

# Cash waqf model for micro enterprises' human capital development

Mohamed Asmy Mohd Thas Thaker

*International Islamic University Malaysia, Kuala Lumpur, Malaysia*

Md Fouad Amin

*King Saud University, Riyadh, Saudi Arabia*

Hassanudin Mohd Thas Thaker

*Sunway University, Selangor, Malaysia*

Ahmad Khaliq

*International Islamic University Malaysia, Kuala Lumpur, Malaysia, and*

Anwar Allah Pitchay

*Universiti Sains Malaysia, George Town, Malaysia*

## Abstract

**Purpose** – The present paper aims to propose a viable alternative model for human capital development (HCD), termed as the integrated cash waqf micro enterprises investment (ICWME-I) model, which is expected to contribute to the development of micro enterprises in Malaysia.

**Design/methodology/approach** – This is a conceptual paper for the development of the ICWME-I model. It is purely qualitative in nature, using content analysis. It comprehensively reviews the literature related to HCD issues faced by micro enterprises and existing studies related to cash waqf (Islamic endowment) to construct the ICWME-I model.

**Findings** – The proposed ICWME-I model is specially designed for HCD of micro enterprises. It is an appropriate initiative to upgrade micro enterprises through HCD programmes by ensuring proper utilization of cash waqf funds to build modern training centres at subsidized costs with state-of-the-art facilities. The training centres would subsidize the participation fees of micro enterprises and provide them with facilities to undertake education and training programmes, as well as other kinds of activities for upgrading, improving and enhancing human capital capacity and skills of micro enterprises. The potential challenges of the ICWME-I model are also highlighted in this study.

**Research limitations/implications** – This paper attempts to construct the ICWME-I model based on an extensive review of literature related to micro enterprises, cash waqf and HCD. Among its major



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limitations is the fact that the ICWME-I model is not empirically validated and tested in this research. This can be carried out in future studies.

**Practical implications** – The present study could have an enormous impact on micro entrepreneurs via HCD programmes. The most important impact would be on government budgets, as this ICWME-I model is expected to generate its own funds from cash waqf for micro enterprises' HCD.

**Originality/value** – This paper brings forward an original and viable model to develop human capital for micro enterprises development. This model involves the building of training centres using cash waqf raised from donors.

**Keywords** Human capital development (HCD), Integrated cash waqf micro enterprises investment (ICWME-I) model, Malaysia, Micro enterprises

**Paper type** Conceptual paper

## Introduction

The concept of human capital development (HCD) is very vast. It is a combination of various human qualities comprising knowledge, skills, abilities and competencies which are attained gradually by the process of education and training for the well-being of individuals, institutions and the society (Becker, 1993). In other words, it is related to any activity that improves the productivity of the worker. In academic literature, the concept of HCD has been emphasized by focusing on training and skills enhancement of an individual. Training attended by workers tends to result in “superstar performers” where more individual productivity could be translated to better organizational productivity and performance. HCD tends to bring about significant contribution on organizational competencies and is a key factor for enhancing innovativeness. Various existing studies have supported the fact that a firm's performance is positively impacted by the presence of good human capital practices (Youndt *et al.*, 2004; Noe *et al.*, 2017). In addition, firms' HCD can contribute to lower costs and most importantly, socio-economic development (Nafukho *et al.*, 2004; Lynham and Cunningham, 2006).

Likewise, HCD is an important factor for causing institutions and organizations such as micro enterprises to prosper. Both developed and developing countries pay much attention to micro enterprises because of their important contribution on the economic and social fronts (Hailey, 1991; Radam *et al.*, 2008). Micro enterprises' economic contribution includes employment creation (Davis and Vladica, 2006; Hairuddin *et al.*, 2012), wealth creation (Akugri *et al.*, 2015), increase in output, local resource mobilisation and local technology adoption (Hairuddin *et al.*, 2012). According to OECD (2017), micro enterprises account for about 70% of total small and medium enterprises (SMEs) and contribute to creating roughly 60% of total employment in most developed and developing countries across the globe. The social benefits of micro enterprises include poverty alleviation, welfare services to the needy, patronization of new initiatives and redistribution of income and wealth. All of these lead to balanced economic development.

Despite the important role that HCD plays in the development of micro enterprises, it has been cited as one of the hindrances to micro enterprises' development, particularly in the case of Malaysia (Hashim, 1999; Ting, 2004; Saleh and Ndubisi, 2006; Aris, 2006; Abdullah and Manan, 2010; National SME Development Council, 2012a, 2012b). These studies point out that lack of HCD in micro enterprises occurs because of the following:

- lack of skilled human capital resources;
- low level of education;
- lack of experience; and
- training programs that are not suited to meeting relevant needs.

To meet micro enterprises' need of HCD, an alternative suggestion using waqf (Islamic endowment) has been proposed by scholars (Ahmed, 2004; Karim, 2010; Tohirin, 2010; Amin, 2011; Muhammad, 2011). These studies have suggested the use of waqf funds to enhance HCD of micro enterprises through the building of training centres and the provision of training programmes and education courses for skills enhancement. Against this background and in view of the potential of using waqf funds for HCD, the aim of this paper is to propose a viable alternative model for HCD called the "Integrated Cash Waqf Micro Enterprises Investment (ICWME-I)" model. This model is designed to particularly address the problem of HCD among micro enterprises in Malaysia. The ICWME-I model is proposed based on an extensive review of relevant literature on micro enterprises, cash waqf and HCD.

The organisation of this paper is as follows. The literature review is presented in the subsequent section. Thereafter, the proposed model, significance, implications of the study, as well as the conclusion and recommendations are deliberated.

## Literature review

### *Micro enterprises in Malaysia*

A micro enterprise in Malaysia is defined as an organisation which is operated by less than five employees with an annual sales turnover of less than RM300,000 (US\$71,925) (National Entrepreneur and SME Development Council, 2019). The definition is applicable to all economic sectors, including agriculture, mining and quarrying, construction, services and manufacturing. In terms of their contribution to national gross output and to value added, micro enterprises contributed RM 184.4bn (US\$44.21bn) and RM 108.7bn(US\$26.06bn) respectively in 2015 (Department of Statistics, 2016). Furthermore, micro enterprises created 2.2 million jobs in 2015 (Department of Statistics, 2016).

The contribution of SMEs to Malaysia's gross domestic product (GDP) increased from 36.6% in 2016 to 38.9% in 2019 (Department of Statistics, 2020). Micro enterprises contribute the lion's share of SMEs' aggregate contribution. For instance, it is observed that the share of micro enterprises (76.5%) is much larger than that of small enterprises (21.2%) and medium enterprises (2.3%) in all states in Malaysia (Department of Statistics, 2016).

Although micro enterprises have significantly contributed to the Malaysian economy, they face many issues related to HCD, as mentioned in a number of studies and reports (Hashim, 1999; Ting, 2004; Aris, 2006; Saleh and Ndubisi, 2006; Abdullah and Manan, 2010; National SME Development Council, 2012a, 2012b). To address these issues, the Malaysian government has initiated various programmes on HCD; however, the impact of such programmes is still to be felt by micro enterprises (Abdullah, 1999).

Many scholars have suggested the use of waqf as a possible solution to the challenges of HCD in micro enterprises (Ahmed, 2004; Karim, 2010; Tohirin, 2010; Amin, 2011; Muhammad, 2011; Alpay and Haneef, 2015; Amuda *et al.*, 2016; Yusuff *et al.*, 2017; Shaikh *et al.*, 2017; Kachkar, 2017). By using waqf funds, various courses and training and educational programmes could be conducted.

### *Overview of waqf and cash waqf*

Waqf literally means to "stay in perpetuity" (Ahmed, 2004). Technically, it may be defined as holding *māl* (wealth, in this case in the form of an asset) and preventing its consumption for the purpose of repeatedly extracting its usufruct for the benefit of a righteous and/or philanthropical objective for as long as its principal is preserved, either by its own nature (e.g. in the form of land) or from arrangements and conditions prescribed by the waqf founder (Kahf, 2003).

The following three important characteristics of waqf need to be ensured: irrevocability, perpetuity and inalienability. Irrevocability means that once the property is declared as waqf the donor cannot revoke his donation at any time; the declaration by the donor is binding. The waqf property that is donated must be perpetual in nature. The perpetuity of waqf assets brings benefits for both donors and beneficiaries. Donors are expected to derive perpetual rewards from Allah (SWT) while beneficiaries benefit from long-term use of the waqf assets. Meanwhile, the waqf property is not subject to any sale, disposition, mortgage, gift, inheritance, attachment or any alienation whatsoever, which is known as the inalienability of waqf properties.

Waqf institutions have played a significant role throughout the history of Islamic civilization, notably in the provision of social goods (education and health), public goods (roads, bridges and national security), utilities (water and sanitation) and religious services (building and maintenance of mosques and graveyards). They have also contributed to the development of commercial businesses, assistance to the poor, orphans and the needy, creation of employment and support to agricultural and industrial sectors. All of this has occurred without imposing any cost on the government (Mohsin, 2008).

Cash waqf was developed in the 8th century CE after Imam Zufar approved of its use, and it became a prominent form of waqf formation in the early 15th century (Cizakca, 2004). Cash waqf means the contribution of an amount of money by a founder with a purpose of dedicating its usufruct in perpetuity to prescribed purposes (Mohsin, 2008). In this case, the donor endows cash waqf instead of real estate or fixed assets. Indeed, cash waqf can be invested through *muḍārabah* (profit-sharing) arrangements, and the profits generated therefrom would be spent on charity purposes.

During the Ottoman period, education, public works, health and religious services were financed using cash waqf (Toraman *et al.*, 2007). Contemporary scholars have introduced many versatile uses of the concept such as the integration of cash waqf with HCD to provide education and training for successful development of enterprises.

#### *Waqf and human capital development*

A number of studies have attempted to highlight the use of waqf resources for HCD among enterprises and businesses. Many of them mentioned that various training and skills development programmes can be offered to micro enterprises using waqf funds.

For example, Ahmed (2002) suggested that the problem of HCD among the clients of Islamic microfinance institutions can be resolved with the integration of the two most fundamental institutions in Islam, namely, zakat (alms giving) and waqf. These institutions can play a predominant role in upgrading the skills of microfinance clients. In his subsequent study, Ahmed (2004) tried to formulate the framework to integrate the institutions of zakat and *awqāf* (pl. of waqf) for HCD. For this purpose, he classified the poor into two groups: the productive poor and the unproductive poor. The productive poor are those who are unable to use their potential resources because of constraints in human, physical and financial capital. The unproductive poor are identified as the sick, the elderly, the handicapped and others who cannot contribute actively to society. For the productive poor, Ahmed (2004) stated that both zakat and *awqāf* can largely contribute to this group by fulfilling their basic needs and by providing required inputs such as human capital (e.g. educational programmes and skills development schemes), physical capital (e.g. machine, tools and equipment) and financial capital (e.g. required financial resources for business development). These works are considered useful and relevant to the present study where the waqf fund in particular can be utilised for HCD. If the waqf funds are applied and used properly, they could support micro enterprises' HCD.

Karim (2010) proposed that waqf institutions support the conduct of self-reliance programmes by establishing training centres and youth development and activity programmes in Bangladesh. Furthermore, he stated that waqf institutions could also support community empowerment programmes. However, his work did not provide explanation on the sources of funding for waqf institutions to conduct empowerment programmes. The present study emphasises the use of cash waqf for micro enterprises and provides them with the facility to enhance HCD.

In another study, Tohirin (2010) argued that cash waqf can be used for empowering enterprises through HCD. This scheme could include funded or scholarship-based education, training and skills upgrading programmes which would positively affect the efficiency and productivity of the respective enterprises. The study by Tohirin (2010) has some similarities with the present study as both focus on cash waqf and enterprises for HCD. However, the present study focusses on micro enterprises, while Tohirin's work discusses SMEs in general.

Amin (2011) showed a conceptual framework for an integrated waqf-based model for Bangladesh's Islamic microfinance institutions. This model was developed as these institutions are facing insufficient training facilities to upgrade borrowers' skills. Amin (2011) claimed that the proper channelling of waqf funds into Islamic microfinance institutions would bring positive development to borrowers' skills and abilities. For example, they could equip themselves with managerial, entrepreneurial and information technology (IT) skills. Similarly, Muhammad (2011) also developed a waqf-based microfinance model that ties in with various Islamic modes of financing, notably *ijārah* (lease), *muqārabah* (profit sharing) and *mushārah* (profit-and-loss sharing). The author proposed an Islamic micro-investment model where waqf institutions would play a dominant role to develop HCD. This model involves a joint venture between microfinance institutions, waqf institutions and their clients. It is expected that it would increase and improve HCD through the training offered to clients. However, these studies focus more on how to enhance the skills of Islamic microfinance institutions' clients as compared to the present study, which focuses on micro enterprises.

Rahman and Dean (2013) opined that training and business support centres could be established by waqf funds. The services would be given free of charge. However, as a token of appreciation, the beneficiaries who receive the training would become the trainers after completing the particular training programme. In this way, the centre would become a sustainable place for promoting HCD programmes in the long term. The authors claim that this centre could be an effective complement of microfinance institutions where their clients could get necessary training and be involved in other programmes to gather knowledge on how to manage funds so as to increase productivity and income levels of their microenterprises. Rahman and Dean's (2013) study is relevant to this study as this work is expected to utilize waqf funds for providing training to micro enterprises.

Mohamad *et al.* (2014) examined the significance of a waqf fund scheme that was founded by the Islamic Religious Council of Pulau Pinang, Malaysia to support the Muslim community of the state. The scheme could contribute to HCD by focusing on the spiritual, economic, social and welfare aspects of the Muslim community. Provision of these services enables the participants to improve their quality of life by engaging them in religious affairs, business ventures, education and other social activities. The study by Mohamad *et al.* (2014) focuses on the usage of the waqf fund scheme on the Muslims in Pulau Pinang in general, as compared to this study, which considers micro enterprises only.

Alpay and Haneef (2015) proposed an integrated waqf-based Islamic microfinance model (IWIMM). The IWIMM is constructed based on six components: a waqf fund, Islamic

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microfinance institutions, human resource development, project financing, *takāful* (Islamic insurance) and poverty alleviation. The authors outlined that the waqf fund, which is based on the principle of cash waqf, would be distributed among the participants of the programme through Islamic microfinance institutions. Besides, a specific portion of the waqf fund could be channelled to human resource development programmes, project financing and *takāful* financing. One of the crucial parts of the IWIMM is to provide various types of training and educational programmes for upgrading the skills and abilities of the participants for poverty alleviation. However, similar to the previous studies by [Amin \(2011\)](#) and [Muhammad \(2011\)](#), their studies focus more on how to enhance the skills of Islamic microfinance institutions' clients as compared to the present study which focusses on micro enterprises.

[Amuda et al. \(2016\)](#) showed that HCD is vital for less privileged Muslims in Terengganu. The authors developed an instrument emphasizing on economic and human development represented by 15 indicators. They investigated the impact of University of Sultan Zainal Abidin's (UniSZA) staff cash waqf scheme for the socio-economic development of the state under study. The empirical results indicate that the cash waqf scheme could play an effective role for upgrading human capital and improving social and economic welfare of the targeted Muslims of the state. In another study, [Yusuff et al. \(2017\)](#) proposed a cash waqf scheme under the supervision of UniSZA for HCD. Its UniSZA staff cash waqf scheme is expected to generate social and economic welfare particularly among the underprivileged Muslims in Terengganu. There are a number of objectives under the development scheme such as employment creation, micro financing skills, farming skills, provision of soft loans and guidance for other profitable businesses and investments. However, their scope of studies is limited to the staff of UniSZA, who would not be represented as micro enterprises. Furthermore, the authors do not discuss how cash waqf could be generated to assist the UniSZA staff.

In another recent study, [Amuda \(2017\)](#) argued that waqf lands in the east coast of Malaysia (Pahang, Terengganu and Kelantan) could be utilized for HCD. According to the author, waqf lands are one of the ways to financially support entrepreneurs. Entrepreneurs need initial financial support and other business operating skills which could be provided from the income of waqf lands. The study by [Amuda \(2017\)](#) suggested the development of waqf lands for HCD by using waqf funds; however, it does not emphasize the process of raising cash waqf, which is the concern of the present study.

[Shaikh et al. \(2017\)](#) showed the application of waqf for financing various social and development projects and services. According to the authors, waqf institutions can offer a wide range of social and economic services from the training and vocational centres which are established by waqf funds. This could increase employment opportunities and social welfare. [Kachkar \(2017\)](#) proposed a cash waqf refugee microfinance fund (CWRMF) model to transform refugees from donor dependency to becoming self-employed. Based on the concept of CWRMF, refugees who have some business skills could receive microfinance services. In addition, the model proposes the provision of *takāful* services to protect them from unexpected losses and events where refugees would be the guarantors for each other. The author also argued that CWRMF could sufficiently address the sustainability issue of microfinance institutions and a successful implementation of this model could essentially improve the socio-economic conditions of millions of refugees scattered across the globe.

[Muhammad et al. \(2019\)](#) attempted to examine the applicability of combining skills development and entrepreneurship by using the cash waqf model which will benefit the beneficiaries by providing them skills as well as capital for starting their businesses. They

suggested that the revenue generated from cash waqf investment would be allocated for developing the skills of beneficiaries through technical or vocational training.

In the light of the above discussion, it is important to note that waqf funds, particularly from cash waqf, may be utilized for micro entrepreneurs' HCD programmes. These existing studies provide support for developing and integrating cash waqf with micro enterprises and supporting them in terms of HCD.

*Existing human capital development model*

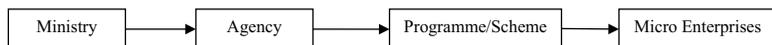
The Malaysian Government realises that the development of human capital is critical to the success of any business including micro enterprises. Owing to this concern, the government continues to support HCD-related initiatives. There are two HCD models available in Malaysia, namely, the government agency model and the private agency model.

*Government agency model.* Figure 1 and Table 1 show the government agency model and the HCD programmes, respectively, provided by government agencies. This model involves various programmes and schemes introduced by related ministries and government agencies which target the development of entrepreneurial, management and specialised skills among micro enterprises in Malaysia.

The government agencies have established certain criteria for participants to join in the above programmes and schemes. The criteria can be classified into financial and non-financial requirements. As for financial requirements, there are some programmes or schemes that require micro enterprises to pay for registration or participation fees. For example, the short and part-time courses offered by the Jabatan Tenaga Manusia, which falls under the aegis of the Ministry of Human Resources, require participants to pay a registration fee starting from RM 200 (US\$46) onwards. Another example is SME Corp, which also offers some training programmes for skills development for micro enterprises and imposes certain fees. Meanwhile for non-financial requirements, micro enterprises' participants are required to sit for and pass the examinations set for the specific programmes to be able to obtain a certificate of participation before joining another programme. In addition, micro enterprises are also required to produce several documentations such as Registration of Business or Registration of Company and fulfil other requirements such as having been in operation for at least 6 months and having a good financial track record with financial institutions. For example, SME Corp offers an enrichment and enhancement programme for micro enterprises and requires participants to undergo M-CORE assessment and pass a qualifying rating of Level 1 and above. Another example is Perbadanan Usahawan Nasional Berhad, which requires young graduates to have Skill Certificate (Level 2) before joining their Graduate Apprentice Programme.

*Private agency model.* In Malaysia, there are some private agencies that offer programmes on HCD. This is known as the private agency model as shown in Figure 2. This model is adopted by SME Corp to appoint various private training agencies registered with them to undertake technical and soft skills training for SMEs, including micro enterprises. Among them are the Halal Development Corporation Sdn. Bhd. (HDC) (formerly known as the Halal Industry Development Corporation Sdn. Bhd.), Institute of Marketing Malaysia, IEM Training Centre Sdn. Bhd., Institut Pengurusan Malaysia, Malaysian Institute Accountants and Perwira Conquest (M) Sdn. Bhd.

**Figure 1.**  
Government agency  
model



**Source:** Authors' own

No.	Ministry and government agency	Major programmes
1	Ministry of Agriculture and Agro-based Industry Department of Agriculture (DOA) Malaysia Pineapple Industry Board (MPIB) Tabung Keusahawanan Nasional (TEKUN)	Training of farmers Farming practices Programme Pembangunan Usahawan Siswazah (Graduate Entrepreneurship Development Programme)
2	Ministry of Human Resources (MOHR) Jabatan Tenaga Manusia (JTM) Department of Skills Development (DSD) Pembangunan Sumber Manusia Berhad (PSMB)	Short-term and part-time courses Trainers Development Programme SME Training Needs Analysis SME Training Partners Programme (SMETAP)
3	Ministry of Rural and Regional Development (MRRD) Jabatan Kemajuan Orang Asli (JAKOA) Lembaga Kemajuan Kelantan Selatan (KESEDAR)	Entrepreneurship Development for Orang Asli Community Entrepreneur Training
4	Ministry of International Trade and Industry (MITI) SME Corporation Malaysia (SME Corp) MATRADE	SME @ University Programme Capacity Development Programme SME Mentoring Programme Skills Upgrading Programme
5	Ministry of Women, Family and Community Development (MWFCD) Jabatan Pembangunan Wanita (JPW)	Inkubator Keusahawanan Wanita (I-KeuNITA) (Women Entrepreneurship Incubator) Inkubator Keusahawanan Ibu Tunggal (I-KIT) (Single Women Entrepreneurship Incubator)
6	Ministry of Tourism and Culture Malaysia (MOTAC)	Homestay Entrepreneur Training and Skill Enhancement
7	Ministry of Youth and Sports (MOYS)	Youth Entrepreneurship Programme
8	Perbadanan Usahawan Nasional Berhad (PUNB)	Programme Siswazah Perantis (Graduate Apprentice Programme)

**Source:** Authors' compilations from various reports

**Table 1.**  
List of ministries, agencies and major programmes



**Source:** Authors' own

**Figure 2.**  
Private agency model

The implementation of the HCD programmes and schemes is similar to that of programmes offered by government agencies. Appointed private training agencies also require micro enterprises to pay participation fees as well and meet other non-financial requirements such as business plan, financial record and related documents.

### Empirical studies on human capital challenges

Existing studies show that micro enterprises are continuously affected by the problem of HCD. A number of studies have been conducted to identify the shortcomings of HCD programmes for micro enterprises in a number of countries, including Malaysia. This section looks at some of the previous empirical studies that focused on this issue. It is divided into two parts, focusing on human capital challenges in other countries and in Malaysia.

#### *Human capital challenges of micro enterprises in some countries*

Otsuki (2002) examined the situation of micro enterprises in Saudi Arabia and found that they face challenges such as lack of skilled human resources, capital, raw materials and IT.

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According to the author, most of the Saudi industries relied on the import of manpower and technology from developed countries, mainly due to the shortage of local skilled workers and qualified human resources.

[Halis \(2002\)](#) attempted to investigate the failure of Turkish micro enterprises to export to outside markets. He used a sample of 75 out of 134 firms and conducted interviews with the owner-managers, who also held the decision-making position in the companies. Based on their feedback, he found that most of the owner/administrators of the firms lacked the necessary professional administration skills, thus negatively impacting on their performance. Furthermore, [Halis \(2002\)](#) also elaborated on other owner-related reasons that contributed to the firms not exporting their goods and services. These included the owners:

- having inadequate vocational and technical knowledge in collecting and evaluating market information pertaining to opportunities in foreign markets;
- lacking distribution and marketing knowledge;
- lacking financial knowledge; and
- lacking knowledge on exporting.

[Temtime and Pansiri \(2006\)](#) investigated the factors that affected the performance and development of micro enterprises in Botswana. They used data obtained from 250 micro enterprises based on questionnaires. The respondents indicated that human resource development is a critical success factor affecting the performance of micro enterprises. Lack of skilled manpower, absence of low-cost training facilities, inaccessibility and unavailability of training facilities in the community were considered among the major problems that hindered the performance of micro enterprises in Botswana.

[Hoa \(2011\)](#) found that weak management skills and unqualified human resources decreased the competitiveness of micro enterprises in the global context. According to him, the number of micro enterprises that have good human resources with trained and qualified skills is still small. Using the case of Vietnam, he found that managers of Vietnamese micro enterprises have limited knowledge on international business and lacked administration and social skills. In addition, he claimed that the government's small budget allocation for training programmes was significantly hindering the overall skills of human resources.

[Hassan and Olaniran \(2011\)](#) found that shortage of skilled manpower and low entrepreneurial skills blocked the growth and development of micro enterprises in Nigeria. By surveying 340 respondents, they found that many of the micro enterprises employed semi-skilled or unskilled labour due to inadequate financial resources. They also operated as single proprietors. This situation affected their productivity, restrained expansion and hindered competitiveness. In addition, lack of relevant educational background and thorough business exposure were also affecting micro enterprises' ability to seize business opportunities.

[Aruna \(2015\)](#) and [Mathai \(2015\)](#) mentioned many challenges of SMEs in India. Some of them are closely related to HCD such as lack of training, lack of technical and managerial manpower and lack of technology. [John \(2018\)](#), in his study of India, mentioned that despite the large contribution of SMEs to GDP (45%), their full potential for socio-economic development is yet to be achieved due to the existence of poor infrastructure, lack of funds, lack of innovation and technical know-how and insufficient training and skills enhancement programmes.

[Msuya \(2019\)](#) investigated the challenges of micro enterprises in terms of skills development in Tanzania. Using content analysis, he found that due to lack of financial and marketing skills, some of the informal business owners fail to set reasonable selling prices,

determine their profits and develop competitive business strategies. In addition, numerous factors hindered skills development initiatives such as ignorance, perceived cost and time consumption, absence of skills development resources, fear of employees leaving their jobs after having been trained and lack of relevant skills development programmes.

A very recent study by [Mubarik et al. \(2020\)](#) examined the influence of human capital on the export performance of SMEs in the manufacturing sector of Pakistan. Using survey data from 586 manufacturing sector SMEs, they found that education and training have the greatest influence on the export performance of those firms.

#### *Human capital challenges of micro enterprises in Malaysia*

Several studies point out that lack of skills, low level of education, improper training courses and inaccessibility of training programmes are among the factors that hamper HCD of micro enterprises in Malaysia.

[Pihie and Elias \(2004\)](#), for example, studied the factors that affected the performance of Bumiputera micro entrepreneurs in Malaysia. Altogether, they surveyed 72 Bumiputera entrepreneurs. The results indicated that more than 50% of Bumiputera entrepreneurs were clearly lacking in finance and marketing skills. Furthermore, the entrepreneurs stated that they did not perceive marketing competency as being the most important competency required for entrepreneurship development.

A study conducted by [Jamak et al. \(2011a\)](#) involved a survey of 230 Malay micro enterprises, which included 58 failed micro enterprise owners (FMEOs). Based on the findings, the authors revealed that the FMEOs failed in their business ventures mainly due to lack of skills such as management, sales and marketing and lack of competitive abilities. This is consistent with [Salleh and Sidek \(2011\)](#), who found that most entrepreneurs in the state of Perak were lacking in entrepreneurial skills such as management, marketing and finance. The authors also claimed that the relevant authorities provided poor business services and infrastructure.

[Hashim \(2012\)](#) arrived at similar findings from an evaluation of the effectiveness of the assistance programmes provided by Small and Medium Industries Development Corporation (SMIDEC), the Malaysian Industrial Development Authority (MIDA), the Malaysian Industrial Development Finance (MIDF) Berhad and the National Productivity (NP) Corporation. He found that most of the respondents were not aware of the availability of the assistance programmes, including the training programmes, provided by these four institutions. The author concluded that this indicated the ineffectiveness of the assistance programmes provided by the relevant authorities.

[Abdullah \(1999\)](#) surveyed 185 enterprises in the manufacturing sector in Penang, Malaysia and observed that the access to government supported programmes for SMEs was very limited and excluded many interested entrepreneurs. Similarly, [Hamdan et al. \(2012\)](#) also found that the training sessions provided by the programme management teams of microfinance providers in Malaysia were not effectively promoting participants' capability in generating higher business profits, which directly affected their skills development.

Meanwhile, [Selamat et al. \(2011\)](#) interviewed 21 Malay micro entrepreneurs in Balik Pulau, Penang. Their results showed that most of them were faced with a problem of acquiring necessary knowledge and skills to run their businesses. This is also true for the case of Selangor, Malaysia, whereby a study by [Ali et al. \(2010\)](#) found that most of the Malay-based micro enterprises are faced with the problem of HCD such as a lack of skilled workers.

[Jamak et al. \(2011b\)](#) carried out an interesting study by looking at the challenges of entrepreneurial skills among 100 Orang Asli (aborigines) in Pahang, Malaysia. The authors

observed that most of the entrepreneurs have no such skills to run their businesses. As a consequence of low education levels and lack of technical knowledge, most of them are not well aware about how to expand or diversify their businesses.

Arokiasamy and Ismail (2009) found that low motivation among employees, high cost of training participation and lack of human capital building were hampering the growth of HCD among SMEs in Malaysia.

Subramaniam (2010) looked at the challenges faced by Malaysian young micro entrepreneurs. Through personal interviews, she found that lack of skills among young entrepreneurs was very rampant. Most of them were poor in marketing and management skills.

Tuyon *et al.* (2012) analyzed the gap of government assistance for the development of medium enterprises in Malaysia. They found that the government-assisted entrepreneurship development programmes were confronted with challenges. Empirical evidence revealed that problems faced by micro enterprises in the implementation of government business support included:

- lack of coordination among service providers;
- low usage of the services;
- low level of awareness about the services; and
- bureaucracy on the part of government agencies.

Kaliannan *et al.* (2016) explored talent management practices among micro enterprises in Malaysia. They used a qualitative approach and found that there was an issue related to the training opportunity offered by related agencies in Malaysia. They highlighted the gap between training offered and expectations of training by employers and employees. The relevancy of programmes offered by related agencies need to be re-examined and improved for better training opportunities.

Mustafa and Yaakub (2018) conducted a survey of 152 SMEs in Malaysia to identify HCD challenges in implementation of innovation and technology. Based on their findings, lack of skills among the employees was the main parameter that affected the implementation of innovation and technology in SMEs' operations. A very recent study by Yuen and Ng (2020) also investigated the factors that hampered innovation among SMEs in Malaysia. Using a sample of 300 SMEs, the authors found human resource to be one of the major factors. They suggested that SME owners provide training and develop relevant programmes to improve their employees' knowledge.

### **Gap of the study and the need for an alternative model**

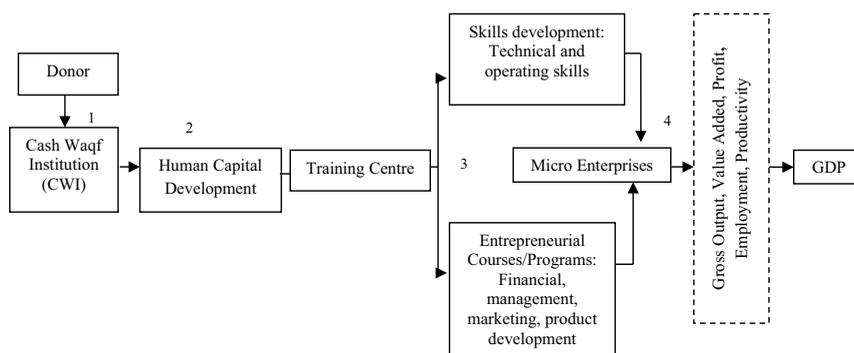
Based on the literature review, it is found that none of the previous studies reviewed have attempted to conceptualise the issues of HCD into a framework or model that can solve the problem of HCD for micro enterprises. Moreover, it is noted that despite the efforts of governmental and non-governmental organizations in supporting micro enterprise development in Malaysia, there still exist various problems related to HCD. In light of this, there is a need for a new model that can address this issue. The present study aims to propose a viable and attractive model termed the "Integrated Cash Waqf Micro Enterprises Investment (ICWME-I) model" which is expected to play a remarkable role in the development of micro enterprises in Malaysia.

### Conceptual framework of the integrated cash waqf micro enterprises investment model

This study proposes the ICWME-I model, which aims to provide state-of-the-art facilities for the delivery of HCD for the advancement of micro enterprises in Malaysia, as exhibited in Figure 3. The proposed ICWME-I model involves the following four stages:

- (1) Firstly, the donors (both the public and the corporate sector) would channel cash waqf to the cash waqf institution (CWI). By the rule of waqf law, the CWI acts as the *mutawalli* (manager) of the cash waqf fund. The *mutawalli* would also be responsible to make any investment decision related to the cash waqf fund that has been created from the cash waqf collected from the donors.
- (2) Secondly, the CWI would promote HCD at subsidized costs by using the cash waqf fund to build training centres equipped with state-of-the-art technologies.
- (3) Thirdly, the CWI through the training centres would provide skills development training programmes and business-oriented educational short courses to facilitate micro enterprises to improve the quality of their manpower. In order to increase the participation of micro enterprises, it would require them to pay a minimal charge at a subsidised rate.
- (4) Fourthly, it is expected that, after receiving the necessary skills and training from the CWI, micro entrepreneurs will boost their productivity output, which will also contribute to an increase in national income.

The proposed ICWME-I model is expected to provide continuous support to micro enterprises in the form of training and educational programmes funded by the cash waqf fund. In this sense, the ICWME-I model is a sustainable model that could be a complement to other existing governmental and non-governmental programmes in Malaysia. The proposed model, if implemented successfully, could be a role model for other countries in the development of waqf funds. It could also help to address many challenges and limitations in establishing a sustainable HCD center. Thus, it is expected that the ICWME-I model will be able to sufficiently address the challenges of HCD for the economic benefits of micro entrepreneurs in particular and other participants in general.



Source: Authors' own

**Figure 3.**  
Conceptual framework of the ICWME-I model

### Implications, conclusion and recommendation

The previous literature shows that micro enterprises are facing HCD issues, notably, lack of skills, low level of education, improper training courses and inaccessibility of training programmes. In the light of these issues, some of the earlier studies have suggested the use of waqf as an instrument for HCD for enterprises and businesses. Cash waqf in particular could be utilised for the purpose of building training centres for providing necessary training programmes for HCD of micro enterprises.

Accordingly, the present study has proposed the ICWME-I model where there is a close link between cash waqf and micro enterprises. With support from cash waqf institutions (CWIs), the overall performance of micro enterprises could be increased, eventually leading to the welfare of the society and increasing overall income of the national economy. The present study is quite different from others in the sense that the CWIs act as a fund raiser from individuals and corporate bodies, build the training centres and provide HCD services to micro enterprises.

The proposed ICWME-I model will be beneficial for the growth of the overall SME sector in Malaysia. This is because once micro entrepreneurs benefit from the model, this will motivate medium and large scale entrepreneurs to also make use of this model to develop HCD programmes. Another advantage of the proposed ICWME-I model is that it supports young entrepreneurs to establish sustainable micro enterprises. With the participation of both the public and the corporate sector, this model could assist young entrepreneurs who are starting their businesses to obtain necessary training for HCD purposes. This helps to create more job opportunities and alleviate poverty at the grass root level.

Taken as a whole, this study highlights the importance of the SME sector, particularly the numerous challenges of micro enterprises in Malaysia. The ICWME-I model has been proposed for micro enterprises to bring about a solution to the HCD challenges they face. It is hoped that proper implementation of the model could enhance the productivity and efficiency of micro enterprises. However, the proposed model may face certain challenges, as enumerated below:

- Funding may become a challenge in sustaining the ICWME-I model. For the CWIs to sustain their services and programmes, it would be necessary to ensure continuous collection of cash waqf funds from donors. Thus, donors' contributions are a sign of commitment to this model.
- The characteristics of micro enterprises are also important in ensuring the ICWME-I model's sustainability. Micro enterprises that will be selected to benefit from HCD programmes must be eligible, and their existing or proposed business activities should be able to generate revenue. If there is an absence of skills or experience, the provision of appropriate training and programmes should be able to assist the micro enterprises to achieve sustainable benefits.
- The proposed model may face legal challenges. For instance, in Malaysia, all the matters including waqf are governed and enacted by the State Islamic Religious Council (SIRC) of each state. Each SIRC issues its respective fatwa (legal opinion) regarding the permissible areas in which funds received through cash waqf can be spent or invested. Thus, in order to completely avoid being governed or managed by SIRC, it is preferable for the CWIs to operate the proposed model as a separate entity of SIRC or by the corporate sector. Nonetheless, it is noted that SIRC will still be responsible to monitor and evaluate the CWIs' performance.
- There is a low level of public awareness regarding cash waqf itself. This is partly a result of SIRC's limited conduct of programmes in Malaysia (Iqbal *et al.*, 2019;

Deji and Salleh, 2020). Most programmes tend to focus on the development of waqf for religious activities and traditional charitable avenues such as orphanages and providing relief to the poor (Osman *et al.*, 2012). This has contributed to a narrow understanding of the concept of waqf by the Malaysian public.

Given its potential and challenges, it is suggested that further research be conducted to validate the proposed ICWME-I model through focus group sessions with the active participation of relevant stakeholders such as government authorities, SMEs and waqf fund managers. With the support of both qualitative and quantitative research, the proposed ICWME-I model can be validated for its successful implementation. Besides, this proposed model can be tested in terms of its acceptance by micro enterprises based on some relevant theories, i.e. theory of reasoned action (Fishbein and Ajzen, 1975) and theory of planned behaviour (Ajzen, 1991).

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**About the authors**

Mohamed Asmy Mohd Thas Thaker, PhD, is currently Associate Professor at the Department of Economics, Faculty of Economics and Management Sciences, International Islamic University Malaysia (IIUM), Malaysia. His areas of specialization are Islamic economics, social finance and Islamic banking and finance. Mohamed Asmy Mohd Thas Thaker is the corresponding author and can be contacted at: [asmy@iium.edu.my](mailto:asmy@iium.edu.my)

Md Fouad Amin, PhD, is currently Assistant Professor at the Department of Economics, King Saud University, Riyadh, Saudi Arabia. His areas of specialization are Islamic economics and Islamic banking and finance.

Hassanudin Mohd Thas Thaker, PhD, is currently Assistant Professor at the Department of Economics and Finance, Sunway University, Malaysia. His areas of specialization are applied finance and Islamic banking and finance.

Ahmad Khaliq, PhD, is currently Assistant Professor at the Department of Finance, Faculty of Economics and Management Sciences, IIUM, Malaysia. His areas of specialization are finance and Islamic banking and finance.

Anwar Allah Pitchay, PhD, is currently Senior Lecturer at the School of Management, Universiti Sains Malaysia, Malaysia. His areas of specialization are finance and Islamic banking and finance.

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