Chapter 14
Empowering Community Through Entrepreneurship Training and Islamic Micro-Financing:
Sharing the Experience of IIUM-CIMB Islamic Smart Partnership (i-Taajir)

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ABSTRACT

Community economic development is a relatively new strategy employed to increase employment, income, and entrepreneurship activities in small town and communities. The Centre for Islamic Economics, International Islamic University Malaysia (IIUM) has initiated a smart partnership with CIMB Islamic Bank to offer entrepreneurship training and Islamic microfinance facility to the poor in Malaysia. This project adopts several modes of Islamic microfinance financing instruments which include equity-based and debt-based financing. The program aims to educate the communities surrounding the IIUM campus with entrepreneurship knowledge and skill in addition to giving Shariah-compliant micro-financing facility for them to implement their business ideas. CIMB Islamic, which is the main partner for this project, provides funds for Islamic microfinance facilities and IIUM contributes expertise in providing entrepreneurship trainings to the communities located near IIUM campus. It is hoped that this smart partnership would empower the surrounding communities and create more successful entrepreneurs.

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INTRODUCTION

Entrepreneurship has long been recognized to have an influential role in the economic development of a country. One of the most important contributions of entrepreneurship is in community development (Van de Ven, 1993; Bryant, 1989; Gartner, 1985). Research indicates that if the community members are able to motivate themselves, self-development strategies are great tools to empower the community to enhance their economic condition (Korsching & Allen, 2004). Despite the heavy preference and emphasis on centralized approach of economic development, researchers such as Loveragde (1996) and Flora and Flora (2004) state that professionals and government agencies who are involved in community economic development programs continuously assert that attracting industry and entrepreneurship is an effective strategy to create jobs and empower a community.

A survey conducted by the US Chamber of Commerce reveals that the biggest business challenge faced by entrepreneurs is getting access to business financing (CO, US Chamber of Commerce). The findings of the survey are consistent numerous studies which indicate one of the major difficulties faced by micro, small, and medium-size enterprises (MSMEs) is getting access to financing (Teo & Cheong, 1994: Mensah et al., 2015; Peprah, C. 2016). The ability to access financing is a crucial factor for MSMEs to start, grow, sustain, and improve themselves.

Microfinance service has been developed in order to provide financing needed by micro and small enterprises. Microfinance has been acknowledged as one of the easiest ways for micro and small entrepreneurs to obtain financing as well as an effective tool to alleviate poverty. The microfinance movement started because many people believed that thousands of creditworthy poor and minority borrowers were sometimes excluded from the formal credit market. Many people argue that excluding such individuals will permanently affect their chances to help themselves to come out of poverty (Aghion & Boltin, 1997; Banerjee & Newman, 1993 (cited in Aghion & Boltin, 1997)). Traditionally, the poor in developing countries resort to borrowing from informal sectors that impose exorbitantly high-interest rates (Sen, 1981; De Aghion & Morduch, 2005).

Offering relatively cheap credit to the poor and providing basic business skills to micro-entrepreneurs are believed to be an appropriate development strategy, therefore, many governments and non- governmental agencies (NGOs) have provided aids, subsidies and technical assistance to many firms and agencies that are involved in micro-lending activities. Grameen Bank from Bangladesh is considered to be a pioneer microfinance institution assisting the poor by giving them small loans to be involved in business and generate income to sustain themselves and their families.

Islamic microfinance is a combination of two rapidly growing industries that are microfinance and Islamic finance. It has the potential to not only respond to unmet demand but also to combine the Islamic social principle of caring for the less fortunate with microfinance's power to provide financial access to the poor (Karim et al., 2008). Base on Islamic doctrines of social and economic justice, Islamic microfinance will be a key to provide financial access to millions of Muslim poor who currently reject microfinance products which are not *Shariah* compliant. Despite the expansion of Islamic microfinance (IMF), the institution continues to face three primary challenges: lack of access to affordable finance, overreliance on debt-based financing and the poor quality of human resources, both as providers and recipients of microfinance services. These have hampered efforts towards developing entrepreneurial and investment societies particularly among the Muslim communities.

Studies have shown that there has been a complete shift in Islamic banking and finance from supposedly PLS banking to a sales-based and debt-based system (Saeed, 2004; Dusuki & Abozaid, 2007;

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