Chapter 23
Islamic Social Finance: Integrating Zakah Funds in Microfinance and Microenterprise Support Programs:
Selected Case Studies

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ABSTRACT

Alleviating poverty and inequality are among the central objectives of zakah in the Islamic economic system. These objectives are also on top of the 17 SDGs of the UN 2030 Agenda. This research argues that microenterprise support programs (MSPs) have been proven as effective tools in combating poverty. However, lack of funds has always been a major challenge for the sustainability of those programs. Channeling zakah funds to MSPs will directly contribute to empowering deprived populations and helping them to lift themselves out of the poverty cycle. Two zakah-based MSPs have been analyzed in this chapter. The first one is the Asnaf Entrepreneurship Program of Lembaga Zakah, Malaysia and the second one is Baitul Maal Muamalat Indonesia (BMMI). According to literature, using zakah in (MSPs) requires a strict implementation of best practices including screening program beneficiaries, providing professional training and monitoring to businesses, and finally applying a graduation scheme.

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INTRODUCTION

Zakah is one of the most effective tools in the Islamic fiscal policy and economic system that has been introduced to achieve a variety of socio-economic objectives. On top of those objectives are poverty alleviation and wealth redistribution. The former objective is clearly indicated in the *hadith* narrated by *Imam* al-Bukhari when the Prophet (PBUH) commanded Muʿadh bin Jabal, his delegate to govern Yemen: "Inform them (the people of Yemen) that Allah has made a charity obligatory upon them, that is collected from their rich and given back to their poor." (Al-Bukhari, 1422.H); the latter objective – wealth redistribution- is mentioned in Surat (At-Tawbah) "*Zakah* expenditures are only for the poor and for the needy and for those employed to collect [*zakah*] and for bringing hearts together [for Islam] and for freeing captives [or slaves] and for those in debt and for the cause of Allah and for the [stranded] traveller - an obligation [imposed] by Allah. And Allah is Knowing and Wise". Historically, *zakah* has played a significant role in lifting the socio-economic situations of Muslim communities. For instance, at the time of Khalifa Omar bin Abdul-Aziz (RAA), there was a surplus of *zakah* funds which indicate to little poverty, Omar bin Abdul Aziz had enriched people to the extent that they did not find a poor man who would accept *zakah* (As-Sallabi, 2015).

In contrast, currently, estimations of *zakah* amounts that are estimated to be payable by Muslim individuals around the world ranges from US$ 76 billion UNHCR (2019) to as much as US$600 billion (UNICEF, 2019). Other estimations are also found in the literature including the estimation of Shaikh al-Qaradaghi, *zakah* might reaches about 400 billion (Al-Taher, 2017). In addition, the Islamic Development Bank that estimated *zakah* to reach $230 - $560 billion (Modéer, 2018; Kachkar, 2019). Such a huge potential of *zakah* funds, can substantially contribute to closing the widening financial deficit in humanitarian efforts. According to the latest UNHCR reports, a funding gap of over $4.5 billion for 2020. This represents approximately 51% of total funds needed (UNHCR, 2020). No wonder that the UNHCR has recently established the Refugee *Zakah* Fund in attempt to tap on the institution of *zakah* (UNHCR, 2020a). According to the report, in the first six months of 2020 the fund managed to collect $55.2 million in Zakah and *Sadaqah* funds. The funds are expected to help over 1.8 million IDPs and refugees by the end of 2020 (UNHCR, 2020a). Since its onset in 2016 to 2019 the fund has managed to raise and distribute around $14.4 million to approximately 6,888 families located in Lebanon, Jordan, and Yemen (UNHCR, 2019).

Zakah is also considered one of the key sources of funds to financing the proposed UN 17 SDGs for 2030. These goals were unanimously agreed upon by world leaders in September 2015 at an historic UN Summit and subsequently came into effect in January 2016.The core objectives of the UN SDGs are to tackle the major challenges facing humanity and the planet. Accordingly, it was understood that "over the next fifteen years all, countries will mobilize efforts to end all forms of poverty, fight inequalities and tackle climate change, while ensuring that no one is left behind" (https://www.un.org). However, for the achievement of the mandated SDGs, billions of US dollars are direly needed particularly, in developing countries including many of Muslim-majority states. Thus, the role of *zakah* as a potential source of funding is very much appreciated along with other components of Islamic social finance. In other words, *zakah* is strongly aligned with the SDGs, including SDG No.1no poverty, SDG No.2, zero hunger, and SDG No.10, reduced inequalities, and others.

It is believed that serious collaboration with *zakah* donors and administrators could substantially enhance the effort to reach the goals (SDG 17) (A Rehman, 2018). A case in point is the collaboration between UNDP and BAZNAS Indonesia (the national *Zakah* collection body) to employ *zakah* funding for SDG (A Rehman, 2018).To accomplish the above-mentioned SDGs, an integrated microenterprise-*zakah* support programs could potentially hit two birds with one stone; on one hand, it will achieve the SDG on poverty alleviation and on the other hand, it will secure the financial sources needed to achieve that purpose. Empowering the poor is recommended in Islam. A practical example on that is found in one of the traditional hadith of prophet Muhammed (PBUH) as narrated by Anas ibn Malik in Sunan Abu Dawud, "when a man from the Ansar came to the Prophet (PBUH) begging for financial assistance. The Prophet (PBUH) asked the man to bring what can be sold from his own property, the Prophet (PBUH) took them and sold them for two dirhams in an auction in the masjid, the Prophet (PBUH) gave them to the Ansari and said: buy food with one dirham for your family and ordered the man to buy an axe with the other dirham. The man brought the axe to the Prophet (PBUH). The Messenger of Allah (PBUH) fixed a handle on it with his own hands and said: Go, gather firewood, and sell it, and do not let me see you for a fortnight. The man went away and gathered firewood and sold it. When he had earned ten dirhams. The Messenger of Allah (PBUH) then said: This is better for you than that begging should come as a spot on your face on the Day of Judgment" (Abu Dawud, 2008). The hadith is an explicit reference on empowerment of the poor and underprivileged people rather than encourage them to receive cash assistance that will never improve their self-reliance but will push them into deeper poverty.

This paper explores the viability of using *zakah* funds as a source of funding in Micro Enterprise Support Programs (MSP). It further aims at highlighting the best practices of using *zakah* to support microenterprises programs. The later objective is undertaken through examining two case studies of actual microenterprise support programs from Malaysia and Indonesia.

BACKGROUND

Definition Of Social Finance

Social finance is generally known as an impact investment or social investment, in other words, it is a financial strategy to overcome social and environmental problems and to generate both social and financial returns. more specifically, social finance is defined as "An approach to managing investments that generate financial returns while including measurable positive social and environmental impact" (Deloitte, 2019). It is believed that social finance may be an effective solution to tackle some of societies' greatest challenges in an efficient and innovative way. By providing capital and fund to social organizations and enterprises, it offers an alternative way to mobilize funding to provide them with financial sustainability and the opportunity to run their projects in the long-term. Social finance may generate a financial return, but the social returns are described as a priori and are not an incidental side effect of a commercial deal (Brown and Swersky, 2012: 3).

Scope Of Social Finance

From the definition above, the scope of social finance is possibly divided into three aspects:

First: to address social and environmental issues.
Second: to generate a positive impact on society and the environment

Third: to achieve a positive social and environmental impact while at the same time generating financial returns (Weber, 2012).

Islamic Social Finance

Combining faith and social purposes in finance is known as 'Islamic social finance'. It is an innovation investment that aims at bringing about a difference in the fight against poverty. Traditionally, Islamic social finance sector generally comprises Islamic institutions based on philanthropy e.g., *zakah*, *sadaqah* and *awqaf*; in addition to institutions based on cooperation e.g., *qard* and *kafalah*; and finally contemporary Islamic microfinance institutions. Through a verity of instruments, Islamic social finance can potentially add extra sources of financing to address the huge gap in funding humanitarian projects (Islamic Social Finance Report, 2020). It has been argued that Islamic social finance should be included in the definition of Islamic finance, this inclusion in turn achieves three main advantages:

First, it significantly expands the sector's scale in other words by adding the potential of *zakah* and *awqaf* funds which is estimated by US$1 trillion for the former and US$2.5 for latter.
Second, social finance is far more inclusive and widely adopted.
Third, social finance embodies key values, such as generosity and concern for others (Rehman, 2019).

Components of Islamic Social Finance

According to the Islamic Social Finance Report (2014), Islamic Social Finance involves the traditional Islamic institutions based on philanthropic acts of *zakah*, *sadaqah*, and *waqf* and many other instruments. However, this research will focus on the three main instruments in Islamic Social Finance, i.e., *waqf*, *sadaqah* and *zakah*. These three instruments have been very effective in providing the basic needs of Muslim communities throughout Islamic history.

Waqf (Endowment)

Waqf is the Arabic word for a civic endowment that is usually devoted to the benefit of the community. More specifically waqf has been defined by Kahf (1998) as "an action that involves investment for the future and accumulation of productive wealth that benefits future generations." The Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), in its Shariah Standard No. 33 on waqf 2008, has defined waqf as "the confinement of a certain property against any disposition that may lead to transfer its ownership, and donating the usufruct of that property to certain beneficiaries" (AAOIFI Shariah Standards, 2009:444). In North and West Africa *waqf* is also known as *habs* (Kahf, 2003). For Westerners, the traditional waqf can also be equivalent to the non-profit trusts (Cizakca, 2011). Waqf is a philanthropic institution that deeply rooted in the Islamic history and has been used to cater social protection and social services for the community in all education and health sectors. It is believed that waqf is originally derived from the famous prophetic saying of the Prophet Muhammad (PBUH) as reported by Muslim collection of sound Hadith under the chapter of *Wasiyyah* (will) that when the son of Adam passes away his book of deeds closes except from three sources: a perpetual charity, a heritage of knowledge that benefits people at large and a pious child who constantly pray to Allah to have mercy upon the dead person. So, in the preceding Hadith, the perpetual charity, which typical to waqf, is considered among the deeds whose benefits will not be stopped. In the Islamic history, the first known Waqf in Islam is the mosque of *Quba'* in the city of Medina. It was established by the initiative of the Prophet Muhammad (PBUH) when he asked for someone to buy the water well of *Bayruha'* and to designate it as a free public utility for drinking water. in another similar case the Prophet (PBUH), advised 'Umar to assign his land in *Khaibar* as a *waqf* for the poor and needy. Later on, a new type of *waqf* which is (family waqf) has been introduced by the companions of Prophet (PBUH), during the reign of 'Umar (RAA) (Kahf, 2003).

Sadaqah (Charity)

In Islam, *sadaqah* is a comprehensive term that encompasses all aspects of life including religious, legal, spiritual, moral, social, economic, and political. Any act of giving either financial or non-financial is considered an act of charity. In Islam Muslims are encouraged to help others. The more helpful and charitable individuals are the closer they become to Allah and the more successful to become in this life and in the hereafter. Through the sharing of one's resources with the other underprivileged people, *sadaqah* helps improve the social conscience but also promotes social cohesion and harmony (ISRA, 2012).

Zakah (Almsgiving)

The Islamic fiscal system has a pioneer mechanism that can maintain the balance between society's strata. *Zakah* purifies not only wealth but also the spirit, it is considered an obligatory religious tax imposed on all wealthy Muslims who are eligible to pay a certain rate of their wealth upon achieving certain thresholds, these thresholds vary according to the type of wealth.

Types of *Zakah*

Islam has determined two types of zakah:

Zakah al-mal is an annual levy on the wealth of a Muslim above a certain level (ISRA 2012).

Zakah al-fitr (*zakah* of ending the month of fasting), this *zakah* is payable by every Muslim who has the financial capability to pay this *zakah* at the end of the month of Ramadan.

Zakah Estimation

Estimation of total *zakah* amounts payable by Muslims around the world ranges from US$ 76 billion UNHCR (2019) to as much as US$600 billion (UNICEF, 2019) and in between several estimation are found in the literature including the estimation of Shaikh al-Qaradaghi, (2014) that reaches about 137.5 billion and the estimation of the Islamic Development Banks that estimated *zakah* at to reach $230 - $560 billion (Modéer, 2018).

SHARIA LEGALITY OF USING *ZAKAH* FUNDS TO BACK MICRO-ENTERPRISES AND MICROFINANCE PROGRAMS

Bearing in mind the great potential of mobilizing *zakah* funds to financing relief and humanitarian operations and projects, there is a widespread misconception on the permissibility of using *zakah* funds in development and empowerment projects. This misconception is due to the well-known condition of *tamleek*. The concept of *tamleek* refers to the obligation of the full transfer of ownership of property (cash or non-asset) from the *zakah* payer to the *zakah* beneficiary (Al-Gamal, 2021). This research maintains that the condition of *tamleek* is absolutely satisfied in microfinance and microenterprise programs in one of the following forms:

1. Grant payment from the microcredit/microfinance institution to the beneficiary,
2. Debt/default settlement made by the microcredit/microfinance institution on behalf of the indebted beneficiary
3. Purchase of business equipment and professional tools or raw materials with the full transfer of ownership of those materials and equipment to the beneficiary entrepreneurs.
4. Payment of arrears for the beneficiary such as bills and rental payments.
5. Setting up a takaful (insurance) fund to mitigate any business or non-business-related risk.

At this juncture, it must be admitted that another Shariah question might arise in relation to paying *zakah* in kind and in commodities rather than in cash. This is particularly relevant to form no. 3 above. Opinions of shariah scholars vary in this regard; according to the famous opinion in Maliki *mazhab* (school of *fiqh*) and one account in the Hanbali *mazhab*, it is permissible to use *zakah* funds to purchase army tools and equipment and grant them to the military members (Ibn Qudamah, 1997). Additionally, according to Imam Abu Hanifah, in general it is allowed to pay the value of *zakah*, moreover, the Hanafi school allowed for the Imam to borrow the money of *zakah* from the *zakah* house, to settle the expenses of the state and to return the money back as a borrower (Ibn ‘Abidin,2011). Furthermore, the Maliki, Shafi’i and Hanbali schools allowed the sale of *zakah* commodities and goods in the cases of necessity, they moreover, allowed the conversion of *zakah* funds or properties into another type or category contingent on the *maslaha* and interest of the poor. A case in point, is when a serious risk is feared on *zakah* properties, such as the probable risk that might encounter the sheep cattle on the way to the *zakah* center (Al-Uthman and Hamzah, 2012). Last but not least, the International Islamic Fiqh Academy allowed using *zakah* funds in profit generating projects. The permissibility resolution was issued as early as 1986 in its third session held in Amman, Jordan. The resolution states: “It is permissible, in principle, to put *zakah* funds in investment projects which eventually lead to be owned by those who are deserving of *zakah*, or which are under the control and administration of the entity which is responsible and has the jurisdiction over collecting and distributing *zakah*, provided that it is done after satisfying the basic and immediate needs of the beneficiaries and with proper guarantees against loss.” (Resolutions and Recommendations of the Council of the Islamic Fiqh Academy 1985-2000, 2000).

Leveraging *Zakah* funds to achieve SDGs

In September 2015, World leaders gathered at United Nations Headquarters in New York and officially adopted the 2030 Agenda for Sustainable Development and the global 17 Sustainable Development

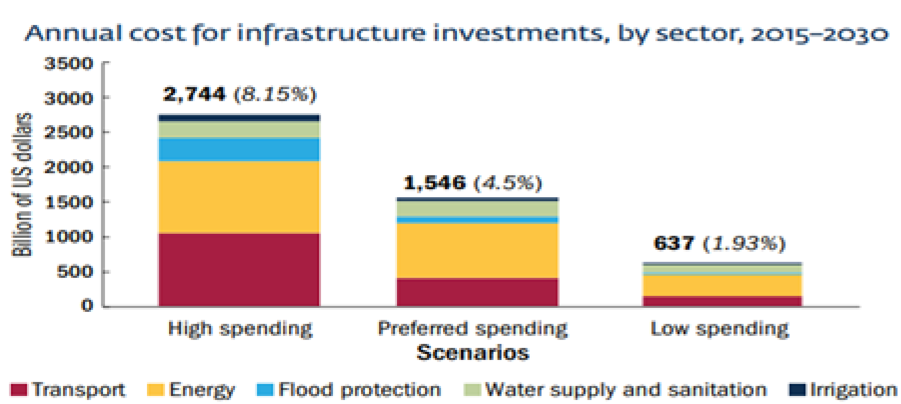
Goals (SDGs) with the 169 related targets grouped under five major topics: finance, information and communications technology (ICT), capacity building, trade, and systemic issues, as shown in *Figure* 1.

Financing the SDGs requires the mobilization of huge amounts of financial resources. One report published by the World Bank in 2019 found that the costs for new SDG related infrastructure could range from $637 billion (or 2 percent of GDP) to $2.74 trillion (8 percent of GDP) in low- and middle-income countries (LMICs) depending on the spending efficiency and the quality of services delivered (Rozenberg and Fay, 2019).

The three scenarios highlighted in the *Figure* 2 above can be explained as follow: high spending scenario refers to ambitious goals and low efficiency; preferred spending scenario refers to ambitious goals and high efficiency; and low spending scenario refers to less ambitious goals and high efficiency (Doumbia and Laurids, 2019).

Figure 1. Sustainable Development Goals (SDGs)
Source: https://sdgs.un.org/goals

Figure 2. Estimated annual cost to achieve the SDGs 2015-2030
Source: Doumbia And Laurids, (2019)



In the context of Africa, the progress on SDG achievements is even more serious. Taking as an example the first SDG on poverty, the year 2015 and afterwards, COVID-19 adjusted forecasts reveal that nearly 460 million Africans are projected to remain poor by 2030. This translates into 8 in 10 of the world's poor will be living in the African continent, nearly two-thirds of them are living in rural areas (Africa 2030, 2021). To give a more accurate information of the SDG achievement across the globe, Cambridge University issued a global report in June 2020 measuring the progress in achieving the SDGs. The report contains in part 2 the SDG Index and Dashboards. SDG Index tracks country performance on the 17 SDGs, with equal weight to all 17 goals. The score signifies a country's position between the worst (0) and the best target (100) (Sustainable Development Report, 2020). The SDG index highlight the top countries in SDG performance. Unfortunately, non- of the African countries has any place in the top 50 performing countries, Egypt came 83 in the index with 68.8 as in *Figure* 3.

Figure 3. Top performing countries in SDG Index
Source: Sustainable Development Report (2020),

Rank	Country	Score	Rank	Country	Score
1	Sweden	84.7	43	Greece	74.3
2	Denmark	84.6	44	Luxembourg	74.3
3	Finland	83.8	45	Uruguay	74.3
4	France	81.1	46	Ecuador	74.3
5	Germany	80.8	47	Ukraine	74.2
6	Norway	80.8	48	China	73.9
7	Austria	80.7	49	Vietnam	73.8
8	Czech Republic	80.6	50	Bosnia and Herzegovina	73.5
9	Netherlands	80.4	51	Argentina	73.2
10	Estonia	80.1	52	Kyrgyz Republic	73.0
11	Belgium	80.0	53	Brazil	72.7
12	Slovenia	79.8	54	Azerbaijan	72.6
13	United Kingdom	79.8	55	Cuba	72.6
14	Ireland	79.4	56	Algeria	72.3
15	Switzerland	79.4	57	Russian Federation	71.9
16	New Zealand	79.2	58	Georgia	71.9
17	Japan	79.2	59	Iran, Islamic Rep.	71.8
18	Belarus	78.8	60	Malaysia	71.8
19	Croatia	78.4	61	Peru	71.8
20	Korea, Rep.	78.3	62	North Macedonia	71.4
21	Canada	78.2	63	Tunisia	71.4
22	Spain	78.1	64	Morocco	71.3
23	Poland	78.1	65	Kazakhstan	71.1
24	Latvia	77.7	66	Uzbekistan	71.0
25	Portugal	77.6	67	Colombia	70.9
26	Iceland	77.5	68	Albania	70.8
27	Slovak Republic	77.5	69	Mexico	70.4
28	Chile	77.4	70	Turkey	70.3
29	Hungary	77.3	71	United Arab Emirates	70.3
30	Italy	77.0	72	Montenegro	70.2
31	United States	76.4	73	Dominican Republic	70.2
32	Malta	76.0	74	Fiji	69.9
33	Serbia	75.2	75	Armenia	69.9
34	Cyprus	75.2	76	Oman	69.7
35	Costa Rica	75.1	77	El Salvador	69.6
36	Lithuania	75.0	78	Tajikistan	69.4
37	Australia	74.9	79	Bolivia	69.3
38	Romania	74.8	80	Bhutan	69.3
39	Bulgaria	74.8	81	Panama	69.2
40	Israel	74.6	82	Bahrain	68.8
41	Thailand	74.5	83	Egypt, Arab Rep.	68.8
42	Moldova	74.4	84	Jamaica	68.7

On the contrary, many of the African countries came at the bottom of the list of the least performing countries. *Figure* 4 illustrates the gloom picture of African countries clearly.

Tapping *zakah* funds for development in general, and through supporting microenterprises and microfinance programs particularly, can help many of the African countries especially the Muslim majority member states. Especially when we know that near to half (27 states) of the OIC 57 member states are also members of the African Union (55 states). Rehman and Pickup (2018) maintains that four tips need to be observed when considering *zakah* for the UN SDGs.

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Figure 4. Least performing countries in SDG Index
Source: Sustainable Development Report (2020),

Rank	Country	Score	Rank	Country	Score
85	Nicaragua	68.7	126	Syrian Arab Republic	59.3
86	Suriname	68.4	127	Senegal	58.3
87	Barbados	68.3	128	Côte d'Ivoire	57.9
88	Brunei Darussalam	68.2	129	The Gambia	57.9
89	Jordan	68.1	130	Mauritania	57.7
90	Paraguay	67.7	131	Tanzania	56.6
91	Maldives	67.6	132	Rwanda	56.6
92	Cabo Verde	67.2	133	Cameroon	56.5
93	Singapore	67.0	134	Pakistan	56.2
94	Sri Lanka	66.9	135	Congo, Rep.	55.2
95	Lebanon	66.7	136	Ethiopia	55.2
96	Nepal	65.9	137	Burkina Faso	55.2
97	Saudi Arabia	65.8	138	Djibouti	54.6
98	Trinidad and Tobago	65.8	139	Afghanistan	54.2
99	Philippines	65.5	140	Mozambique	54.1
100	Ghana	65.4	141	Lesotho	54.0
101	Indonesia	65.3	142	Uganda	53.5
102	Belize	65.1	143	Burundi	53.5
103	Qatar	64.7	144	Eswatini	53.4
104	Myanmar	64.6	145	Benin	53.3
105	Honduras	64.4	146	Comoros	53.1
106	Cambodia	64.4	147	Togo	52.7
107	Mongolia	64.0	148	Zambia	52.7
108	Mauritius	63.8	149	Angola	52.6
109	Bangladesh	63.5	150	Guinea	52.5
110	South Africa	63.4	151	Yemen, Rep.	52.3
111	Gabon	63.4	152	Malawi	52.2
112	Kuwait	63.1	153	Sierra Leone	51.9
113	Iraq	63.1	154	Haiti	51.7
114	Turkmenistan	63.0	155	Papua New Guinea	51.7
115	São Tomé and Principe	62.6	156	Mali	51.4
116	Lao PDR	62.1	157	Niger	50.1
117	India	61.9	158	Dem. Rep. Congo	49.7
118	Venezuela, RB	61.7	159	Sudan	49.6
119	Namibia	61.6	160	Nigeria	49.3
120	Guatemala	61.5	161	Madagascar	49.1
121	Botswana	61.5	162	Liberia	47.1
122	Vanuatu	60.9	163	Somalia	46.2
123	Kenya	60.2	164	Chad	43.8
124	Guyana	59.7	165	South Sudan	43.7
125	Zimbabwe	59.5	166	Central African Republic	38.5

- Zakah is a philanthropic pool too large to ignore;
- Zakah is highly aligned with the SDGs;
- UNDP has already begun harnessing zakah for SDG projects; and
- Engaging with zakah is an opportunity for a wide range of stakeholders.

United Nations Development Programme (UNDP) in Indonesia has already started tapping zakah funds for developmental projects. In April 2017 BAZNAS (the national zakah collection body) and UNDP signed a Memorandum of Understanding (MoU) in Jakarta with the objective of developing Sustainable Development Goals (SDGs). (http://pusat.baznas.go.id) Here's how the partnership works:

- BAZNAS collects funds as per its organizational mandate
- BAZNAS makes grants to the UNDP to implement projects, and
- The UNDP implements projects in accordance with the UN Charter and the UNDP's global policies (Rehman and Pickup (2018).

Areas of collaboration between UNDP and BAZNAS can possibly include supporting livelihoods project in remote and rural areas, improving their access to electricity among other instances. Zakah potential can also be utilized to support productive capacities of individuals and communities instead of focusing on just consumptive or humanitarian activities such as the payment of hospital bills and disaster relief. Furthermore, the UNDP can also provide much-needed technical assistance to BAZNAS and other zakah organizations and to governments as well to enhance the effectiveness of zakah collection and administration, and to link zakah plans with the overall SDG strategies (Rehman and Pickup, 2018). The first major collaboration between BAZNAS and the UNDP was the installation of micro hydropower plants, which bring electricity to more than 4,500 people in four remote communities. This is part of a larger renewable energy project supported by the Global Environment Facility (https://www.undp.org/blog/zakah-sdgs). Another example of the collaboration between UNDP and BAZNAS is the implementation of four micro hydro power plants in two districts in Jambi Province of Sumatra. BAZNAS contributed $350k in zakah funds and the provincial state-owned Bank Jambi also contributed $281k to the partnership. The projects are part of Global Environment Facility (GEF) to support renewable energy in Indonesia (Buana, 2018).

USING ZAKAH FUNDS TO SUPPOT MICROFINANCE AND MICROENTERPRISES PROGRAMS

Islamic literature has excessively explained that alleviating hunger, poverty, and inequality, promoting peace and protecting the environment could possibly fall under the fundamental purposes of maqasid (objectives) Shariah. Likewise, microfinance has emerged as an important tool for poverty alleviation in the developing countries (Yonis, 2012). Microfinance is more appreciated when it is used to improve the socio-economic situations of poor and low-income people. The exiting literature is full of articles and studies that describe several success stories for using zakah in microfinance and microenterprises support programs (Ahmed, 2015; Yudha and Lathifah, 2018; Ibrahim and Ghazali, 2014; Din, 2014; Possumah and Ismail 2011). The next part of this paper will discuss two case studies in which zakah has been used in microfinance and microenterprise programs, one program is from Malaysia and the other one is from Indonesia.

MICROFINANCE AND MICROENTERPRISE PROGRAMS

Microfinance is widely known as the financial enablement for poor and needy who suffer from lack of collateral, financial records, and credit history; therefore, these populations are often aided with small amounts of credit to help them start their businesses. Unprecedentedly, many developing and developed countries have started to use microfinance as a magical tool that can contribute directly to alleviate poverty and ensure livelihood development and wellbeing of poor. Thus, enhance job opportunities, which is the main goals for the socioeconomic development (Thai-Ha, 2021).

Malaysia was a pioneer in this field starting from 1966, the formal microcredit institutions were lunched in Malaysia as the Rural Industrial Development Authority (RIDA), the main target for RIDA was to provide economic assistance and to support Malay farmers and rural inhabitants (Haque, &Siwar, 2019). In 1987 Malaysia initiated microcredit programs and strategies to eradicate poverty problem in the country (Suraya, 2011). Amanah Ikhtiar Malaysia (AIM) was the first microfinance institution established by two social scientists, Dr. David Gibbon and Prof. Sukor Kasim (Siwar and Quianones, 2000). Then many initiatives have followed, such as Yayasan Usaha Maju (YUM) and the Economic Fund for National Entrepreneurs Group (TEKUN). The fundamental goal for all these initiatives was to provide funds for poor households who lack the required collateral. (AIM) provides free interest loan, however clients have to pay 10% as operational and management fees with 2% as a compulsory saving. In 2013 AIM's market share of the microfinance industry stands at 40 percent and is expected to increase to 50 percent in the next 5 years (Nor Fazidah, 2011). Remarkably, (AIM) considered the prominent MFI in Malaysia, which services approximately 82 percent with 222,557 of Malaysian poor households (Omar, Noor, & Dahalan, 2012) with highest loan repayment rate in the world which reached 99.2 percent (Monitor, 2010). AIM chairman, Datuk Dr Zubir Harun said "only less than 1.8 per cent of the total 326,009

Table 1. Active MFIs in Malaysia

Name of MIFs	Date of Birth	Status	Location/Scale
Federal and Authority (FELDA)	1956	Governmental	National
Majlis Amanah Rakyat (MARA)	1966	NGO	National
Credit Guarantee Corporation (CGC)	1972	Governmental	National
Farmers Organization Authority (LPP)	1973	Governmental	National
National Savings Bank (BSN)	1974	Governmental	National
Amanah Ikhtiar Malaysia (AIM)	1987	NGO	National
Koperasi Kredit Rakyat	1988	NGO	Selangor
Tabung Ekonomi Kumpulan Usaha Negara (TEKUN)	1988	NGO	National
Yayasan Usaha Maju	2002	NGO	Sabah
Bank Pertanian Malaysia (BPM)	2003	Governmental	National

Source: (APEC, 2015)

borrowers nationwide failed to fully settle their outstanding amounts" also he added that "98.22 per cent of the total borrowers, who received loans worth RM18.44 billion at 134 AIM branches nationwide had fully settled their loans (David, 2017). Aim shifted from qard hasan (interest-free loan) to tawarruq (sell and buy back arrangement) financing in 2013 (Engku Ali, 2019).

It is observed that microfinance in Malaysia is over six decades old. non-government sector seems to play an effective role in providing microfinance with five NGOs. The vast majority of microfinance providers are national institutions with only two local institutions operating on the state level, namely in Selangor and Sabah.

SOCIAL-ECONOMIC EFFECT OF MICROFINANCE AND MICROENTERPRISE SUPPORT PROGRAMS

Microcredit programs have proven to be an effective measure in freeing people from poverty toward more economic inclusive in the society. It has been argued that such programs are potential tools that can positively impact poverty reduction, enhance employment rate, and develop the community and national welfare (Terano et al., 2015).

The Malaysia's report on Millennium Development Goals indicated that employing microcredit schemes has major impact in increasing the income of the poor people in Malaysia particularly among the women. To be more specific, the extreme poverty rate in Malaysia had noticeably dipped from 16.5% in 1990 to 0.6% in 2014. In other words, Malaysia have successfully improved the socioeconomic status of women by implementing several programs such as microcredit scheme, women entrepreneurship programs, tax incentives and re-employment program for the women. According to Che Supian, and Norziani (2012), Kedah state in Malaysia has shown that the average income of the borrowers increased from RM1,286.77 before joining microcredit to RM2,703.63 after joining the programs, this represents an increment rate of about 110% or RM1,416.86 to their income before joining the program. The group of "extreme poverty" fell from 12.8% (before) to 2.3% (after). The group of "poor" dropped from 19.8% (before) to 5.2% (after), and those who were in the category of "low income" fell from 54.1% (before) to 44.8% (after). The later figures and statistics indicated that microcredit has a positive effect on increasing the income of the borrowers, thus reducing the poverty rate.

ZAKAH-BASED MICROENTERPRISE SUPPORT PROGRAMS: TWO SELECTED CASE STUDIES

Case One: Malaysia- Selangor *Zakah* Board (Lembaga Zakah Selangor- LZS)

In Malaysia, the Administration of *zakah* funds falls under the State Islamic Religion Councils (SIRCs). A total of 14 SIRCs over Malaysia where 13 of it is belong to the state and one for Wilayah Persekutuan Kuala Lumpur (Razimi et al., 2016). Furthermore, *zakah* in Malaysia is under the mandate of the Department of *Wakaf*, *Zakah*, and *Hajj* (JAWHAR). JAWHAR was set up on March 27, 2004 by former Prime Minister Tun Abdullah Ahmad Badawi (JAWHAR, 2020). Collections of *zakah* in Malaysia has increased over the past decade. Remarkably, the amount of *zakah* funds vary from state to state. However, a remarkable increase in *zakah* funds occurred between 2007 and 2016. In Selangor state for instance, *zakah* funds reached approximately RM 673.7 million in 2016 compared to 202.2 million RM in 2007 (exchange rate is RM 4.17 for one US$). Figure 5. illustrates the zakah collection in all Malaysian states between 2007 and 2016.

According to the figure above, two states i.e., Selangor and the Federal Territory jointly contributed about 50 per cent to the total collected amounts, that is approximately RM1.262bn out of the total RM2.631bn collected by all the states excluding state of Perlis (Abdul Razak, 2019). Table 2 below illustrates the details of the collected *zakah* funds in all Malaysian states.

Interestingly, the total amount of *zakah* funds has soared from RM 806.3 million in 2007 to over RM 2,631.2 million in 2016 excluding the state of Perlis. This translates into a cumulative annual growth rate of 47.5 per cent for the period from 2007 to 2016.

During the COVID-19 pandemic lockdowns, Selangor *Zakah* Board (MAIS) has distributed a total of RM232.2 million to eight *asnaf* (*zakah* beneficiaries) groups including more than 57 thousand *asnaf* families as well as more than 6 thousand converts. Nonetheless, *zakah* collection in Selangor shows a decrease of 0.1% from RM253.1 million (2019) to RM252.7 million (2020) for the same period; this decrease can possibly be attributed to covid19 lockdown and its impacts on businesses.

Moreover, among the efforts to assist affected business and families during the COVID-19 pandemic, the Selangor *Zakah* Board (LZS), has assigned approximately MYR 15 million as an emergency relief fund to assist the small vendors and hawkers who are affected by the thirteen-day movement control order (MCO) imposed in the country (IM Insights,2020).

Figure 5. Zakah collections in Malaysia by states between 2007–2016
Source: JAWHAR/ State Religious Authority/ (Abdul Razak, 2019)

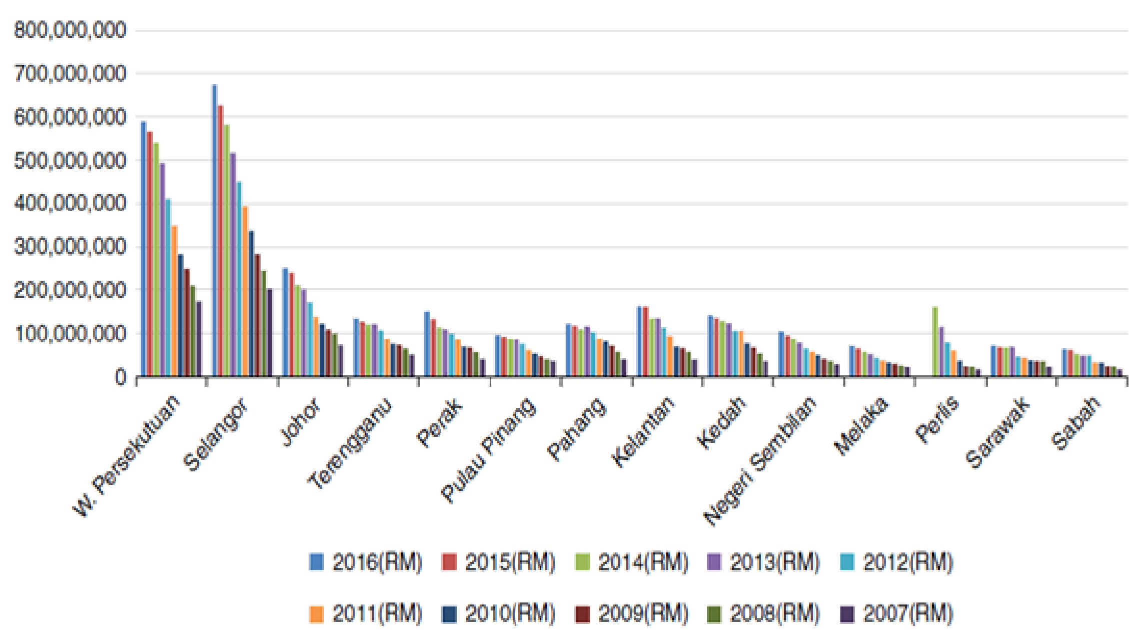
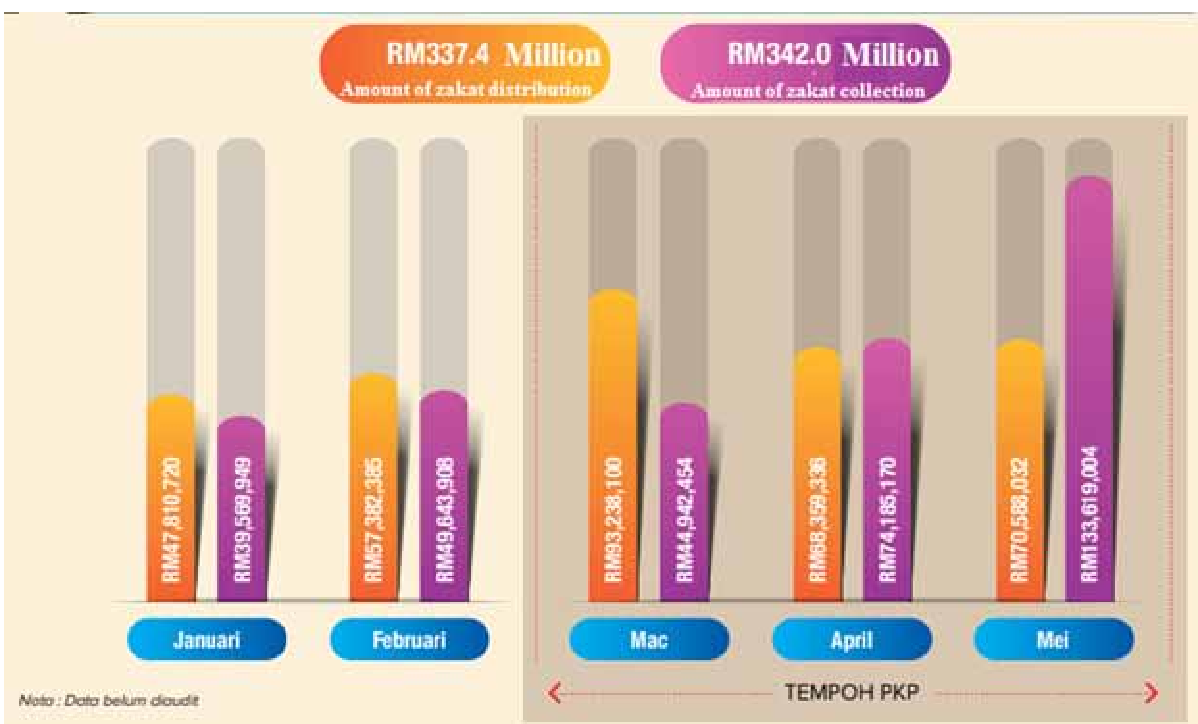


Table 2. Zakah collection in Malaysia (2007- 2016)

State/year	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Federal territory	173.8	211.4	248.8	282.7	348.9	410.4	492.4	540.8	565.8	589.3
Selangor	202.2	244.4	283.6	336.9	394.1	451.3	517.3	582.1	627.2	673.7
Johor	73.3	100.7	109.2	122.3	137.5	171.9	200.6	212.8	239.9	250.4
Terengganu	51.4	66.2	73.5	76.4	88.3	107.1	120.9	120.1	126.6	133.4
Perak	41.3	57.0	67.2	69.6	86.1	99.6	109.8	114.6	132.6	151.2
PPinang	37.1	41.8	48.0	53.2	62.3	76.5	86.0	87.9	92.8	96.8
Pahang	41.5	57.9	71.9	80.9	88.6	102.9	115.8	109.3	118.0	122.2
Kelantan	40.2	58.2	66.5	70.4	94.1	113.2	134.2	133.3	161.9	162.7
Kedah	36.7	53.2	67.6	76.9	106.1	106.2	122.7	128.4	133.9	140.4
NSembilan	29.4	37.4	42.3	50.2	57.9	65.4	78.9	88.2	95.2	104.8
Melaka	22.1	26.9	30.7	34.0	37.9	54.0	53.1	58.3	66.0	70.5
Sarawak	23.1	36.1	36.9	39.1	44.1	50.8	69.5	67.3	68.6	72.1
Sabah	17.5	23.8	25.4	32.9	33.9	48.9	49.2	52.8	61.8	63.7
Perlis	16.7	23.1	25.3	38.1	61.4	78.9	115	162.3		
Total	806.3	1,038.1	1,196.9	1,363.6	1,641.2	1,937.1	2,265.4	2,458.2	2,490.3	2,631.2

Source: (Lembaga Zakah Selangor, 2020).
https://drive.google.com/file/d/18sxTJL3Mw3meCv6RxRzJMLr6GIcw2Vci/view

Figure 6. Total distribution & collection of zakah from 1 January to 31 May 2020
Source: (Lembaga Zakah Selangor, 2020)



Selangor Zakah Board (LZS) Programs for Microenterprises

LZS is the official authority that is in charge of managing *zakah* affairs in the state of Selangor in Malaysia. LZS is also one of the prominent institutes in the Department of *Wakaf*, *Zakah*, and *Hajj* (JAWHAR). LZS has utilized its creative and innovative system combined with technology to achieve ideal *zakah* management (collection and distributed). Its method becomes the benchmark for other *zakah* offices in Malaysia. LZS has initiated some programs to support micro-entrepreneurs with capital assistance and aids them with extra skills in business management. Such skills include professional training and marketing. For this purpose, LZS cooperates with many other agencies, such as the Malaysian Agricultural Research and Development Institute, and the Small and Medium Industries Development Corp. According to the innovative LZS system, the traditional eighth categories of *zakah* recipients have been classified into two main categories: productive and non-productive groups. this classification has been adopted in consideration to recipients' physical skills and abilities. Thus, the distribution of funds has been classified into consumption and productive purposes; in our context, the latter one is the subject matter, and it is known as *zakah* microfinance (Ibrahim and Ghazali, 2014).

Interestingly, the *zakah* microfinance program contains not only the provision of capital seed to micro entrepreneurs but also it provides training on business management and close monitoring throughout the program. The following procedures have been implemented in the program:

1. Provision of start-up fund for potential business project.
2. Rigorous examination is undertaken to the applicants to ensure the eligibility criteria which include proper skills, business interest and desire to learn along with the physical capabilities.
3. Provision of the required knowledge and guidance to the recipients before and during the conduct of business.
4. Capital is given in the form of equipment and working capital such as machinery and rental premises.
5. Recipients are given a basic course of business, including financial management and motivation before starting a business.
6. LZS provides spiritual knowledge and religious practices such as trust, honesty, and sincerity.
7. Monitoring of applicants and their business. Each 40 recipients are assigned to one *zakah* officer. Monitoring includes not only business performance but also spiritual aspects, daily necessities, housing conditions and income (Ibrahim and Ghazali, 2014; Kachkar, 2019).

From 2008 to 2010 the total number of recipients reached 1054 and the funds distributed reached RM 6.862.938 the details are in the table below.

Looking at the segments assisted by LZS program, assistance to businesses occupies the top of the list by 299 recipients with livestock the least with only 8 beneficiaries. The number of recipients has decreased about 20% in 2009 before taking off again in 2010 to increase about 22% from 2008 and 37% from 2009 respectively.

LZS Asnaf Entrepreneurship Program (AEP)

Asnaf is the Arabic word to denote the eight categories of *zakah* recipients highlighted in *Surah At-Tawba* (9:60). Through Asnaf Entrepreneurial Program (AEP), LZS endeavors to aid the poor in order to become entrepreneurs and to enhance their social and economic life. The program can be divided into

Table 3. Number of recipients of capital assistance 2008-2010

Program	Number of Recipients			Total
	2008	2009	2010	2008 – 2010
Business Capital Assistance	299	234	356	889
Fishery Capital Assistance	21	8	50	79
Livestock Capital Assistance	8	12	11	31
Agricultural Capital Assistance	15	22	18	55
Total Recipient	343	276	435	1054
Total Distribution (RM)	1,806,753.	2,593,854	2,462,331	6,862,938
Average amount of distribution per recipient	5,267.50	9,398.02	5,660.53	6,511.33

Source: (Ibrahim and Ghazali, 2014).

four core elements which are (1) entrepreneurship development program, (2) skill development program (3) administrative and monitoring and (4) distribution program. In addition to start-up capital (Shiyuti and Al-Habshi, 2018). To this effect, LZS collaborates with some other institutions such as Institute Keusahawanan Negara (INSKEN) and Institute Latihan Islam Malaysia (ILIM) within the scope of training and skill improvements among entrepreneurs (Din et al., 2019). *Asnaf* program is in line with the core objectives of *zakah* that aims to "empower the productive *asnaf* to generate income up to the level of graduation from the *asnaf* status" (Qardawi,2009). Eligibility criteria taken into account when selecting the eligible *asnaf* to become entrepreneurs are commitment, hardworking, mental and physical capability, and shows interest in entrepreneurship (Mohamed, et al., 2018). *Asnaf* program is quite important and has many advantages for many reasons, for instance:

1. The *zakah* institution provides capital assistance to *asnaf* entrepreneurs in order to fulfill self-confidence and productivity in running the business.
2. In addition, this capital will add and enhance the social and morale in the societies,
3. Also, it has a positive impact on the economy (Din et al., 2019).

In 2015, *zakah* institutions supported around RM 9,000,0000 to *asnaf* who are under this program covered in terms of training, capital and monitoring to become entrepreneurs (Asnaf MAIS, 2015).

Lembaga *Zakah* Selangor (2016) has identified three types of *zakah* receipts under AEP program, first type is *asnaf* who has no professional skills and cannot run any type of business; second type is *asnaf* who is in need of one-time assistance to cope or get out of the poverty; and the third type is *asnaf* which is currently struggling with hardship but has the potential to develop, grow and graduate from *asnaf* (Din, et al., 2019).

According to (Din,et al., 2019) the AEP program consists of many processes as follow:

1 Identifying the inputs by selecting the possible entrepreneurs who are complying with Islamic ideas.

2 Transformation process, which is transforming the training and project preparation to the outputs such as goods, services, ideas, and entertainment based on the outputs it will achieve the goals that is rapidly national growth.

LZS *Asnaf* Entrepreneurship Program (AEP) has two manners of financial assistance granted to recipients. The first is the distribution of start-up financial assistant based on the request made by the recipients to run their own business. Secondly, LZS also offers capital assistance to businesses selected by LZS management. Consequently, two categories are identified, the first category includes micro-entrepreneurs of *zakah* beneficiaries who run micro enterprises of value less than RM5,000, such as selling nasi lemak (traditional Malaysian food), fried banana and others. The second category include business with value varies between RM5,000 to RM50,000, such as restaurants, laundry shops and others (Mohamed et al., 2018).

Turning Over Model

According to (Sabri & Hasan, 2006), the Turning Over Model is innovative *zakah* distribution to potential *asnaf* in business. Under the supervision of *zakah* institution, Asnaf will enter sequences process of forming and enhancing the business with the aid of *zakah* and the main purpose of this is to provide *asnaf* with a better opportunity to work and earn a better income which could turn them from *asnaf,* i.e., *zakah* receivers to the source of *zakah* who are able to pay z*akah*. So, they will stop relying on *zakah* funds to achieve more productive societies.

As of 2016, LZS has assisted 175 *asnaf* entrepreneurs to graduate from the program and to become self-sufficient (Izwan, 2017).

Case Two: Baitul Maal Muamalat Indonesia (BMMI)

Indonesiais considered as asignificant key player in poverty alleviation, since Indonesia is the biggest Muslim country which is 85 percent of total population in Indonesia or 216.66 million populations (BPS, 2015), Indonesia has several *zakah* institutions such as, BAZNAS, BAZNAS Province, BAZNAS Regency/City and certified *zakah* institutions (LAZ) as elaborated in Table 4. The National Board of *Zakah* (BAZNAS) is the coordinator which is responsible for managing *zakah* funds in Indonesia. In addition, BAZNAS has a responsibility to collect a regular report from Certified *Zakah* Institution (LAZ). Minister of Religious Affairs Decision (KMA) No. 333/2015 about guidelines for licensing Certified Zakah Institutions (LAZ) which led The National Board of *Zakah* (BAZNAS) has an authority to recommend The Certified *Zakah* Institutions to have official license (Indonesia *Zakah* Outlook, 2019).

Table 4 compares the amount of *zakah* collected by *zakah* institutions in 2017. It is illustrating that the total *zakah* funds collection reached approximately 6.2 trillion Rupiahs in 2017.Whereas the distribution amount was almost 4.8 trillion Rupiahs. Therefore, the national absorption rate is estimated at around 78.08% which indicates that the fund's absorption in 2017 is "effective." (BAZNAS, 2019).

Figure 7. Turning over model
Source: (Din, Rosdi, Ismail, Muhammad, & Mukhtar, 2019)

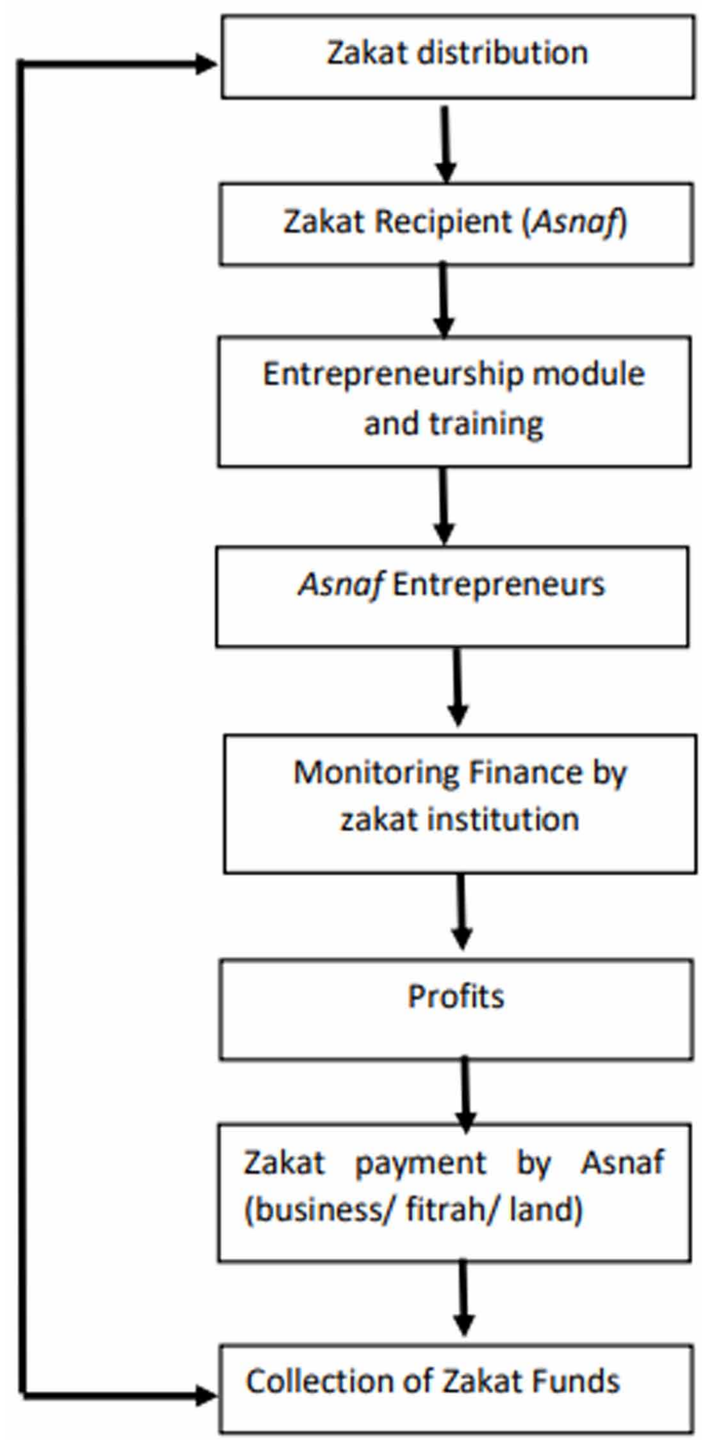


Table 4. The effective collection and distribution of zakah funds in 2107 through zakah institution (figures in Indonesian Rupiah IDR, one $UD is equal to IDR14,185)

No	Sectors	Collection	%	Distribution	%	Absorption
1	BAZNAS	153,542,103,405	2.47	131,917,747,764	2.71	85.92%
2	Provincial BAZNAS	448,171,189,258	7.20	388,168,225,347	7.99	86.61%
3	Regency/ City BAZNAS	3,426,689,437,619	55.05	2,629,588,214,952	54.11	76.74%
4	LAZ	2,195,968,539, 189	35.28	1,710,481,136,382	35.19	77.89%
TOTAL		6,224,371,269,471	100	4,860,155,324,445	100	78.08%

Source: (Indonesia Zakah Outlook 2019).

Baitul Maal Muamalat Indonesia (BMMI)

The second case study to be highlighted in this section is the program of Baitul Maal Muamalat Indonesia (BMMI). BMMI is a licensed *zakah* organization in Indonesia that collects Islamic charities (*zakah*, *sadaqa* and *waqf*) and disburses the funds for the society purposes. It was established in 2000 as a social subsidiary of Bank Muamalat Indonesia that collects Islamic charity from Bank Muamalat's clients and distributes this charity for social purposes. Seventy percent of its funds are distributed for economic empowerment through microfinance programs (Yumna, 2019). BMMI in Indonesia has three major programs to include the poor within the microfinance system. One particular program for micro entrepreneurs called Komunitas Usaha Mikro Muamalat Berbasis Masjid (Micro entrepreneur community based on mosques/KUMMM), were initially developed in 2007. This KUMMM program is especially designed for micro entrepreneurs who actively participate in the local mosque. The key objectives of the program are firstly, to work toward economic empowerment of the poor and secondly to support religious education for society. This second objective is translated into the institution's mission statement as an intention to develop an individual character with strong religious beliefs, a determined commitment to grow, and with the capacity to empathize with others. All BMMI KUMMM microfinance program activities, are conducted in mosques including client selection, mentoring and loan repayment arrangements (Yumna, 2019). The main objective of conducting the activities in the mosque is the institution's intention to be able to choose clients who are motivated towards and committed to the adoption of positive attitudes and values. These client characteristics may go some way to reduce asymmetric information and moral hazard problems (Yumna, 2019). One interesting feature of the program is that it has a graduation concept for participants. Successful graduates manage their own cooperatives and begin to participate in commercial microfinance (Yumna, 2019).

The data on the program is available only for the year 2011 and 2012. It indicates that in 2011 the program has dispersed around IDR6,101,367,487.54 ($435,811) and in 2012 it dispersed about IDR 3,309,973,000.00 ($236,426) ($1= RP 14,090), this indicates a decrease of about 50% from the previous year. Unfortunately, the available data and information does not provide any explanation to this serious decrease. As for the repayment rate and non-performing financing, the data reveals that in 2011 around 56% of loans were repaid by the clients, non- performing financing reached in the same year about 43%, however, this low rate of repayment became even worse in 2012 with a repayment rate of only 20% and non-performing financing about 80%. The low repayment rate in fact undermines the whole idea of mosque centralisation and commitment etc. However, it is believed that low repayment rate is attributed to two factors:

1. lack of human resources, i.e. no enough field workers to monitor the clients, in turn, the lack of human resources can often be put down to severe cuts to the institution's operating budget.
2. public perceptions of *zakah* as social organizations that simply disperse charitable funding directly to those in dire need, without an expectation that this funding be repaid (Yumna, 2019).

In fact, this is a very low repayment rate compared to other similar microfinance institution. In Malaysia, Amana *Ikhtiar* Malaysia reported in 2012 very high repayment rate of 99.35% (Abdul Rahman et.at. 2013). no doubt that non-performing loans are among the top challenges that encounter humanitarian agencies when providing commercial financial services.

SOLUTIONS AND RECOMMENDATIONS

The core objective of this research is to identify the best practices of the cited microenterprise support programs MSPs. It attempts to extend such applications to many developing and underdeveloped countries, including many African countries. As discussed in the early sections, the best practices in microenterprise support programs start with the participants' selection process. Screening the targeted clients is essential for the success of MSPs. This is to ensure eligibility of participants to the program. It is already acknowledged that not all poor and needy persons are potential entrepreneurs. Additionally, best practices in MSPs means that microenterprise programs must include both financial and non-financial services. The later set of services are believed to be equally important of the former set of services. Non-financial services Include business management training, skill upgrading, monitoring, counselling. It is interesting that the LZS program in Malaysia includes also religious and spiritual training and sessions to encourage participants on Islamic ethics and values that are believed to enhance the commitments of the participants and the repayments of their liabilities. BMMI KUMMM program has also conducted their activities and periodic meetings in the mosques. Another point of best practices as adopted in the LZS program is that cash is not provided to participants, but capital is offered in the form of equipment and working capital such as machinery and rental premises. The last point to be highlighted pertains to the concern on the very low repayment rate in the BMMI KUMMM program about 20% and non-performing financing about 80%. As discussed earlier, possible reasons could be the misperception on the program among participants. For that reason, it is strongly advised that participants in *zakah*-based programs and the alike must not be informed on the source of funding, this is to avoid the moral hazard that consequently happened by the participants and could possibly demotivate them to pay back their liabilities.

FUTURE RESEARCH DIRECTIONS

With the gloomy picture depicted above on sustainable development in majority of African countries, the importance of this book cannot be over emphasized. This research attempts to contribute to the book and to the existing literature on sustainable development in Africa by highlighting two examples of actual institutions that are using zakah funds to support microenterprise. The role of zakah can be further explored in future research to investigate the long-term outcome of *zakah*-based programs. That can include analyzing the impact of such programs on the socio-economic situations of beneficiaries. The serious issue of low repayment rate in the BMMI KUMMM microfinance program can be another area of future studies. Learning from the practices of successful programs like the Amanah Ikhtiar Malaysia could be one of the recommendations to address this issue. One more possible area of research is to analyses the views of zakah payers on channeling their *zakakh* payments to such microfinance programs. Finally, a feasibility study on using zakah fund in selected African countries is one of the potential areas of research.

CONCLUSION

This research draws on the basic premises that together can constitute the theoretical framework and rationale for this research. Premise one is built on the importance of microenterprises in bringing about a real change in the socioeconomic situations of millions of poor and underprivileged households. In many countries, microenterprises represent the backbone of the economy. In Cambodia for instance, according to the survey conducted by the Cambodia Intercensal Economic in 2014, there were 512,871 enterprises established in Cambodia, among them, 501,612 were micro enterprises, and 11,259 were small and medium enterprises combined (UN-DESA, 2020). This premise is well established in the literature and supported by many empirical studies (International Labor Organization, 2017; Mustapha et al., 2018; Khan and Quaddus, 2015, Akram et al., 2015). Enhancing the living standard of poor populations through supporting their microenterprises can at least contribute significantly to achieving eight goals of the 17 SDGs. These goals are related to the 1. SDG: no poverty, 2. SDG: Zero hunger, 3. SDG: Good health and well-being, 4. SDG: quality education 6. SDG: clean water and sustainability, 8. SDG decent work and economic growth 10. SDG: reduce inequality and finally 16. SDG: peace justice and strong institutions.

Premise two, lack of financial resources is a major challenge for small and micro businesses as well as for NGOs and government entities that intends to support such micro businesses. This is another fact that is well documented in the literature on microenterprises (Bartsch, 2003; Ranalli, 2013; the Women's Refugee Commission (WRC), (n.d.) and Jacobsen and Titus, 2004). The governments of both developing countries as well as developed countries encounter the lack of financial resources. In Bangladesh for instance, it is estimated that the total demand for ME loans in 2015 is Tk. 737 billion (one USD is equal to 85 Bangladesh Takas (TK)). Total ME loan outstanding by MFIs is Tk. 123.27 billion and that of banks is Tk. 176.65 billion. So, total loan supply to MEs is Tk.299.92 billion and therefore the demand-supply gap is Tk. 437.39 billion, that is, around 60% of the demand is unmet (Khalily et al., 2017). According to a recent study funded by the European Commission, the funding gap for EFTA region is EUR 12.9 billion, which corresponds to 92.3% of the constrained demand. EFTA region include in addition to EU member states Albania, Iceland, Montenegro, North Macedonia, Norway, Serbia, and Turkey. In the EU alone, the funding gap is for 53.9% (European Commission, 2020). Premise three, *zakah* funds represent a huge potential source of funding to be channelled into microfinance and microenterprises programs. Importance of *zakah* funds becomes clear with the fact that the majority of Organization of Islamic Cooperation member states are in dire needs for financial resources to fund their financial needs for socio-economic development and to achieve the SDGs as discussed in earlier sections. In order to meet the SDGs by 2030 in five priority areas of education, health, roads, electricity, and water and sanitation, it is estimated that an additional private and public annual spending of $528 billion is required for low and lower middle-income countries and $2.1 trillion for Emerging countries (Doumbia and Laurids, 2019). The aim of this research is to spot the light on the importance of Islamic social finance in bridging the gap in financial resources. Particularly, this research brought two of the actual projects where *zakah* funds are practically implemented in the provision of microenterprise support programs. From the two programs of microenterprise support, it can be deduced that *zakah* funds constitute a great potential of funds that can significantly contribute to address the lack of financial resources to financing such programs. However, best practices of offering microfinance to potential microentrepreneurs, as discussed e earlier, must be strictly observed.

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KEY TERMS AND DEFINITIONS

Baitul Maal Muamalat Indonesia (BMMI): A licensed *zakah* organization in Indonesia that collects Islamic charities (*zakah*, *sadaqa* and *waqf*) and disburses the funds for the society purposes.

BAZNAS: The National Board of *Zakah* that is responsible for managing *zakah* funds in Indonesia.

Islamic Social Finance: The Islamic perspective of managing investments that generate financial returns with positive social and environmental impact.

JAWHAR: The Department of Wakaf, Zakah, and Hajj in Malaysia.

Lembaga Zakah Selangor (LZS): The official authority that oversees managing *zakah* affairs in the state of Selangor in Malaysia.

Microenterprises: Small businesses that are often targeted by microcredit and microfinance programs.

Microfinance: Refers to providing micro-credit or low amounts of money to people who are typically excluded from traditional banking and financial services.

SDGs: The Sustainable Development Goals (SDGs) represent an urgent call for action by all countries, developed and developing, in a global partnership. SDGs provide a shared blueprint for peace and prosperity for people and the planet, now and in the future.

***Zakah*:** A religious obligation to contribute a certain portion of one's wealth in support of the poor or needy.

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