahah, Musharakah, Mudarabah, Muzaraah, Ijarah and Qard al-hasan principles are found to be applicable to finance the different economic activities. 1,710 respondents (97.4%) from both Kelantan and Perak answered that they are interested in Islamic finance products, 61 of the respondents in Perak are non-Muslims (Hassan and Lewis, 2007). This kind of product diversity could revolutionise Islamic micro-finance and help the clients to nurture their businesses to a higher levels. A study by Saad (2010) proposed a model using Zakat/Sadaqah system to replace the use of management fees vital for migration to profit/loss sharing. They argued that Zakat and Sadaqah can effectively and efficiently create a general "Tabarru'Capital Fund" or a donation to capital fund. According to Saad (2012), some commercial banks such as CIMB, Maybank and Public bank are offering Islamic micro-finance products but limit their products based on Bai-al inah, a controversial debt-based lending.

These experienced financial institutions have the capacity to provide a wide array of Islamic micro-finance products. The credit services can be diversified by expanding group loan size with longer maturity, provide working capital loan, fixed asset loan, seasonal agricultural loan, car loan, consumer loan, emergency loan and parallel loan. While it may be correct to suggest that these products will meet the needs of the clients, it will also enable the institutions become credit provider as well as a business partner to its clients. However, it is pertinent to note that the efforts to scale up micro-finance through increasingly market-based approaches is not an end but a means to the end. That end is the reduction and ultimate elimination of poverty and achieve human well-being on earth (Goldberg, 2005). Poor people have diverse financial requirements and for many, savings or housing products may be more urgent needs. But, the big question is are the products in line with the ideal. The quality of financial services delivered can determine the success of micro-finance. In the past decades micro-finance has relied heavily on the murabaha (cost plus mark-up sale) product, further innovative design of a range of Sharia-compliant products and services would provide greater financial access to a broader segment of people. Specialized products on education, health, housing, remittances, etc. are needed to assure its continuous relevance.

**Efficiency:** Managing Islamic micro-finance involve high cost of maintenance and enforcements on small

transactions. The wider the outreach, the higher the cost of monitoring, evaluation, marketing and enforcement of the operational rules. Cost reduces profitability and eventually make a project less attractive. Islamic micro-finance need to devise a means of operational optimality to manage small transactions profitably at affordable price to the poor. The peer pressure in group-lending is essential in risk managing but emphasis must be placed on partnership products that are profit and loss sharing. The concept of profit and loss sharing is to ensure risk mitigating and that optimal efficiency is achieved among the providers of factors of production (Rahman, 2007). Similarly, training and development pursuant to global financial reporting standards and performance benchmarks are necessary for a reliable financial model. Both the providers and the clients need to be conversant with business management techniques as well the moral and ethical values of Islam with regards to business transactions. To achieve efficiency, it is imperative for the business to have sound basis and the potential to develop into bigger business ventures with well-trained entrepreneurs.

**Sustainability:** According to Karim what is rather critical to the survival of Islamic micro-finance experiment is its ability to build sustainable business model with performance benchmarks. micro-finance experiments began as charitable ventures sponsored by governments and NGOs to achieve poverty reduction. A serious business must have innovative initiatives capable of attracting investors. Reliance on government or NGOs for grants should only be seen as a complimentary source to an articulated business and investment source for its development. The objectives of both Zakat and Waqf are developmental in nature because they seek to better the socio-economic conditions of the society and hence could improve the effectiveness of micro-finance (Hassan and Lewis, 2007) advocate that the Islamic micro-finance strategy shall aim at sustainability and move from charity based to profit oriented approach. It shall have a whole mark of efficiency and effectiveness to enable it meet customer sophistication with innovative products to compete favourably on the business landscape. That will facilitate integration with the formal financial system and provide diverse channels of financial services that are targeted towards the people who are currently excluded. The availability of Zakat in the Muslim society is still a potential in waiting. Both Zakat and Awqaf are instruments of wealth transfer that played a significant role in socio-economic development in the early Muslim societies. Studies on Zakat have maintained that Zakat is regaining its socio-economic relevance not

only to alleviate poverty and correct inequalities but also to achieve other goals of Islamic Economic system. According to Saad (2012), integrating Waqf with Islamic micro-finance could assist in reducing the cost of capital in operations of Islamic micro-finance and ensure utilisation of the combined resources. It will also avails the society a source of funding that is requisite for generating community assets, productive capacity building, wealth creation and knowledge and skills that will enhance the technical standing of entrepreneurs.

**Islamic micro-finance and poverty reduction:** Although, the challenge of tackling poverty is huge, several studies have commend the role played by micro-finance institutions in meeting the financial needs of the deprived groups in the society. Amanah Ikhtiar Malaysia (AIM) is a replication of the Grameen concept in Malaysia. It was established in 1987 as an NGO with the aim of eradicating extreme poverty. The objective of AIM is to give interest-free micro-credit to low-income households to finance income generating activities in order to improve their socio-economic condition and ultimately lift these poor households out of poverty. AIM has proven to be an effective poverty alleviation tool and was integrated into the national development plan beginning from the Fifth Malaysia Plan period (1986-1990). This impressive trend had earned it a government loan allocation of RM20 million and RM200 million Under the Sixth Malaysia Plan (1991-1995) and during the Seventh Malaysia Plan (1996-2000), respectively. The AIM adopts the group-lending method as in the Grameen model where five persons of the same gender who are not close relatives are grouped together and provided a small amount of credit without any collateral. However, only those whose gross monthly household income falls below the poverty line income are eligible for the funds and must agree to make small repayments on a weekly basis during the centre meetings. At present, almost 99% of the members are women and the loans tenure ranges between 25-150 weeks. As at 30th September 2014, there are a 347,907 members/companions and RM11, 248, 728, 593 total number of financing. Nawai and Bashir in a study conducted on AIM members in rural areas of Peninsular Malaysia established that the monthly income of the respondents have experience a significant improvement compared to that prior to their participation in AIM operations. Also Omar *et al.* (2012) and Mamun *et al.* (2012) found that there is a significant increase in clients' household income and a reduction in the incidence of poverty and access to micro-finance improved quality of life of the poor rural households in Malaysia, respectively. Other findings pointed to the increase in household

income which had enabled members to improve their housing conditions and increase their expenditure on food, nutrition, medical and education. In a more ambitious drive in 2008, AIM launched "Urban Micro Finance Program" targeting the poor and lower income households in urban areas whose household income is below RM2, 000 or has a per capita below RM400 a month. However, there are also indications that AIM is facing critical operational problems ranging from the fact that low level of borrowers taking up second and subsequent loans, to high dropout rate among borrowers. This has implications on its sustainability. The approach of giving micro-loans had addressed the basic needs of the poor but yet poverty exist in different forms and sizes.

Many poverty reduction strategies implemented in different countries look at their successes from the perspective of increase in the income level of participants but less at the wider goals of human well-being. However, Akram and Afzal have stressed that the main goal of Islamic micro-finance is to achieve *falah* or well-being in this world that transcend in to the next world and hence the need to see beyond income alone. This signifies that human development has fundamental place in Islam because it deals with improvement in quality of life. A study by Saad (2010) evaluated the effectiveness of micro-credit as a tool for achieving human development. She used 1, 800 AIM members in Kelantan and Perak and measured their socioeconomic backgrounds, income, expenditure, health and education of their children. She employed analytical technique such as descriptive statistics and correlation in the course of the study. Findings were that micro-credit in Malaysia is able to uplift the poor from poverty by increasing the household income, spending and consumption. However, that was not with estimating Human Development index of the individual and household that could enable comparison with regional and national benchmarks. Yumna and Clarke found that Qard-Hassan enhances the impact of micro-finance on income and expenditure using zakat-based micro-finance clients in Indonesia. The sample for the study consisted of 153 clients and 82 non-clients and employed ordinary least square to compare the welfare of the clients and non-clients groups. The finding revealed that Zakat based micro-finance led to significantly higher annual income per capita for those in the non-client but impact on monthly expenditure is not evident. A study by Nurzaman (2010) used a comprehensive measure to find out the impact of productive-based Zakat in improving the welfare of zakat recipient by multiple regression simulations. The study population was defined as a group who have received finance productivity for at least 6 months from

the 19 Zakat institutions in Jakarta, Indonesia. Multiple regression simulations were performed to see whether Zakat has an effect to Human Development Index (HDI) and or to its components. Findings of his study were that the average HDI of Zakat recipients is lower than the average HDI both in Jakarta and at the national level, implying that the impact of Zakat on the welfare of the recipients is not very well or take some times to see its effect. However, the minimum length of time, 6 months is albeit not enough to realize a reasonable impact on the lives of the recipients.

Other important components of micro-credit are micro-saving and micro-insurance. The three products form the package in the poverty reduction model directed at deprivations and vulnerability of the poor. According to Delgado *et al.* (2015), micro-finance institutions strive to offer a variety of products such as micro-savings, micro-insurance and payment facilities because evidence suggests the poor demand more than just microloans. A successful micro-finance programs through credits, savings, insurances, remittances, etc. is crucial to social cohesion of small groups, communities, institutions or societies (Tavanti, 2013). micro-saving encourages the micro-credit recipient to commit small amount pursuant to long-term contractual micro-savings products. The low committed periodical savings enable low-income households to inculcate the savings habit towards achieving long term goals such as starting a business, home ownership, education and to have a secure retirement. Micro-insurance entails the creation of a common pool of funds contributed by members/companions who mutually agree to guarantee and protect each other against a defined loss. According to Htay *et al.* (2015), it is based on the principles of donation (tabarru') and mutual cooperation (ta'awun) where members mutually agree to donate an amount of money into a fund to provide financial assistance to any member of the group suffering a loss. The two products are essential compliments of the micro-credit since clients with higher savings and good business standing are expected to encounter less problems (Mamun *et al.*, 2012). It is also worth noting that the predicament of the poor does not end with a micro loan but they have to contain with the challenges of developing the micro enterprise which need protection against other unexpected future risks. There are numerous studies on the impact of AIM program but largely doesn't go beyond micro-credit. Other components such as the micro-saving and micro-insurance have attracted a minimal study despite the challenges they are set to address.

## CONCLUSION

Malaysia has been successful to have rapid economic growth that raised the living standard and reduced the incidence of poverty. Yet, vulnerable groups exist for geographical and societal reasons (Hatta and Ali, 2013). To address income disparity across race and regions the New Economic Model (NEM) 2010 was formulated to enhance the incomes of the bottom 40% of households. This new approach to development seeks to raise productivity and incomes of the poor and enable them contribute meaningfully to national development. Islamic micro-finance has evolved to provide financial mediation for producing factors of production, goods and services through profit and loss, leasing and sale with emphasis on ethical and moral values in business. This approach towards financial inclusion has positive impact on the lives of the poor in terms of increased income and quality of life. The micro-credit is transformed towards a more flexible and convenient products to attract business and family needs of the poor. Other components of micro-credit such as micro-saving and micro-insurance have received minimal study despite being crucial to social cohesion of small groups, communities or societies. There is an indication that the specialized products on education, health, housing and remittances suggests the poor people demand more than just microloans. This research is a modest attempt to explore what role Islamic micro-finance could play in poverty reduction in Malaysia. More work has to be done to improve the current study and perhaps with empirical analysis in the light of micro-credit, micro-saving and micro-insurance.

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