

## The Implementation of Islamic Trade Financing Product by Islamic Banking Institutions towards Muslim Halal Entrepreneurs (MHE) in Malaysia

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To Link this Article: <http://dx.doi.org/10.6007/IJARBSS/v13-i16/18734> DOI:10.6007/IJARBSS/v13-i16/18734

*Published Date: 08-10-2023*

### Abstract

This paper is prepared to observe the implementation of Islamic trade financing products for Muslim Halal entrepreneurs (MHEs) who have obtained trade financing from Islamic banking institutions in Malaysia. Islamic banking institutions play an important role in developing Muslim Halal businesses and entrepreneurship and Halal entrepreneur economies. This study used qualitative research and in-depth views based on objectives. Interviews were conducted on respondents from bank officers of Islamic banking institutions and analysed the themes as identified by the researchers. The findings of this study show that Islamic banking institutions have successfully their extensive role in helping MHEs in Malaysia. There are two characteristics of roles of Islamic banking institutions in helping MHEs such as the monitoring system and training assistance for MHEs. It also suggested that MHEs need to master the culture of high-quality entrepreneurs such as efficient, systematic, and competitive financial management skills. Finally, both parties; Islamic banking institutions and Muslim entrepreneurs must fulfil their responsibilities accordingly.

**Keywords:** Halal Muslim Entrepreneurs, Islamic Trade Financing Product, Islamic Banking Institutions, Business, Capital.

**Introduction**

Islamic banking institutions play an important role in Muslim Halal businesses and entrepreneurship and Halal entrepreneur economies. Recently, halal industry become the global business in the world due to growing Muslim population. According to Pew Research Center's Forum on Religion and Public Life, Muslim population is about 1.6 billion in year 2010 will increase to 1.9 billion and 2.2 billion in year 2020 and year 2030 respectively. This study is conducted with an emphasis on the role of Islamic banking institutions on the achievement of Muslim halal entrepreneurs (MHEs) who have obtained trade financing from Islamic banking institutions. A large part of MHEs who are starting their business or considering growing their business need trade financing and assistance from Islamic banking institutions. In other words, the significance of Halal industry area is part of the Islamic banking and finance contribution. According to Islamic Finance Development Report 2020, Islamic Development Bank, the market of Islamic finance globally reached to USD 2.88 trillion and expected to increase to USD 3.69 trillion by 2024.

Malaysia has been highly successful in introducing Islamic banking and providing Islamic banking in Asia. Islamic banking institutions in Malaysia have introduced a Shariah-compliant Islamic banking system, which is competitive and at par with conventional banking systems due to customers' needs, especially among MHEs. According to Ismah Osman et. al (2018), the competitiveness in the Islamic banking industry is very vast since the establishment of the first full-fledged Islamic bank, Bank Islam Malaysia Berhad (BIMB) in 1983. She also said, Islamic retail banking in Malaysia has grown tremendously in providing an alternative to customers in conducting their banking transactions. It is very much in line with the needs of MHEs who are looking forward to obtaining the pleasure of Allah SWT in their business. Hence, Islamic banking institutions have been instrumental in full filling the needs of their customers among MHEs to expand their business. Islamic banking in Malaysia also offers many products and services as the growth of conventional banks to show that Islamic system is realistic and modern with adhered syariah-compliance. According to Masduzzaman and et al. (2018), SMEs financed under Islamic banks are more efficient than those financed under conventional banks. While Ni Nyoman Sawitri and Erie Febrian (2018) have expressed that Islamic banking and finance is quite developed in countries like Malaysia, Indonesia, Pakistan and Bangladesh. Nowadays, Islamic banking institutions (IBIs) have various products, including trade financing products for businessman. In other hand, IBIs have directly offered various trade financing products to MHEs, proving the role of Islamic banking institutions in assisting MHEs in developing their businesses. The question is, how much does the role of Islamic banking institutions help to improve the economy of MHEs? This study attempts to obtain data via in-depth interviews with MHEs as respondents. Hence, the findings of this study will explain the role of Islamic banking institutions in assisting MHEs in Malaysia to further enhance the development of the halal hub in Malaysia.

**Literature Review**

Previous studies have discussed the role of Islamic banking institutions in providing trade financing to entrepreneurs. Among them is Ab. Ghani (1999), he emphasised that Islamic financial infrastructure and products have played an equally important role with physical infrastructure in assisting MHEs. Efficient and transparent finance infrastructure is crucial in building a business accordingly. Therefore, various Islamic contracts have been introduced either in terms of capital financing or debt financing. Most banking institutions are somewhat 'reluctant' to provide loans or financing to MHEs because they have no record of

achievements as well as a backup for their loans. Based on a study conducted by the Japan Bank for International Cooperation (JBIC) in 2007, the primary purposes of small MHEs to obtain funding from various financial institutions are for the following purposes such as 32% is to cover the lack of working capital, 30% is to buy machinery and equipment, 16% is to build buildings and properties, 11% is to carry out research and development, 5% is for refinancing, and 6% is for other needs.

Bakar et al (2002) examined the bank funding for 31 Muslim women halal entrepreneurs. The study found that 38.8% of respondents had private limited companies as it would facilitate them to obtain bank funding to expand their business. In relation to business capital, the study found that 54.3% of respondents obtained capital from their immediate family. They do not place banking institutions as a source of capital gains for their business. The study also found that although many respondents started their own business with their capital, 67.8% stated that they did not face any problems in obtaining financing to start a business. In addition, 93.5% of respondents were aware of the various schemes and facilities provided by the government and banking institutions for small and medium enterprises (SMEs), but only 22.6% get funding from financial institutions and banking institutions.

Yusoff (2002) discussed on trade financing at Bank Muamalat Malaysia Berhad (BMMB). It is one of the most important business segment of BMMB. The study found that Muamalat trading and financing services emphasised on fast and quality transaction processes. He used interviews and observation methods; interviews were conducted on several bank officers at BMMB in obtaining information on trade financing. In addition to interviews, observations are also used extensively by observing the implementation of trade financing at BMMB. Some of his proposals and recommendations suggested that BMMB should create new products that suit the culture and needs of the local community due to be competitive with products offered by other banks, enhance promotions, publicity, and information sessions to the public to better recognise the products offered by BMMB. The bank also needs to ensure that the instruments offered have a quality that is comparable to other banks, and BMMB is also proposed to open its branches to overseas in order to facilitate international trading at the international level.

Abdul Taib (2002) focused on the implementation of the SME fund in Bank Islam Malaysia Berhad (BIMB) and further examined the role played by BIMB in implementing the financing of the SME fund. He has analysed the 2000 data on the composition of equity holdings for SME firms, SME involvement by state and SME existing funds and new SMEs offered funds by BIMB. Her findings show that the role of BIMB in channelling financial assistance through the SME fund has had a positive impact on the development of the existing SME sector, particularly those involving Muslim Bumiputera Halal entrepreneurs.

Noor (2002) pertained the role played by Bank Pembangunan Malaysia Berhad (BPMB) in developing Bumiputera Muslim halal entrepreneurs in Malaysia. She has outlined the concept of entrepreneurship in general according to Islamic perspective, to see the extent to which BPMB has implemented the entrepreneurial development program and to evaluate the effectiveness of the activities carried out on the progress of Bumiputera Muslim halal entrepreneurs. She also concluded that the achievement of BPMB in promoting the creation and strengthening of the Bumiputera commercial and industrial community is very encouraging.

Shahadan and Berma (2004) studied the importance of SME financing in Malaysia as the funding sources which is divided into two, formal and informal financial sources. This study made comparisons between the two financial sources and found that the informal financial

sources were smaller in value and the duration was shorter than the larger formal financial sources and the length of the loan was longer. Informal financial sources are derived from relatives, friends, and money lenders. While formal financial sources are from banking institutions and registered finance companies. It's finding that most Muslim entrepreneurs experienced indicated that no financial problem in starting of business. Second, Muslim entrepreneurs have difficult to obtain refinancing for a huge business capital.

The study by Ali and Mahat (2009) discussed the capabilities and roles of government and banking institutions in Malaysia in producing SME entrepreneurs. The study outlined the sources of SME financing such as financial institutions including government agencies, banking institutions, finance development institutions, leasing and factoring companies, venture capital companies providing capital, and equity financing. It also explains that the total outstanding funding of banking institutions and development financial institutions in 2007 amounted to RM128 billion and was channelled to 625,167 SMEs. Banking institutions are the major providers of SME financing with RM 114.2 billion (89%) of the total outstanding financing provided by the two institutions. In addition, there are 12 ministries and 40 government agencies fully involved in the development of SMEs. The study also noted that there are four types of trade financing i.e. debt financing, equity financing, trade credit, and equipment lease.

All research above indicated that banking institutions in Malaysia have successfully assist entrepreneur's through banking and financing fund. It also shows that Islamic banking institutions could be the best institution in helping Muslim halal entrepreneurs in business in Malaysia.

### **Methodology**

The interview method has a role in scientific writing (Koentjaraningrat, 1986). This interview method is a method of collecting data by interviewing respondents i.e. Islamic banking institutions (IBIs) who have offered business financing products to entrepreneurs. Lebar (2012) believes that interview was conducted to obtain verbal evidence from the respondent by speaking to or confronting the person. This in-person interview is able to clarify some blurry intentions as well as to enhance cooperation between interviewers and informants as well as respondents (Sekaran, 2003). The researchers have used this method to obtain data on the role of Islamic banking institutions from informants in IBIs.

Interviews should be conducted face-to-face rather than unstructured interviews, i.e. general questions are provided first. Specific questions are only determined when researchers conduct interviews with respondents according to study objectives (Sabitha Marican, 2009). This kind of interview questionnaire is known as the thematic interview which is an interview conducted on a pre-planned theme (Awang, 2009). The interview questions are based on the research questions that have been determined by the researchers. The interview data will be debated based on the themes of the study to answer the objective of the research.

In order, to ensure that the information and data obtained are valid, the researchers need to ascertain that the selected respondents are three bankers who are head of departments or unit heads who offer trade financing products at these banks. These banks are Bank Muamalat Berhad, SME Berhad, and Bank Rakyat Berhad.

This is really important so that all data obtained by the researcher through interviews are valid and accurate. Therefore, the purposive sampling method is used to select all of these experts as interview respondents, and the selection of this method based on the need to obtain

information, opinion, and in-depth views on the topic of study (Merriam, 1998). This purposive sampling technique is often used in qualitative research.

According to Awang (2009), research using purposive sampling method is an in-depth study, data collected is specific, the findings are also specific but the findings for this study also have limited capability to generalise. It does not only take into consideration the views of the respondents theoretically but also practically on the capacity or positions held by them (bank officers).

The method of analysing the interviews is qualitative. The researchers analysed the data starting with the interview session until the research themes were formed. After the interview session, an analysis was made to view the determined themes answered. Among the themes identified from the data were bank monitoring, assisting MHEs as a source of capital, and clear product description. All interview data obtained were recorded using tape recordings and it was re-typed into a transcript and analysed to facilitate researchers to explore the themes of the study in terms of interviews data. The researcher has also brought some appropriate interviews in the writing of this study. This makes this writing unique and supports the results of the study.

### **Muslim Halal Entrepreneurs**

Muslim halal entrepreneurs are who has business to produce halal product. In other hand, the product must be accordance with the requirements of Syarak. Halal entrepreneurs or halal business among Muslim in Malaysia such as halal manufactures, halal traders, halal food company increase from time to time. In Malaysia any product in market can be used halal logo after received the halal certification from JAKIM. Halal product include education, animal husbandry, course and training, production of organic fertilisers, wedding services as well as travel agency services.

Recently, Muslim people have given an increase attention to the product concerning their halalness. This is a good point in term of Islamic practices and faith. Hence, it has long been a state goal of the Malaysians government to establish Malaysia as a global Halal-hub for the promotion, distribution, production of halal products and services to the Muslim countries all over the world. Therefore, producers of Muslim's products first must understand of the production process and take the role as their obligation of religion as and Jihad. The obligation also they must study the sizeable of product such as supply and demand of halal product in particular countries. For example, its supplying canned food to the middle East, or halal cosmetics to the Americas, they must be able to penetrate the sizeable of product.

In Fact, to strengthen the MHEs, the financing products need more integrated with halal industry among Muslim. For example Malaysia has been introduced some financing such as the Village Economy Financing Scheme, New Entrepreneurs Fund (TUB), Trade Working Capital Financing (TWCF), i-Cash, and (BBA). The advantages of this financing product have made it a choice of MHEs in this study.

### **Finding and Discussion**

The efforts of IBIs in assisting MHEs are an important factor in raising Islamic identity in entrepreneurship. This study discusses the extent to which the IBIs in assisting MHEs in Malaysia. The effectiveness of the IBIs' role on MHEs is reflected in the achievement of the MHEs themselves in their business through trade finance from IPI.

Our research findings have identified the role played by Islamic banking institutions in assisting MHEs. This can be seen through interviews conducted on respondents from bank

officers of Islamic banking institutions. Some of the roles that have been identified as the practice of Islamic banking institutions, include the following

*Monitoring of by Islamic Banking Institutions (IBIs).*

The respondents have stated some steps taken by IBIs in assisting MHEs. The examples of the roles of Islamic banking among others are monitoring the performance of Muslim entrepreneurs, providing advisory services to entrepreneurs, providing courses to entrepreneurs, providing product information to MHEs, and matching financing products with business types conducted by entrepreneurs.

The second role is that Islamic banking institutions have also played a role in assisting the development of MHEs including providing capital to MHEs and providing a letter of credit for trade finance entrepreneurs. In addition, respondents have stated that Islamic banking institutions have played a role in promoting government funds, recommending products based on Muslim halal entrepreneurship, and suggesting alternative financing to entrepreneurs.

The monitoring by banks on entrepreneurs is one of the responsibilities and roles played by Islamic banking to MHEs. The Islamic banking does not only monitor MHEs or their troubled customers in terms of repayment to the bank, but the bank will also monitor to ensure that its customers or MHEs meet the requirements after funding is provided to them. One of our respondents (SME bank officer) commented: "The funding we provide; we have regular visits every three months." A visit by a bank officer to a Muslim halal entrepreneur location or business premises is to see the Muslim halal entrepreneur to be operated without any major problem which may result in failures to settle repayments to the bank.

One bank official (Bank Rakyat official) also stated: "The bank will monitor our customers who can finance them. The bank will monitor in terms of the business itself, either the business is Shariah-compliant or not. Sometimes we gave the loan, he diverted to another business, we will monitor it as well. Because in that agreement we have the conditions of production, the conditions we can recall the facilities. We will also see either a business is high risk or not. There are several ways we monitor Muslim halal entrepreneurs; first of all, by visiting the entrepreneur's site, at least once a year. It is important for us to review the financing of the entrepreneur. Look at the premises, no matter what the progress he was, his production plant, how he worked, we can judge his performance with the experiences we have."

In addition, the bank will also hold meetings with MHEs on a regular basis, as explained by SME and BIMB bank officials, "Usually, we call for Annual Review. When we (the bank) are in, then in the second year, we will look back at this customer, get his business, conduct of account. The Annual Review Period will then meet our customers (entrepreneurs), we will discuss and ask them (entrepreneurs) about their business performance."

The Islamic banking party is also in charge of providing courses to MHEs who have obtained funding from them. This is stated by an SME bank officer: "Let's say, for example, Muslim halal entrepreneurs who do not know how to make an account, we have a course, we have to offer firms and we will put them under the firms to follow certain courses. We (the bank) have a collaboration with SME Corp or any government agency." Not only that, the bank has also put in place the requirement that Muslim halal entrepreneurs who obtain financing from the bank need to attend courses that have been determined by the bank, as explained by an SME bank officer: "The condition is that they need to attend the course before the fund or loan given. The Ministry laid down the conditions, they were required to attend the course for three days

and three nights. If they do not attend one of the courses, they will need to attend again because in the course they will be taught how to manage accounts and so on.”

*Service advisor.*

In addition, the role of Islamic banking party also provides advisory services to MHEs who have received financing from the bank. This advice is very helpful to MHEs in managing their company or business. The role of Islamic banking is to provide detailed product details to MHEs especially the business financing products needed by entrepreneurs. Generally, MHEs do not know the business financing products offered by the bank. Hence, the bank needs to explain clearly and provide answers to satisfying MHEs on any questions and concerns about the business financing products. The respondents have given their views on the role of the bank in assisting entrepreneurs, including providing information on business financing products. Bank officer 2 explains, “These customers usually have two categories, the first is new customers who have no information about our products. We will provide a detailed description. We want to know that we have no financing product as the conventional banking system. Here we are also in charge of educating him (entrepreneur). If he (entrepreneur) understands, not only does he (entrepreneur) understand himself, even he (entrepreneur) can explain to others. We have the concept of (to educate) there.”

In addition, the role of Islamic banking is also to match the business financing products offered by the bank to the industry or the type of business undertaken by the entrepreneurs. This is explained by Respondent 1: “Mostly we will try the target (target) and the product according to the area we promote the marketing (marketing). For example, if it is a rural area, we will apply for the SPED (Rural Economy Financing Scheme), we have our graduates for TUS fund (Graduate Entrepreneur Fund), if there is a government project for i-Cash. If there is a contractor for under government, we go for i-Splash. We look at that target. The officer at the branch, he promotes all the funds because everything is in the branch. If we do not, we will collaborate with another branch.” Respondent 2 also clarified that: “We have to match between customer needs with the products we offer. This is quite important. For example, if he (an entrepreneur) wants to open a car workshop, what he (entrepreneurs) wants (needs), his operations (entrepreneurs) many services or other services, there may be some spare parts. His business is cash, people will pay cash to him.”

Furthermore, the role of Islamic banking is also to recommend to MHEs with alternative funding sources if the MHEs are not eligible or do not qualify for financing or loan. This is stated by Respondent 4: “There are also customers who cannot proceed with SME Bank, we will go to SME Bank partner, for example, if he wants RM 10,000 only, so we passed him to TEKUN, MARA, Amanah Ikhtiar, where we have cooperation for developing entrepreneurs.” Likewise with respondents’ opinions and the opinion of the Respondent 2: “We sometimes give them information to try at SME Bank where the terms may be easier. There are pros and cons. Our financing contract is rather tight in terms of SME Bank.” Other bank officials also support the view: “But just like new business customers, the conditions are not very strong, we would suggest that he go to government agencies such as MARA, TEKUN, SME Corp. and so on. We will provide advice for the solution if the customer is not satisfied with our financing.”

### **The Achievement of Islamic Banking Institutions (IBIs) to Muslim Halal Employees**

The efforts of Islamic banking institutions (IBIs) in assisting MHEs are an important factor in raising Islamic identity in entrepreneurship. This study discusses the extent of the IBIs in

assisting MHEs, especially in Malaysia. The effectiveness of the IBIs role on MHEs is reflected in the achievement of the MHEs themselves in their business through trade finance from IBIs. The IBIs achievement of this study can be categorised into two aspects: the monitoring of IBIs on MHEs' business and advisory services. With the IBIs efforts, there are among MHEs who have managed to own their building, new branch opening, and achievement of business targets. Ownership of buildings is very important in business. Doing business in rented buildings will put pressure on them in managing their own business. Hence, with the help of the IBIs, there are MHEs who own buildings, including MHEs who have successfully opened new branches and the tremendous achievement of MHEs. However, the reality is that it depends on the culture of good business management, best practice business administration, efficient financial management, and always looking for ways to advance the business by enhancing business-related knowledge. The success factor is in line with Islam's view of the highest quality of human capital development (Awang, 2009).

### **Conclusion**

The role of Islamic banking institutions (IBIs) in helping to develop MHEs in Malaysia is very relevant. The findings of this study show that IBIs have played their extensive role in helping MHEs in achieving success in the field of entrepreneurs in Malaysia. There are two importance characteristics of roles of Islamic banking institutions in helping MHEs such as the monitoring system and training assistance for SMEs. Nevertheless, MHEs need to master the culture of high-quality entrepreneurs such as efficient, systematic, and competitive financial management skills. An excellent cultural feature is a condition of success in the business world. While Islamic banking institutions have performed their responsibilities as an Islamic financial entity that is in line with the spirit of systematic Islamic Muamalat for the welfare of the ummah and the benefit of mankind. Therefore, both parties Islamic banking institutions and Muslim entrepreneurs must fulfil their responsibilities accordingly.

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