
THE EFFECTIVENESS OF ISLAMIC MICROFINANCE IN BRUNEI DARUSSALAM: A CASE STUDY

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ABSTRACT

This research aims to analyze the effectiveness of Islamic Microfinance in helping the poor in Brunei Darussalam. Based on a qualitative method, this study selected one Islamic Microfinance Institution, which is the Department of Community Development (JAPEM) as its case study. Two types of respondents were interviewed; one JAPEM officer and 15 microfinance participants of JAPEM's Perkasa Programme. An in-depth interview was conducted to find out whether or not the programme could help lessen the poverty among the participants. The level of effectiveness of Perkasa Programme is measured in terms of the clients' income, repayment rate and business growth. The finding shows that the institution is not effective in terms of increasing the clients' income, repayment rate and growth of the clients' business. The factors that contribute to the clients' business performance beside the internal factors such as commitment include the size of the loan amount provided and support from the institution. JAPEM lacks in its outreach and sustainability aspects as they only target the economically active poor in one out of four districts, i.e. Brunei-Muara and only managed to get one fully-repaid loan out of 15 clients. This research recommends hands-on-training to the client as well as training for the staff in order to improve the effectiveness of the programme. Group lending is also

suggested as a new approach in order to boost the motivation of the client.

Keywords: Islamic microfinance, poverty alleviation, Brunei Darussalam

INTRODUCTION

Brunei Darussalam, an oil abundant Islamic State was ranked 30th out of 187 countries in the Human Development 2013 Report, with a Human Development Index (HDI) of 0.855¹, positioning Brunei in the 'very high' human development category and also above the regional average. This shows that Bruneians live longer and healthier, are better educated and have a higher standard of living compared to billions of people living in 157 other countries. With benefits such as free education and health care, heavily subsidised social housing and domestic infrastructure, Brunei continues to enjoy one of the highest standards of living in the world in terms of GDP per capita.

The long-term national development plan called Wawasan Brunei or Vision 2035 includes welfare assistance for certain groups of the community including the unprivileged, old age and disabled persons. The assistance were provided by government institutions such as the Community Development Department (JAPEM) of Ministry of Culture, Youth and Sports (MCYS) as well as non-governmental institutions such as Sultan Haji Hassanal Bolkhiah Foundation (YSHHB), Pengiran Muda Mahkota Al-Muhtadee Billah Fund for Orphans (DANA), Brunei Islamic Religious Council (MUIB), voluntary organisations, banking institutions and others². This study will be discussing about JAPEM, an institution that gives special attention to the segments of the population in Brunei Darussalam such as children, problematic teenagers, family, the poor and needy, unemployed single mothers and

¹ United Nations Development Programme (UNDP). *Summary Human Development Report 2013. The Rise of the South: Human Progress in a Diverse World*. Retrieved May 18th, 2013 from: <http://hdr.undp.org/en/reports/global/hdr2013/>.

² Brunei Darussalam Long-Term Development Plan, Wawasan Brunei 2035, Outline of Strategies and Policies for Development 2007-2017, National Development Plan (RKN) 2007-2012.

those with special needs as well as the elderly³. However, the emphasis of this study will be placed on the poor and needy. JAPEM's role in providing financial assistance to the poor and needy includes providing start-up entrepreneurial funds for the needy, help in searching for employment, as well as awareness programmes on family cohesion, parenting skills, communication skills, and the provision of support and services such as counselling (Anon, 2012).

Based on Brunei Darussalam's Household Expenditure Survey 2005⁴, there was no extreme poverty in Brunei Darussalam⁵. In 2005, the average daily expenditure per capita was PPP USD4.60 per capita, which is more than the international norm of PPP USD1.25 per day for absolute income deprivation (UNDP, 2010). Poverty in Brunei Darussalam is therefore, at a relative level. In addition, another indicator of poverty in Brunei is the number of recipients who receive *zakat* and welfare benefits and assistances⁶. Based on MUIB's statistics, the number of *Asnaf fakir* and *miskin* increased in the last decade, from 13,298 people in 2004 to about 16,638 people in 2012⁷. As disclosed in the Seventh Legislative Council meeting in 2012, there are 5,472 families (27,360 people) who are living in poverty in Brunei Darussalam (Rachel Thien, 2012).

In 2008, the Sultan has observed in his *titah* that residents' income per capita has been increasing in the past few decades, thereby contributing to the citizens' welfare and standard of living (Shareen Han, 2011). This growth, he said, should imply that the rate of poverty is decreasing however, what we have witnessed is otherwise. Due to recent reports on few agencies and institutions, the number of people receiving financial benefits and assistance seems to be increasing every year. The government of Brunei has raised its concern by introducing more poverty alleviation programmes in the country. However, thus far it is still unknown if the current poverty alleviation programmes are effective enough to tackle poverty in Brunei Darussalam.

³ JAPEM. January 6th, 2012. "Services." JAPEM. <http://www.japem.gov.bn/perkhidmatan/perkhidmatan.htm>.

⁴ The Household Expenditure Survey (HES) 2005 was the fourth nationwide survey carried out since the 1977 survey.

⁵ UNDP. (2010). *Brunei Darussalam Millennium Development Goals and Beyond – Revisited*. Brunei Darussalam: JPKE.

⁶ Ibid.

⁷ Abdul Ishraq Haji Ismail, Religious Assistant Officer, MUIB, November 17th, 2012.

Microfinance is known as one of the most effective global poverty alleviation tools. Its success and positive impacts in most developing countries had been proven, mentioned and retold plenty of times in the media as well as literature. Despite its growing success, it also has its issues and limitations. Not being able to cater to Muslim countries, particularly in terms of having *riba* (interest) is one of its main limitations. Since most of the poor people living in developing countries are Muslims and practicing, many shunned away from using the conventional microfinance system. Furthermore, most Muslims need financial schemes that are *Shar'iah*-compliant. Therefore, this research will be focusing on Islamic Microfinance which can help the poor and needy to improve their standard of living.

Islamic microfinance has recently become a rapidly growing market, offering millions of disadvantaged people in Muslim countries and beyond access to financial services that are promised on providing for the welfare of the population. Islamic microfinance is also becoming an ever more important instrument in fighting rural poverty in Muslim countries, and effectively diversifying strategies in improving access to finance in other parts of the world. While conventional microfinance has successfully reached large numbers of the poor in Muslim countries (mainly in Bangladesh and Indonesia), there is evidence to suggest that there are many potential clients of microfinance that categorically reject products that do not comply with Islamic principles (Khaled, 2011). The increasing rate in unemployment, poverty as well as the low levels of financial access in Muslim countries continue to create high demand for microfinance. International Finance Corporation (IFC)-commissioned market studies show that in Algeria and Jordan, about 20% of the poor cited religious reasons for not seeking conventional microfinance, while in Yemen and Syria, there is about 40% of them. In the CGAP survey in 2008, local practitioners and key informants suggested similar trends in Indonesia, Afghanistan, Pakistan, the Palestinian territories as well as Muslim majority areas of India, Sri Lanka, Cambodia, the Philippines and including Brunei Darussalam. Overall, it is estimated about two-thirds of the microfinance market in the Muslim world either insists on, or prefer Islamic financing (Khaled, 2011).

The objectives of this research are to evaluate the effectiveness of Islamic Microfinance Institution in terms of the clients' income,

repayment rate and business growth and to review the institution's performance in terms of its outreach and sustainability. The remaining of this paper will discuss the overview of Islamic Microfinance in section 2. This will be followed by discussion on a case study of Islamic Microfinance in Brunei Darussalam in section 3. The results and analysis of this survey will be presented in section 4 and ended with conclusion and recommendation in section 5.

OVERVIEW ON ISLAMIC MICROFINANCE

Several researchers such as Dogarawa (2009), Harran (2008) and Nazirwan (2009) defined Islamic Microfinance as the provision of financial services and products to those whose low economic standing excludes them from *Shari'ah* compliant financial institutions or programmes and is basically an extension of the Islamic banking and finance concept, which is free of *riba*⁸ (non-interest based) financing arrangements. Instead of charging interest, the transaction is in a form of profit and loss sharing contract and mutual partnership, where its practices should be tied to tangible goods and real economic activities prohibits speculative transactions, illicit business, cheating and deception as well as unjust practices (Nazirwan, 2009). In other words, it should be free from any involvement of activities prohibited by Islam and from elements like usury (*riba*), gambling (*maisir*), harmful substance (*darar*), and excessive ambiguity (*gharar*) (Dusuki, 2008).

Karlan and Golberg (2011) and Obaidullah (2008) agreed that conventional and Islamic microfinance should have characteristics that instil economic empowerment as well as cooperation and solidarity for the poor. In other words, microfinance in general aims to provide loans for entrepreneurial activities, promote group lending and focus on poor clients. In addition, Obaidullah (2008) identified four other characteristics that made IMF distinct from conventional microfinance, which are:

⁸ *Lit*: An excess or increase. *Tech*: An increase which in a loan transaction accrues to the lender over time without giving an equivalent counter-value or recompense (*I'wad*) in return to the borrower.

Charity-based - The broad term for charity in Islam is *sadaqah*⁹. When *sadaqah* continues to accrue over generations and results in flow of benefits that are expected to be stable and permanent such as through endowment of physical property, it is called *sadaqah jariah or waqf*. When obligatory mandated on an eligible Muslim, *sadaqah* is called *zakah*. *Zakah*, the third among five pillars of Islam, is a tax that is levied on all persons having wealth above an exemption limit (*nisab*) at a rate fixed by the *Shari'ah* to purify wealth and souls from impure love (Khan, 2010).

Debt Avoidance - Debt is permitted in Islam however it recommends only as a last resort and not as a means to finance one's growing lifestyle needs. Some of the warnings for Muslims in the *Qur'an* and *Ahadith* include warnings against extravagance¹⁰, against the dangers of incurring heavy debt¹¹, exhorted to repay their debt in time and avoid deliberate delays. The Prophet (pbuh) is reported to have said: "The best among you are those who are best in paying off debt¹²" and "Procrastination in repaying debts by a wealthy person is injustice¹³." IMFIs should refrain from seeking to entrap a client in ever-increasing levels of debt as may be the case with many conventional MFIs.

Family Cohesiveness - Family is being regarded as the utmost important role in Islam as it shapes the future of mankind. Furthermore, Islam sees a balanced role for men and women in ensuring the economic and the social well-being of the family. It is stated in the *Qur'an* that all human beings are created in pair, "And everything have We created in pairs that you may reflect." (51:49). The "women-only" approach in most conventional microfinance is alien to Islamic religion and culture.

⁹ *Lit. Charity. Tech:* In its widest sense it means an attitude of mutual appreciation, affection, mutual assistance, an act of loyalty to God and one's fellow beings, a sense of true human hood. At material level, it consists of two kinds: *al-sadaqah al-tatawwu'* given at free will of the donor and *zakah*, the obligatory tax imposed by the *Qur'an* on the Muslims having wealth beyond a certain limit.

¹⁰ Al A'raf (7: 31) and Al-Isra' (17: 26-27)

¹¹ Sahih Bukhari, Book 41, Vol. 3, No. 582; Sahih Muslim, Book 4, Chapter 68, No. 1218

¹² Sahih Muslim, Book 10, Chapter 3, No. 3898.

¹³ Sahih Bukhari, Book 37, Volume 3, No. 486.

Instead of only focusing on women, the Qur'an promotes the concept of "family empowerment" by exhorting men and women to play their respective roles in seeking economic and social well-being of all members of the family. One verse from the Qur'an highlighted this part, "And covet not that whereby Allah has made some of you excel others. Men shall have a share of that which they have earned, and women a share of that which they have earned. And ask Allah of his bounty. Surely Allah has the perfect knowledge of all things." (4:32)

Shari'ah-Compliance of Contracts - Islamic microfinance products and services are essential in the nature of the contracts, that is, all contracts in *Shari'ah* must be free from certain forbidden elements such as *riba*, *gharar*¹⁴ and *jahl*¹⁵. The Qur'an declares trade to be lawful means of livelihood as opposed to *riba*, which is forbidden for being oppressive and exploitative. *Riba* is a loan or debt contract that exists when it stipulates an excess in repayment by the borrower. The presence of *riba* in most conventional financial contracts makes it unlawful and unacceptable in Islamic microfinance. The concept of *gharar* has been discussed by Islamic scholars and defined in two ways, first, *gharar* implies uncertainty and second, it implies deceit. The Qur'an has clearly forbidden all business transactions that cause injustice in any form to any of the parties. This may be in the form of hazard or peril leading to uncertainty in any business, or deceit or fraud or undue advantage. It is also worth noting that the prevalence of *gharar* poses a great challenge to an Islamic legal expert in the context of the informal setting of rural and micro economies with their

¹⁴ *Lit*: Hazard, chance or risk. *Tech*: Sale of a thing that is not present at hand; or the sale of a thing whose consequence or outcome is not known; or a sale involving risk or hazard in which one does not know whether it will come to be or not, such as a fish in the water or a bird in the air.

¹⁵ *Jahalah* (single: *jahl*). *Lit*: Ignorance, folly, foolishness. *Tech*: Doing something without sure knowledge. For example, buying something without knowing its specifications. There is a fine difference between *jahalah* and *gharar*. In a sales transaction, if a person is unsure whether he would be able to get the subject of sale or not, it would be a transaction involving *gharar*. For example, buying a fish still in water, not being sure if it would be possible to catch it or not. But if a person buys something lying in the closed cabinet of the seller, it would be transaction involving *jahalah* as the buyer is sure to get the subject of sale but is not sure about its specifications.

non-standardized contracts of various types. The need for *Shari'ah* compliance has led to considerable research into product development. While the conventional system provides for simple interest-based deposits, donations and loans, the Islamic financial system comprises an array of instruments for mobilization of funds, financing and for risk management.

Islamic Microfinance Products

According to Consultive Group to Assist the Poor (CGAP) (2013), the supply of Islamic financing products for the poor is largely limited to *Murabaha* and *Qard Hassan* loans, whereas the minority includes *Salam*, *Musharakah/Mudarabah*, and other. *Murabaha* is a “cost plus mark-up” sale contract often used as working capital to finance goods needed. The client typically requests a specific commodity for purchase which the financier procures directly from the market and subsequently resells to the client after adding a fixed “mark-up” for the service provided. Ownership of the commodity (and the risk inherent thereto) strictly lies with the financier until the client has fully paid the financier. The mark-up is distinct from interest because it remains fixed at the initial amount, even if the client repays past the due date. This product is used heavily in trade/inventory financing.

Qard Hasan is a virtuous or benevolent loan. It is an interest-free loan, typically given to needy students, small producers, farmers, entrepreneurs and economically weaker members of the society, who are not in a position to obtain loan or any financial assistance from any other institutional sources (Haque & Yamao, 2011). *Qard Hasan* loans are often dispersed as a form of charity rather than a self-sustaining business, funded by donations such as *zakat* or *sadaqa*. *Salam*, is an advance payment against future delivery (CGAP, 2013). According to the general law, no sale can be affected unless the goods are in existence at the time of the bargain, but this sort of sale forms an exception to the general rule provided the goods are defined, price is paid in advance and the date of delivery is fixed. It is usually applied in the agricultural sector where the bank advances money for various inputs to receive a share in the crop (that the bank sells in the market) (Khan, 2010).

The profit and loss sharing schemes of ***Musharakah*** and ***Mudarabah*** are not widely offered by Islamic Microfinance providers though both are most encouraged by *Shari'ah* scholars as they are the Islamic financial contracts that are best reflecting *Shari'ah* principles. *Musharakah* is partnership financing in which the parties share the profits or losses according to a predetermined ratio. It can be used for assets or for working capital. *Mudarabah* is capital or trustee financing, in which one party acts as financier by providing the funds, while the other party provides the managerial expertise in executing the project (or provides some other form of nonfinancial contribution). In *Mudarabah*, profits are shared according to a predetermined ratio but any financial losses are borne entirely by the financier while the manager loses time and effort (or other nonfinancial contribution). Both *Musharakah* and *Mudarabah* require vigilant reporting and a high level of transparency for profits and losses to be distributed fairly. Though promoted strongly by *Shari'ah*, they often result in substantial operating costs, particularly for micro and small enterprises that are not accustomed to formal accounting (CGAP, 2013).

Another Islamic microfinance product that is oft-mentioned in most literature such as by El Tigani Ali (2011), Haque and Yamao (2011), Abdul Rahim (2010), IRTI (2008) is called ***Ijarah***, which is a leasing contract typically used for financing equipment such as small machinery (Haque and Yamao, 2011). For the transaction to be considered as Islamic (and not a sale with camouflaged interest), the *ijarah* contract must specify that ownership of the asset and responsibility for its maintenance remain with the financier. *Ijarah Muntahia Bitamleek (IMB)* is an elaborate concept of *ijarah* where the transfer of ownership will take place at the end of the contract and pre-agreed between the lessor and the lessee (Abdul Rahim, 2010). The title of the asset will be transferred to the lessee either by way of gift, token price, pre-determined price at the beginning of contract or through gradual transfer of ownership. IMB is more suitable for microfinance scheme especially for microentrepreneurs who are in need of equipments.

Limitations and Challenges of Islamic Microfinance Institutions

A study conducted in Bangladesh by Haque and Yamao (2011) found that Islamic Microfinance Providers (IMPs) have failed to reach the poorest of the poor because of its fund limitations. Their findings also revealed that almost all of the Muslim respondents were compelled to borrow from conventional interest-based NGO-MFIs in the absence of Islamic financing sources. However, almost all of them had a strong desire to join Islamic NGO-MFIs, switching from their membership in conventional NGO-MFIs, provided that the right conditions are created. The main challenges for the growth and development of IMPs in Bangladesh include lack of funding and support from the government and national and international donor and development agencies, allegations of involvement in patronising militant activities and lack of entrepreneurial and managerial skills. According to UNDP (2012), several challenges of Islamic Microfinance in many Muslim majority countries include having lack of resources particularly funding and Islamic finance related knowledge, lack of capacity building, lack in operational efficiency and risk management and finally, unfavourable rules and regulations.

A CASE STUDY ON ISLAMIC MICROFINANCE IN BRUNEI DARUSSALAM

The Community Development Department or JAPEM is selected to be a case study for this research as it has fulfilled most of the key characteristics of a traditional microfinance institution. Referring to the common characteristics of microfinance agreed between Karlan and Goldberg (2011) and Obaidullah (2008) in section 2, JAPEM has two out of three characteristics of microfinance, namely: it provides loans for entrepreneurial activity and it gives a focus on poor clients. This study is based on qualitative method, which is in the form of structured interviews. In-depth interviews were conducted with 15 respondents at their residences or on their business premises. Secondary data was also collected from news media, published materials such as academic books, reports and conference proceedings, online materials such as JAPEM's website, reports, conference proceedings (both national and international).

In 2005, JAPEM introduced a microcredit scheme called Self-Reliance Scheme. This scheme has been operated for 5 years from the year 2005 until the year 2009. In total, there were about 96 people who participated in this scheme and only four of them, i.e. those who were living in destitute conditions were given grants. The repayment rate in 2012 for this scheme was 28.6% and was considered 'good' by a local bank¹⁶. However, several problems arose from this scheme such as the sustainability of the fund, misuse of the money, the ineffectiveness of the entrepreneur and lack of business courses offered, resulting in the lack of knowledge of basic financial and marketing skills and lack of motivation. As the fund was obtained from the National Welfare Fund, it is not sustainable and will keep on depleting unless there is a constant contribution from donors¹⁷. JAPEM then terminated the scheme and tried to improvise it by adding mandatory training courses to potential clients for its new programme. Its new programme called Perkasa was introduced in 2011 and to date it only has one batch of 17 clients.

The main aim of Perkasa programme is to help the target group to change their attitude and mindset from relying wholly from the welfare assistance in order to avoid problems of not meeting their daily expenses needs. Loans will be given according to their business plan that is presented and is based on *Qard al-hasan*, thus the loan will be given out without interest, guarantor or collateral. The programme runs on financial resources from the Ministry of Finance. This programme has four main elements, which are entrepreneurship training, business skills, personal development, and loans for business. These four elements are closely related to achieve several detailed objectives, namely: reducing dependency on welfare assistance, providing a higher level of exposure regarding entrepreneurship and business field, promoting attitudes to be more self-sustainable, always progressive and resilient among target groups, and helping to reduce the rate of poverty in Brunei Darussalam.

JAPEM initially reached its applicants by informing any of its welfare recipients about the programme. They asked the recipients if they have business background and if they are interested to participate

¹⁶ Rose Abdullah. (2012). *Microfinance Services in Brunei Darussalam*.

¹⁷ Ibid.

in the microfinance programme. If the recipients are interested, they will be given an application form to be filled in. Each Perkasa participant is required to be a citizen of Brunei Darussalam including a permanent resident, has no permanent job, has no income or below BND150 (according to the guideline by JAPEM's monthly welfare assistance), has a business location, has government-approved business registration license, is prepared to attend mandatory courses, any interviews or meetings, briefings, counselling, training or others that are organized by JAPEM, has experience in managing any entrepreneurial activities, is healthy, is willing to pay back the loans and agrees to comply with the conditions set by JAPEM from time to time.

The following steps include: the applicant receives his application form through letter, reference or walk in; the applicant fills in his application form with the assistance from social worker; the applicant lets his house or business premise to be visited and inspected by social worker who will then write a report about it; the applicant waits for the preliminary assessment by Perkasa Task Force Committee (PTFC) that will send a letter notifying the success or failure of his application; if the applicant is successful, he will be interviewed by Interview Committee and his qualification will further be assessed by PTFC; those who failed the assessment will be sent a rejection letter and those who are successful will present their business plan and quotation; PTFC will then assess the applicant's proposed loan/financial assistance and will conduct a preliminary meeting (screening) with Head of Division; the applicant will then sign an agreement with JAPEM and will be given Letter of Permission for loan/financial assistance; a supplier will be appointed to supply permanent/raw materials to applicant in which the supplier needs to present claims to JAPEM so that JAPEM will give payment to them; and finally the applicant will make monthly loan repayments to JAPEM.

The PTFC has a mandate to approve the business financing whether in the form of loan or financial assistance according to the application and also the applicant's ability. The maximum loan amount that can be approved is BND3,000 for each applicant, while the maximum assistance that can be approved is BND2,000. However, the amount of assistance or loan approved would depend on the evaluation of the PTFC and does not necessarily follow the amount that has been applied by the applicants. The recommended minimum loan repayment rate is BND50 per month and the applicant is encouraged to repay at

a higher rate according to each other's agreement. The repayment begins three months after the supply of permanent/raw materials and the repayment period depends on the monthly loan repayment rate until it finishes. For example, if the approved loan amount is BND3,000 and the applicant agrees to repay at the rate of BND50 per month, then the loan repayment period is 60 months or 5 years starting from the fourth month after the supply of permanent/raw materials.

The type of entrepreneurship that will be managed by participants depends on the willingness and ability of applicants. The Perkasa Programme Committee will evaluate and give advice pertaining to the compatibility of the maximum capital amount that has been prepared by JAPEM. To fulfil the conditions in order to approve the loan or financial assistance, the participants should attend mandatory courses at the venue and during the period that has been set by JAPEM. Some of the components of the mandatory courses are as follows: i) basic entrepreneurial course, ii) business management course, iii) finance and cash flow courses, iv) business skills course, v) business plan course, vi) personal development course.

Within the period of the course, participants will be given training allowance of BND200 each, while for a couple, whether husband and wife, siblings, or parent and child who are participating together for each enterprise, training allowance approved is BND300 for each enterprise or BND150 for each partner. Training allowance will be paid according to the attendance of participant in every training session. Monitoring of applicant's business activity will be conducted every week of the first three months from when the applicant was given his/her loan or financial assistance and twice per month starting from the fourth month onwards. This is to ensure that the recipients will continuously be given support and guidance in order to help them to do their business successfully. Series of monitoring visits will be done by the officer and social workers of entrepreneurship unit. Among the things that will be emphasized in the monitoring sessions is the journey of the entrepreneur such as finance, the cleanliness of the premise and to monitor any difficulties faced by the applicant. According to the Programme officer, the Ministry of Finance has given JAPEM an estimated loan of BND200,000 for a three-year period. Of this amount, JAPEM has spent about BND61,000 for one batch of participants alone.

Table 1: Cost incurred during the first session of Perkasa Programme

Particulars	Amount (BND)
Mandatory training courses	\$61,000
Training allowance for training instructors and training expenses	\$10,000
Training allowance for participants	\$4,000
Food	\$3,000
Transportation (bus)	\$1,500
Loans for participants	\$20,000
Extra courses and talks for participants – by Brunei Economic Development Board (BEDB) and Youth Development Centre (PPB)	\$22,500

Source: JAPEM, 2013

Current Status - As of April 2013, Perkasa has only one batch of clients comprising of 17 individuals since its commencement in 2011. JAPEM is currently still waiting for more funds from the Ministry of Finance to finance for the second batch of Perkasa Programme. JAPEM expects the number of people applying would be increasing, thus the need to wait for the loan.

Outreach - Regarding the outreach of Perkasa's potential clients, JAPEM only takes clients who are living in the Brunei Muara district as this programme is still new. However it plans to reach clients in other districts if the programme is proven to be successful and sustainable.

Sustainability of fund - JAPEM is currently trying to look for some sound solutions as to how they would be paying back the loan to the Ministry of Finance for the mandatory training courses expenses.

Current Problems - They are having difficulties in financing the programme as well as lacking of staffs. To date, they only have four social workers. To attend the mandatory training courses, each client who already has a business would find it difficult as they would have problems such as not having anyone to replace him or her to care for

their business while attending courses, or not having anyone to take care of their family members such as their old parent or toddlers. JAPEM is currently trying to look for ways on how to solve this issue as they plan to extend the mandatory training courses period for future participants.

Perkasa's Future Plans - For the next batch of Perkasa participants, they have discussed some plans such as: i) to extend the period of mandatory training courses from 1 month to 2-3 months, ii) to add more subjects, i.e. Cake and Pastry and Beauty and Make-up from Youth Development Centre (PPB), iii) give financial grants of about BND2,000 to each participant who is considered as destitute and is worse off than the economically active poor.

Sample - In total, only 17 people participated in the Perkasa Programme in 2011. The researcher initially planned to interview all participants but found it difficult to reach two of them via phone calls as well as meeting in person because they were reluctant to be interviewed. Therefore, the researcher only managed to interview 15 of them. Respondents are all from the Brunei Muara district (the most populated district amongst the four districts in Brunei Darussalam).

Questionnaires - The purpose of this survey questionnaire is to examine and analyse the effectiveness of Perkasa Programme in JAPEM. Each set of the interview questionnaire comprises of 60 questions, which includes both close-ended and open-ended questions. Close-ended questions were used for clarification, verifying information regarding JAPEM and their micro-business projects, thus making it easy for data analysis. Open-ended questions were used to gather more information regarding the respondents' profiles, the status of their business projects and their loan repayment performance. These questions were also used to collect narrative responses so as to reveal rich information that could help in creating or suggesting sound solutions for their problems.

Determinants of the Level of MFI Effectiveness - In order to find out the effectiveness of Islamic Microfinance in helping the poor in Brunei Darussalam, this study attempts to determine Perkasa Programme's level of effectiveness in terms of the clients' income, repayment

rate and business growth (number of business assets and number of workers). Based on these variables, this study categorizes it into five level of effectiveness, namely: very low, low, medium, high, and very high (See Table 2).

Table 2: Level of effectiveness of Perkasa

	Low	Very Low	Medium	High	Very High
Loan Consumption for Business Purpose	Less than or equal to 19% of clients used loans for business purpose	Only 20%-39% of clients used loans for business purpose	40%-59% of clients used loans for business purpose	60%-79% of clients used loans for business purpose	More than or equal to 80% of clients used loans for business purpose
Increase in Income	Less than or equal to 19% of clients have increase in their income	Only 20%-39% of clients have increase in their income	40%-59% of clients have increase in their income	60%-79% of clients have increase in their income	More than or equal to 80% of clients have increase in their income
Increase in Repayment Rate	Less than or equal to 19% of clients have increased in their repayment rate	Only 20%-39% of clients have increased in their repayment rate	40%-59% of clients have increased in their repayment rate	60%-79% of clients have increased in their repayment rate	More than or equal to 80% of clients have increased in their repayment rate
Increase in Number of Business Assets	Less than or equal to 19% of clients have increased in their number of assets	Only 20%-39% of clients have increased in their number of assets	40%-59% of clients have increased in their number of assets	60%-79% of clients have increased in their number of assets	More than or equal to 80% of clients have increased in their number of assets

	Low	Very Low	Medium	High	Very High
Increase in Number of Workers	Less than or equal to 19% of clients have increased in their number of workers	Only 20%-39% of clients have increased in their number of workers	40%-59% of clients have increased in their number of workers	60%-79% of clients have increased in their number of workers	More than or equal to 80% of clients have increased in their number of workers
Total (Average)	0-19%	20%-39%	40%-59%	60%-79%	80%-100%

Source: Author's own design based on findings

This table will then be used to determine the level of effectiveness of the Perkasa microfinance programme in the following section.

FINDINGS

This section presents the findings of the interviews:

i) Analysis on the Effectiveness of JAPEM as an Islamic Microfinance Institution

This section analyses the effectiveness of JAPEM in terms of the client's loan consumption, increase in income, increase in repayment rate, increase in the number of workers, and increase in the number of business assets. In terms of the respondents' loan consumption, all of the respondents were using the loans for business purposes. This is due to the close and strict monitoring made by JAPEM social workers to ensure that these loans were all bought for business purposes (see Table 3).

Table 3: Respondents' loan usage

Client	Loan Amount	Loan usage/consumption
1	\$1,000	\$600: Freezer, \$400: Goods
2	\$1,000	\$600: Freezer, \$400: Goods
3	\$1,000	\$1,000: Freezer, Ice box, Blenders, Food processor, Oven
4	\$1,000	\$420: 3 types of Gas, \$580: Welding set, tools, etc
5	\$2,000	\$1,900: 2 sewing machines, \$100: sewing materials
6	\$500	\$500: Raw food materials such as chicken, meat, etc
7	\$1,000	\$500: Velvet rolls, \$500: Threads
8	\$1,950	\$1,950: Freezer, Ice box, Mixer, Oven, Rice Cooker
9	\$1,000	\$1,000: Trolley, Tent, Cool box, Food and beverage materials
10	\$1,000	\$500: Tent, \$500: Flowers
11	\$1,000	\$800: Chafing dish sets, rice cooker, wok pan, \$200: raw food materials
12	\$1,600	\$1,600: Freezer, refrigerator, blender, raw food material
13	\$1,000	\$1,000: All fruits bought in bulk
14	\$1,950	\$1,950: 2 sewing machines
15	\$1,000	\$500: Containers, weighting scale, trays, \$500 – fishes

In terms of the respondents' income, it is found that the majority (47%) of the respondents have fluctuating income, 33% maintained their income and only 13% have an increase in their income while taking into account that one respondent was unemployed (see Table 4). This shows that the loan is only helping to very few respondents as the majority of them have unstable income.

Table 4: Respondents' income breakdown for the period of 3 months (before the interview)

Participant	Last 3 months	Last 2 months	Last month	Change
1	40+	70+	50+	Fluctuate
2	300+	300+	300+	No change
3	0	0	0	N/A (unemployed)
4	<1000	1000+	1000+	Increase
5	1953	Not fixed	Not fixed	Fluctuate
6	100	100	100	No change
7	1500+	1500+	1500+	No change
8	1000+	1000+	1000+	No change
9	0	0	300+	Fluctuate
10	30	50	83	Increase
11	>5000	>5000	>5000	No change
12	Not fixed	Not fixed	Not fixed	Fluctuate
13	Not fixed	Not fixed	Not fixed	Fluctuate
14	Not fixed	Not fixed	Not fixed	Fluctuate
15	Not fixed	Not fixed	Not fixed	Fluctuate

In terms of the repayment rate, more than 90% of the respondents did not repay their loan regularly while 7% of them have stopped repaying the loan due to being unemployed or inactive in their businesses. However, it is found that JAPEM has recently asked the respondents to pay every month regardless of the minimum required repayment, i.e. \$50. It was during the month of the interview that the respondents started to pay regularly as low as \$5. It can be observed that JAPEM has taken an action, although subtly, to discipline the respondents regardless of the amount size of the repayment.

In terms of the number of helpers or workers, this study found that most (40%) of the respondents have family members as their helpers, 33% are self-operating their businesses, 13% have foreign workers to assist them doing the business, and the rest will only hire their

relatives or other people if the workload is too much. This shows that most of the respondents rely on their families as their helpers and the payment for them is sharing-based. To date, they have not added new helpers or workers, however based on the interview, about 20% of the respondents intend to increase more workers, however they do not have enough capital to employ any workers. This shows their businesses are growing regardless of their limited income for extra labours. However, the majority (67%) of the respondents have increased their assets in the form of equipment used in operating their micro businesses however 13% obtained their added equipments from BEDB grant. This shows that most of their micro-businesses are growing (see Table 5).

Table 5: Respondents' added assets of business

Particulars	Frequency	Percentage
Added Assets		
None	5	33
Materials for displaying products at stall	3	20
Popcorn machine, sealer, food warmer, freezer, refrigerator, chocolate fountain, waffle maker, 5 trays (BEDB loan)	2	13
Own Mini store (built it on his own)	1	7
Bought clothing materials in KL worth of \$3,000	1	7
Glass box container for drinks	1	7
Umbrella for shade (taking care of flowers) at the market	1	7
Barbecue grill	1	7

According to JAPEM's objectives in section 4, Perkasa programme aims to reduce dependency on welfare assistance, provide a higher level of exposure regarding entrepreneurship and business field, promote attitudes to be more self-sustainable, always progressive and resilient among target groups, and help reduce the rate of poverty in Brunei Darussalam. Based on the personal interviews with each client, the majority (53%) of them are still receiving assistance from

the government and of those who are not receiving, 20% of them are currently waiting for their application for assistance to be approved. This shows that the clients are still in need of welfare assistance. As for providing a higher level of exposure regarding entrepreneurship and business field, all participants stated that they have learned a lot in their one-month mandatory training courses. However, because the mandatory courses were all done at the same time, i.e. every subject has to be attended by each participant regardless of their type of business, for example, a cook has to listen about the scope of work of a mechanic, 7% of respondents became confused and less interested to focus on the training courses and 13% said the period of mandatory courses should be extended as one month is too packed for them. This also means that they are interested to learn more about such fields. In terms of promoting to clients to be more self-sustainable, always progressive and resilient among themselves, only one out of 17 participants can do so, i.e. by repaying in full the loan amount of BND500.

In order to determine the effectiveness of the microfinance institution, this study has categorized the level of effectiveness into five categories, namely: very low (0-19%), low (20%-39%), medium (40%-59%), high (60%-79%), very high (80%-100%). The percentage of effectiveness level is computed by totalling up the percentage of client population (with an increase in the variable) and dividing it by 5 (see Table 6).

Table 6: Result of level of effectiveness of the Perkasa programme

Particulars	Level	Level of Effectiveness (Very Low, Low, Medium, High, Very High)
Loan consumption for business purposes	100%	Very High
Increase in Income	13%	Very Low
Increase in Repayment rate	0%	Very Low
Increase in number of workers	0%	Very Low
Increase in number of assets	67%	High
Total	36%	Low

Overall, it can be seen that the level of effectiveness of the Islamic microfinance institution, JAPEM is low. JAPEM has shown a low level of effectiveness in terms of increasing its clients' income as well as its repayment rate and number of workers. However, it has shown a very high level of effectiveness in terms of utilizing the loan for business purposes and high level of effectiveness in terms of increasing the number of their clients' assets.

In terms of JAPEM's outreach, it only takes clients who are living in Brunei Muara district as this programme is still new. In terms of its sustainability, it does not seem to be doing well as only one of the respondents have made a full repayment and that they are willing to take any size of loan amount as low as \$5. However, this programme is still new and the institution has plenty of rooms for improvement. The microfinance clients still need continuous guidance and consultancy services from the institution. Productive discussions need to be made with both parties at a regular interval so as to achieve a compromise. The mandatory training courses also need to be extended and more focused in each of the client's chosen business type so as to make use of the time effectively.

CONCLUSION

Despite being a very small country, Brunei is one of the wealthiest countries in the world in terms of GDP per capita and HDI. However, over the past few years, along with the improvement of the country's economic and human development, there is evidence that poverty becomes a concern in Brunei which is especially due to the increasing number of welfare and *zakat* recipients every year. Although poverty remains a problem, it is considered as a relative poverty in the country.

Strong evidence shows that all of the clients had been consuming the loan given entirely for business, which is due to the strict monitoring by staff of JAPEM. However, the IMFI (JAPEM) has a low level of effectiveness in alleviating poverty in Brunei Darussalam. Although JAPEM is highly effective in increasing the clients' number of business assets, the institution is not effective in terms of increasing the clients' income, repayment rate and number of workers. JAPEM has not been reaching the poor people in all four districts in Brunei Darussalam however it only focuses on clients living in Brunei-Muara district. The

type of poor they target is also not the poorest of the poor however they are economically active poor. JAPEM is not doing well in terms of sustainability as the repayments that they are receiving cannot cover their operational costs. Only one of JAPEM's clients managed to make a full repayment, who is also the only client that has the smallest size of loan amount. Also, based on the findings, there is evidence that the clients still need welfare assistance in order to become successful in their microbusinesses. Finally, the aim to reduce the rate of poverty in Brunei Darussalam seems farfetched at this short period of time, i.e. 2 years. Overall, JAPEM has not achieved its objectives however it is moving positively towards it although slowly. Although having a low level of effectiveness in alleviating poverty, JAPEM technically has more rooms for improvement.

Recommendation

Almost all Perkasa participants have not repaid in full, which is a major problem when it comes to sustaining its funds. This is perhaps due to lack of discipline and poor management in their bookkeeping. As most of them have quit school during their secondary level, they would have difficulties in receiving a crash course in such a short period of time. This study therefore recommends JAPEM to provide hands-on-training by their staff at the initial stages of the clients' businesses. Not only the clients could learn the bookkeeping step by step, they would also become more confident when being closely guided by the staff of JAPEM. The people in Brunei are not living close to each other like those people in Malaysia. It is because of the closeness of the clients' houses to each other that make the group lending easier for the Malaysians, e.g. in Amanah Ikhtiar Malaysia (AIM), which probably might not have the same effect in Brunei. Nevertheless, as the majority of Perkasa clients are interested in group lending, this study recommends for JAPEM to first have a pilot study in Kampong Ayer, where many poor people live very close to each other. JAPEM could provide loans to groups of five borrowers together and each member shares joint responsibility (risks) with all of the other group members.

Although JAPEM is currently using *Qard Hasan* as its Islamic microfinance product, its performance has not been as effective. To make it more sustainable, this study recommends either one or two

types of debt-financing models, namely: *Murabaha* and *Ijarah*. For *Murabaha*, JAPEM will purchase goods upon request of a client, who makes deferred payments that cover cost and agreed-upon profit margin for JAPEM. *Murabaha*'s mode of operation includes: i) the institution (JAPEM) buys good from Supplier, ii) the borrower then buys the assets from JAPEM at marked-up price, which is payable on a deferred payment basis, iii) the period covering the deferred payment is effectively the period of financing, and iv) the title to the assets is transferred to the client at the time the client purchases the asset (El Tigani Ali, 2011). As for *Ijarah*, JAPEM could use its elaborated concept, *Ijarah Muntahia Bitamleek*. JAPEM will purchase the assets required by the entrepreneurs and rent the assets to qualified entrepreneurs (Abdul Rahim Abdul Rahman, 2010). In this case, the entrepreneurs can just rent the assets over a period of time and pay the rentals at regular intervals. As a lessee, the entrepreneur will be responsible to safeguard the asset whereas the lessor (JAPEM) will monitor their usage.

Looking at the closest MFI to Brunei that is AIM, this institution emphasizes that significant support from the government is important in developing a viable and sustainable microfinance system. JAPEM therefore needs to establish official links with other government agencies such as Ministry of Industry and Primary Resources (MIPR) to assist the Perkasa clients to become suppliers of local companies in Brunei, thereby marketing their products locally as well as internationally. In order to realise the potential of Islamic Microfinance in Brunei, the country must focus on capacity building at all levels. This includes conducting a conference or seminar on Islamic Microfinance with presentations from *Shari'ah* scholars and academics as well as organizing a talk on managing money in an ethical and *Shari'ah* compliant way by relevant agencies in order to increase the public's awareness of Islamic microfinance.

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