

# Microfinance final report in kedah

Business



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This report is making with a purpose to control and reduce the number of poverty in Kedah, Malaysia as well as empowering those poor with a better chance of sustainable livelihood opportunities. This report is built up base on the investigation of those poor citizens in Kedah, Malaysia and their data will help us to understand and could be able to find a solution for them. Poverty is about not having enough money to meet basic needs including food, clothing and shelter.

However, poverty is more, much more than just not having enough money. The World Bank Organization describes poverty in this way: “ Poverty is hunger. Poverty is lack of shelter. Poverty is being sick and not being able to see a doctor. Poverty is not having access to school and not knowing how to read. Poverty is not having a job, is fear for the future, living one day at a time.

Poverty has many faces, changing from place to place and across time, and has been described in many ways. Most often, poverty is a situation people want to escape. So poverty is a call to action — for the poor and the wealthy alike — a call to change the world so that many more may have enough to eat, adequate shelter, access to education and health, protection from violence, and a voice in what happens in their communities. ” Despite the definitions, one thing is certain; poverty is a complex societal issue. No matter how poverty is defined, it can be agreed that it is an issue that requires everyone’s attention. It is important that all members of our society work together to provide the opportunities for all our members to reach their full potential.

It helps all of us to help one another. b. What is Islamic microfinance?

Islamic, more correctly termed ' Shariah-compliant', microfinance is the provision of financial services for low-income populations in which the services provided conform to Islamic financing principles. In many respects, Islamic finance is simply ethical finance. Islam sets out some broad principles that govern commercial transactions in general and the provision of finance in particular.

One of the most important financing principles is that money is not an earning asset in and of itself. This means that interest is prohibited under Islamic law. Many Muslims therefore refrain from using interest based microfinance services for fear of breaching their religious beliefs. Islamic microfinance programmes cannot therefore imitate conventional microfinance programmes and are obliged to provide finance without charging interest. However, this does not mean that capital is free of charge, that it should be made available without any cost, or that there should be no return on the funds provided.

Rather, a return on capital is allowed, provided that the capital participates in the productive process and is exposed to business risk. Islamic microfinance providers have developed a number of financing mechanisms that can be utilized according to the nature of the commodity or business and the period for which financing is sought. These are generally known by their Arabic names as below: Murabaha is the most popular and widely used Islamic financing instrument. This involves the resale of a commodity after the lender adds a specific profit margin (often referred to as the ' mark-up'), which is paid by the borrower who agrees to buy that commodity Mudaraba, <https://assignbuster.com/microfinance-final-report-in-kedah/>

a second type of contract, two parties are involved – the financier, who provides all the money, and the entrepreneur who uses his or her skill to invest the money in an attractive business venture. The profit from the Mudaraba contract is shared by the financier and the entrepreneur according to a pre-determined ratio.

Importantly, profit-sharing rates are a percentage of the profit and not a lump sum payment. In the case of a loss, providing it was incurred in the normal process of business and not due to neglect or misconduct by the entrepreneur, the financier loses all his or her money, while the entrepreneur merely loses his or her time and effort. Ijarah is similar to leasing. Under this arrangement, an entrepreneur short of funds approaches a financier to fund the purchase of a productive asset. The financier may buy the productive asset and rent it out to the entrepreneur.

The financier retains ownership of the asset and is responsible for its maintenance. . Sustainable Livelihood Opportunity The Sustainable Livelihoods approach is a holistic and flexible framework for understanding, measuring, and analyzing poverty and poverty alleviation. Unlike many traditional models which measure poverty by a single factor like low income, a Sustainable Livelihoods approach takes into account a variety of economic, social, political, and ecological factors that impact a person's ability to sustain a livelihood. The Sustainable Livelihoods approach puts poor people themselves at the center of any analysis. It takes into account the complexities of poverty: what level of skills or knowledge an individual has, whether or not they have access to education, sources of credit, networks of

social support, and how vulnerable they are to economic stressors like natural disasters or fluctuations in food prices.

Using a Sustainable Livelihoods approach involves recognizing not just what assets a poor person lacks—financial, human, social, physical, and natural assets—but also what assets they do have, and builds interventions based on both their capacities and needs. The Sustainable Livelihoods approach (SLA) has seven guiding principles: \* People-centered: SLA starts by looking at a person's livelihood assets, how they change over time, and the specific vulnerabilities they face. \* Holistic: SLA understands that people adopt many strategies to secure their livelihoods and draw on a range of “assets” to do so. These are influenced by an array of external factors, including government policies and institutions, the private sector, and local organizations. \* Dynamic: SLA seeks to understand the dynamic nature of livelihoods and what influences them.

Build on strengths: SLA builds on people's perceived strengths and opportunities rather than focusing on their problems and needs. \* Promote micro-macro links: SLA looks at the influence of policies and institutions on livelihood options and highlights the need for policies to be informed by insights from the local level and by the priorities of the poor. \* Encourage partnerships: SLA counts on partnerships drawing on both the public and private sectors. \* Aim for sustainability: Sustainability is important if poverty reduction is to be lasting. A.

Poverty in Malaysia a. Overview of poverty in Malaysia Over 30 years ago, after taking independent from British, Malaysia was a country with a high

poor rate. After so many acts from government such as New Economic Policy, the poor rate is decreased time to time. In 2002, it was 5.1 percent down from 7.5 percent in 1999, and until 2012 is 2.

8 percent. To define poverty, Malaysia government has released the poverty line, which is around RM 1000 from several years, it base on the minimum wage. For instance, the minimum wage in 2012 is RM900 in Malaysia's peninsula and RM800 in Sabah and Sarawak area. Even though there are some argument about the poverty line, but generally it is seems to be acceptable. The poverty in Malaysia might be divided by two groups, which are rural poverty or urban poverty.

The urban poverty mostly is confined to the non-Malay citizens. The migration to the urban area of Malaysian villagers also is a reason to increase the number of urban poverty. According to goal of getting no poverty in 2015, Malaysia government is trying to do so many things to make that goal become true, the most important of them is 10th Malaysia Plan (10th MP). According to current Prime Minister Najib " The Tenth Malaysia Plan houses the aspirations of both the Government Transformation Programme and the New Economic Model, premised on high income, inclusiveness and sustainability. It charts the development of the nation for the next five years, anchored on delivering the desired outcomes for all Malaysians.

The Tenth Plan sets the stage for a major structural transformation that a high-income economy requires. The Plan contains new policy directions, strategies and programmes that enable the country to emerge as a high

income nation. " b. Poverty in Kedah Table 1: Data 2: Data 3: Data of Kampong Pinang Table 1, 2 and Bonus 3 C. Islamic Microfinance I would like to explain this part with my own knowledge Shariah is one of the parts of Islam, it includes Ibadat (Man to Allah workshop) and Muamalat (Man to Man activities).

Therefore, in Muamalat, there are activities such as political, social and economic as well. As we known to fulfill a financial need, there are only two way, whether from own capital or other capital or both. This is where equity financing and debt financing rise up and the question why Islamic finance also has been raised up as well. As Muslim, we know that those who are promoting Hiram, their souls will be bounded in Hell and in the Day of Judgment we will be asked about the ways of our income and how we spent it. It is the fear of all the Muslim that their income or how they spend the money would be illegal/ or cursed. Hence, the missions of Islamic microfinance are purifying Muslim income and help Muslim to stay away from Riba as well.

Riba in Quran( context 2: 278) has mentioned about the punishment of those who are committed as below: 1. killed 2. crucified 3. hands and feet on alternative sides cutoff. .

will be expelled of the land Such will be their degradation in the world, and In hereafter, there will be an terrible down. Also our Prophet (SAW) has cursed the receiver and the payer of interest, the one who records it and the one who witnesses to the transaction and said " they all are alike (in guilt)" (Jabir Ibn Abdullah). Economic activities take an important role in our life and

society, but it is also easy to commit a guilt. According to some of what Muslim must fear and afraid in their economic activities are why we should have Islamic Microfinance. So, what is Islamic Microfinance? a. To provide the services under the range of Shariah.

Shariah compliant MFI, to enable Muslims to do their transaction in a Halal way. b. Economic empowerment c. Sources of fund collection of IMFI: Zakat: the third pillar of Islam Suddqa: is a kind of charity, but not obligation Waqf : trust Musharakah: it means sharing (in Arabia word meaning is partner). Two persons or more agree to contribute funds for conducting some halal business in which all partners share the profit and the loss to a specific ratio.

The share could be in cash or in form of commodities. All the partners have the same right in the business but when one decide to become a no-working partner, his share ratio will be deducted. Mudarabah: is a kind of partnership where one partner (Rab ul Maal – Investor) gives money to invest in a commercial enterprise of a person called Mudarib (Working partner). All the terms and conditions of Mudarabah are mostly the same to Musharakah. The others Islamic Microfinance contracts are Qariz, Murabaha, Ijarah, Salam and Istisna.

B. Tracking Tracking on Yarzar Ye Htin Kyaw @ IsmailTracker: Umo Aly (ID no. 111100101) 1. Background Ismail is a Myanmar, he is 21 years old and now studying at AIU, his course is Computer Science. His hometown is Yangon, he comes from a family which has 4 members, his mom's name is



Rodigiah and his father's name is Ibrahim. Auntie Rodigiah and Uncle Ibrahim both are working on their own business, which is a food court.

Their business is not smooth at all the times, sometimes it is good, but sometimes guests are just few. It is the only source of his family's income and it depends a lot on the costumers. Through times, a lot of restaurants and big food stores have been built up and Ismael's family has to try harder to sustain their life. Their properties are just a small old house, a motorbike and a food store. Normally, his parents could earn around RM1000 per month, sometimes it may be less, and those amount of income is using for the whole 4 members family so it is funny when I ask him whether his family have saving money or not. It also is a very hard work for his parents to support their children to study until now.

Ismail is the first born, so after him is his sister, Aung Thu Ya (@ Fatima). Fatima now is 16 years old and she's studying in high school. According to Ismael, his younger sister is a very good girl when she studies hard and she also tries to work hard to help family. After school, she come back home and work as a waiter in the food court until 10pm then she takes one hour for self-study. About Ismail himself, as a family's member he also has to help his parents in their business. When he was in Myanmar, he started a day at 5am to help his father in bringing back home the ingredients from the early morning market.

He explained to me that his family has to wake up early to go to market because they want to buy the best ingredients and only in early morning market, those ingredients are cheaper than normal so they can save more

money. Then he came back home at 6. 30am and prepared to go to school. As a bright student, he get scholarship from his high school so his parents don't need to pay much for his study, except stationaries and uniforms only. After a day from school, he went back and worked for his parents as his sister does. His role is optional, sometimes he was a dish-washer, but some other times he is a counter as well.

Ismail told me that his family has a lot of relatives among Myanmar, and some are living in Malaysia also, but they are underprivileged as well so they cannot give any help to his family. He very loves his family, he said “ we don't have much money but we are rich in happiness”. That also is the reason why he tried to study hard to get scholarship from AIU, he wants in a near future, he will be able to help his family more. He wants to take care for his family since his parents is not young anymore. During tracking him, his dream is what motivates me most. 2.

Ismail's financial statement Ismail has 2 sources of income, which are monthly allowance from AIU and money from his family. As a full scholarship student at AIU, he does not have any other work as a part of the scholarship condition of AIU. Monthly allowance: RM 250 per month Family sending: RM 150 per month Total Income: RM400 per month 3. Ismail monthly financial diary After receiving his record paper, I have integrated it and spare it to those parts below: a. Money for food and drink According to the food issue in AIU, Ismail cannot consume the food which is oily and not freshly so he has to spend money for food every day. He has a high blood pressure so he could have a dizzy if he consumed a kind of food which is too oily or not healthy.

| Monday| Tuesday| Wednesday| Thursday| Friday| Saturday| Sunday| Total|  
 Week 1| RM8| RM8| RM8| RM8| RM8| RM12| RM12| RM64| Week 2| RM8| RM8|  
 RM8| RM8| RM8| RM12| RM12| RM64| Week 3| RM8| RM8| RM8| RM8| RM8|  
 RM12| RM12| RM64| Week 4| RM8| RM8| RM8| RM8| RM8| RM12| RM12|  
 RM64| Total: RM264 b. Money for personal spending This money he using for  
 his personal use, including having tea with friends, phone reload (to call back  
 home) or go some places. | Monday| Tuesday| Wednesday| Thursday| Friday|  
 Saturday| Sunday| Total| Week 1| RM0| RM0| RM0| RM0| RM0| RM10| RM10|  
 RM20| Week 2| RM0| RM0| RM0| RM0| RM0| RM10| RM10| RM20| Week 3|  
 RM0| RM0| RM0| RM0| RM0| RM10| RM10| RM20| Week 4| RM0| RM0| RM0|  
 RM0| RM0| RM10| RM10| RM20| Total: RM80 c. Money for other spending  
 Internet fee| RM25| Necessities (Shampoo, soap, ect...)| RM15| Stationaries  
 for study| RM10| Total: RM50 d. Total monthly budget For every month, the  
 total amount of his using money is RM390 to RM400 (maximum of his  
 income).

During doing this tracking paper, Ismail is trying to find some solutions so he  
 could be able to save a little bit of his using money. He said if there could be  
 some changes in the condition such as the food in AIU is better or the  
 internet connection within campus is stronger enough to use then he would  
 save at least RM100 for every month. It maybe is a small amount for some  
 people, but for a student it is such a treasure which Ismael could use for  
 many other meaning things. 4. Conclusion After tracking Ismail, I have  
 known more about him not only his positive things but also some negative  
 spots in his life. At first, I thought it was a few students like me having

problems which are food or internet connection, but now I know I was wrong, it seems to be a very serious issue among the life of student within AIU.

Through the condition in paper, it is nothing to complaint for student when we are provided everything from food to hostel and allowance. But the true is a lot of students cannot live with only RM250 since they have to pay for many things which they cannot cut it down such as food or Internet (as a tool to communicate with family, friends and study as well). Most of the students in here are from underprivileged family so sending an amount of money (in Ismael case is RM150/month) to those students are such a heavy stone for their family. As Ismail said, he wished that AIU could change those issues, so the life of himself and his family as well could be much easier. As I have known, a part of microfinance is about sustainable livelihood of the poor and one of the tools to do it is to help the poor to save money for their future purposes. Therefore, if AIU could change those issues above, mean that students like Ismael could be able to cut down their expenses for outside food and Internet fee, that money could be recorded to their saving account, and their life would be more brighter in future.

C. Final report closing Microfinance is really important for everyone whether they are poor or not, because by knowing microfinance, we can reduce poverty and help them out of poverty and also we can apply it on ourselves when we got into financial problems in our lifetimes. Getting correct and exact data is very important to reach out to really poor people who we are going to help, without correct data we would waste our valuable money. Nowadays microfinance organizations are really working hard to stop poverty at everywhere, not only in Malaysia but all around the world, therefore, with <https://assignbuster.com/microfinance-final-report-in-kedah/>

this hope we will see big changes of the statistics of reducing poverty surprisingly.