

Developing A Benevolent Loan Model to Empower Asnaf Entrepreneurs

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Abstract

Assisting asnaf entrepreneurs is an agenda that is in line with the government's policy to empower the micro sector, which is one of the solutions to poverty and unemployment issues, especially for those in rural areas. In line with the Zakat slogan to create entrepreneurs "from zakat recipients to zakat payers", this study aims to provide solutions to zakat entrepreneurs to help them develop their existing businesses. This study focuses on injecting business capital into asnaf entrepreneurs using Islamic banking contracts, which are not profit-oriented but provide the best solution in assisting zakat distribution and collection. As we are aware, loans and business assistance in the market are less helpful to small-scale entrepreneurs, especially with financial agencies imposing high interest rates or profits, burdening entrepreneurs and making it difficult to obtain assistance. Through a mixed method of "qualitative and quantitative," this study will be able to identify the needs of entrepreneurs and also obtain feedback related to the proposed capital injection model. In addition, the feedback from asnaf entrepreneurs will be verified by zakat officials and financial agencies to see the relevance and best way to implement the proposed model. This study is expected to provide the best solutions to asnaf entrepreneurs in developing their businesses, and at the same time, the model is hoped to help distribute zakat aid and generate zakat collection. It is hoped that the slogan "from zakat recipients to zakat payers" can be realized to some extent with the findings of this study.

Keyword: Zakat, Benevolent Loans, Al-Qard, Entrepreneurial Development.

Introduction

According to a study conducted by Abdul Latif et al (2018), the asnaf entrepreneurs in Malaysia face numerous challenges such as lack of access to finance, lack of business skills and knowledge, and limited market opportunities. These challenges hinder their ability to start or expand their businesses and improve their economic status. Furthermore, another study by Ahmad et al (2020) found that providing entrepreneurial support to asnaf can lead to several positive outcomes such as poverty reduction, increased income, and economic empowerment. The study suggests that by providing financial and non-financial support to asnaf entrepreneurs, they can become self-sufficient and improve their standard of living.

In addition, Benevolent loans, also known as Qard al Hassan, play an important role in supporting entrepreneurs from low-income backgrounds, including asnaf. These loans are interest-free and do not require collateral, making them an accessible source of financing for those who may not have the means to secure traditional loans. By providing this form of support, it can help these entrepreneurs establish and grow their businesses, which can have a positive impact on their financial well-being and that of their communities (Hassan et al., 2023).

Studies have shown that Qard al Hassan can be an effective tool for poverty alleviation and promoting economic development. For example, a study conducted in Pakistan found that Qard al Hassan helped reduce poverty and increase entrepreneurship among women in rural areas (Akhtar et al., 2021). Another study in Malaysia found that Qard al Hassan had a positive impact on the financial performance of small and medium enterprises (SMEs) and helped them overcome financial constraints (Sulaiman et al., 2014). Overall, providing benevolent loans to asnaf entrepreneurs can be a valuable means of promoting economic empowerment and poverty reduction.

Zakat is a compulsory payment that Muslims make to support the needy members of their community. One of the ways zakat can be distributed is through providing financial support to entrepreneurs who are struggling to establish or grow their businesses. However, there are several challenges in effectively distributing zakat to entrepreneurs. There is a lack of coordination and collaboration among zakat distribution organizations. Many organizations are working independently, without a clear understanding of the needs of entrepreneurs in their community. This can result in duplication of efforts and the failure to address the root causes of poverty and unemployment. Lastly, there is a lack of awareness and education among entrepreneurs about the availability of zakat funds. Many entrepreneurs may not be aware of the zakat system or may not understand how to access zakat funds. This lack of awareness can limit the effectiveness of zakat distribution in supporting entrepreneurs.

Research Objective

The primary aim of this research is to scrutinize the efficacy of zakat initiatives directed towards entrepreneurial development through the provision of benevolent loans. The specific objectives of the study are as follows:

- i. To examine the influence of demographic characteristics on entrepreneurial development among recipients of zakat-supported benevolent loans.

- ii. To explore and analyze the correlation between the effectiveness of Zakat aid distribution and the subsequent entrepreneurial development of beneficiaries.
- iii. To assess the impact of zakat collection enhancement on fostering entrepreneurial development, delving into how an improved collection mechanism contributes to sustained business growth.
- iv. To examine the role of initial business conditions in shaping the entrepreneurial development trajectory of individuals benefiting from zakat-supported benevolent loans.

These objectives collectively aim to unravel the multifaceted dynamics surrounding zakat interventions and their role in propelling entrepreneurial growth, providing valuable insights for both scholarly understanding and practical implications.

This study holds paramount significance in several dimensions. Firstly, it contributes to the academic discourse by bridging institutional theory and social entrepreneurship theory within the unique context of Zakat-supported initiatives for entrepreneurial development. It enriches our understanding of how formal and informal institutions, coupled with social entrepreneurial practices, impact the economic empowerment of Asnaf individuals. Furthermore, the findings of this study can inform policymakers, zakat officials, and financial agencies about the critical factors influencing the success of business capital injection models. Understanding the nuances of demographic characteristics, effective zakat aid distribution, enhanced zakat collection, and initial business conditions is pivotal for crafting targeted interventions that foster sustainable entrepreneurial development within the Asnaf community.

Literature Review

Zakat, as a form of Islamic social finance, has the potential to promote economic development and alleviate poverty. One way zakat can achieve this is by providing entrepreneurial opportunities for the poor. The distribution of zakat as benevolent loans, known as Qard al-Hassan, is seen as an effective tool for promoting entrepreneurship among zakat recipients. Benevolent loans through zakat can provide entrepreneurs with the capital they need to start or expand their businesses. This approach has been widely adopted in many Muslim countries, such as Malaysia, Indonesia, and Pakistan, and has been shown to have a positive impact on poverty reduction and economic growth (Abdullah & Kadir, 2021).

Studies have found that zakat recipients who receive benevolent loans are more likely to start or expand their businesses, leading to increased income and reduced poverty levels (Abd Rahman & Othman, 2021). However, the success of benevolent loan programs in supporting entrepreneurship depends on various factors, including the design of the program, the level of transparency and accountability, and the awareness and understanding of zakat recipients about the availability and use of benevolent loans (Mohammad et al., 2020). Additionally, the repayment of benevolent loans can help sustain the zakat fund, allowing more entrepreneurs to benefit from the program in the future (Hassan et al., 2020). This makes zakat distribution through benevolent loans a sustainable and impactful approach to poverty reduction and economic development (Saleh & Suleiman, 2020).

The use of zakat distribution as benevolent loans is an important tool for promoting entrepreneurship among zakat recipients. It has the potential to reduce poverty levels, create employment opportunities, and contribute to economic development. However, to maximize its impact, careful consideration must be given to the design and implementation of the program, as well as ensuring transparency and accountability in the distribution of zakat funds.

The Role of Zakat Contribution Through Benevolent Loan In Informing Government Policy

In Malaysia, the distribution of zakat to entrepreneurs has become an important policy issue for the government. The Malaysian government recognizes the potential of zakat distribution to promote economic development and reduce poverty levels, particularly among the vulnerable and marginalized segments of society. As a result, the government has established various zakat institutions to collect and distribute zakat funds, including to support entrepreneurship (Mohamad et al., 2020). Zakat distribution to entrepreneurs is seen as an effective tool for poverty reduction and economic development in Malaysia. Through zakat, entrepreneurs can access capital to start or expand their businesses, leading to increased employment opportunities and income levels (Abdullah & Kadir, 2021). This approach aligns with the government's efforts to promote entrepreneurship and small and medium-sized enterprises (SMEs) as a means of achieving sustainable economic growth (Mokhtar et al., 2021).

The Malaysian government has also implemented policies to support zakat distribution to entrepreneurs. For example, the Malaysian government has established the Entrepreneurial Zakat Fund, which aims to provide financial assistance to zakat recipients for business activities and entrepreneurship development (Abdullah & Kadir, 2021). Additionally, the government has provided tax incentives for corporations and individuals who contribute to zakat institutions, further incentivizing the distribution of zakat to entrepreneurs (Mohamad et al., 2020).

Relationship between zakat and Malaysia MADANI

The importance of zakat distribution to entrepreneurs in Malaysia is also related to the concept of Ihsan, which is a central theme of the Malaysia MADANI initiative. MADANI is a holistic approach to social development that emphasizes the importance of Islamic values and principles, including Ihsan, in achieving sustainable development goals (Jalil & Dzolkarnaini, 2021). The concept of Ihsan in zakat distribution refers to the idea of giving with excellence, which involves ensuring that zakat is distributed to its rightful recipients in the most effective and efficient manner possible. This concept is reflected in the Malaysia MADANI initiative, which seeks to promote excellence in social development through the integration of Islamic values and principles (Jalil & Dzolkarnaini, 2021).

Through zakat distribution to entrepreneurs, Malaysia MADANI seeks to promote Ihsan in social development by providing financial support to those in need and promoting economic development. This approach aligns with the government's efforts to promote entrepreneurship and small business development, particularly among the marginalized and vulnerable segments of society (Abdullah & Kadir, 2021). Furthermore, the concept of Ihsan in zakat distribution also emphasizes the importance of accountability and transparency in the distribution process. This aligns with the Malaysia MADANI initiative's emphasis on good

governance and social responsibility (Jalil & Dzolkarnaini, 2021). By ensuring that zakat is distributed fairly and transparently, Malaysia MADANI seeks to promote excellence in social development and achieve its sustainable development goals.

The importance of zakat distribution to entrepreneurs in Malaysia is related to the concept of Ihsan, which is a central theme of the Malaysia MADANI initiative. Through the integration of Islamic values and principles, Malaysia MADANI seeks to promote excellence in social development and achieve its sustainable development goals. In addition, the distribution of zakat to entrepreneurs is an important policy issue for the Malaysian government, as it has the potential to promote economic development and reduce poverty levels. Through the establishment of zakat institutions and policies, the government has demonstrated its commitment to supporting entrepreneurship and small business development in Malaysia.

Supporting asnaf entrepreneurs through zakat plays a pivotal role in advancing the concept of zero poverty within the Environmental, Social, and Governance (ESG) framework. ESG serves as a comprehensive set of criteria, evaluating the societal and environmental impacts of investments and business practices. The eradication of poverty, a cornerstone of the United Nations Sustainable Development Goals (SDGs), is intricately tied to these efforts. Numerous studies underscore the significance of aiding asnaf entrepreneurs in realizing the SDG of zero poverty. For instance, research conducted by Abdul-Aziz et al. (2020) illuminated the positive impact of zakat distribution to micro-enterprises in reducing poverty in Malaysia. Similarly, the findings of a study by Raza et al. (2019) emphasized the substantial role that zakat-based microfinance programs can play in poverty alleviation in Pakistan.

Moreover, supporting asnaf entrepreneurs aligns seamlessly with the principles of the ESG framework. These initiatives not only foster economic development but also actively contribute to the social dimension of ESG by diminishing poverty. Furthermore, by ensuring transparent and effective distribution of zakat funds, these efforts promote good governance, thus reinforcing the overall integrity of the ESG principles. In essence, leveraging zakat to empower asnaf entrepreneurs represents a powerful and holistic approach toward achieving the shared goals of poverty eradication and sustainable development under the ESG framework.

Theoretical Discussion

Institutional Theory and Social Entrepreneurship Theory in the Context of Zakat-Supported Business Capital Injection

Institutional theory provides a lens to understand how formal and informal institutions shape behaviors and practices within a given context (Scott, 1995). In the context of injecting business capital into asnaf entrepreneurs through Zakat-supported Islamic banking contracts, institutional theory helps examine the impact of existing structures, regulations, and norms. Institutional theory can shed light on the regulatory environment governing Zakat distribution, Islamic banking, and entrepreneurial practices (DiMaggio & Powell, 1983). It allows for an exploration of how these institutional factors might facilitate or impede the implementation of the proposed model. For instance, understanding the role of the Kedah State Zakat Office and its alignment with institutional norms becomes crucial in fine-tuning the model for effective zakat distribution. Identifying institutional constraints and

opportunities can inform policymakers, zakat officials, and financial agencies about the adjustments needed for successful implementation (North, 1991). By aligning the proposed model with existing institutional structures, the study can contribute to the integration of zakat-supported initiatives within broader economic systems.

Social entrepreneurship theory is particularly pertinent as it focuses on creating positive social impact through innovative and sustainable business practices (Dees, 1998). In the context of your study, which aims to empower asnaf entrepreneurs economically, social entrepreneurship theory provides a framework for understanding how business activities can be a force for positive change. This theory can guide the development of the proposed model by emphasizing the importance of not only economic sustainability but also the social well-being of the asnaf entrepreneurs (Mair & Marti, 2006). It encourages the integration of ethical and socially responsible practices into the business capital injection model, ensuring that it goes beyond financial empowerment to address broader community needs. By incorporating social entrepreneurship principles, the study can contribute to the creation of a model that not only provides financial assistance but also fosters community development and empowerment (Austin, Stevenson, & Wei-Skillern, 2006). This aligns with the overarching goal of transforming zakat recipients into active contributors to society, reinforcing the social dimensions inherent in Islamic finance principles.

The integration of institutional theory and social entrepreneurship theory offers a comprehensive understanding (Battilana & Dorado, 2010). Examining how institutional factors influence the adoption of socially entrepreneurial practices ensures a holistic approach that considers both regulatory frameworks and the social impact of the proposed model. The symbiotic relationship between these two theories can guide the study towards creating a robust and sustainable business capital injection model that aligns with both institutional norms and the principles of social entrepreneurship.

Hypothesis Development

Demographic Characteristics (DC) and Entrepreneurial Development (ED)

Demographic characteristics encompassing factors like age, education, and household size can significantly shape the entrepreneurial landscape (Scott, 1995). In the context of Asnaf entrepreneurs, understanding the influence of these demographic factors on entrepreneurial development is imperative. Age and experience may contribute to the resilience and strategic decision-making of entrepreneurs, while educational backgrounds might influence innovative thinking and adaptability (Scott, 1995). Investigating these demographic dimensions is essential to tailor support programs effectively for sustainable entrepreneurial development.

(H1): Demographic characteristics significantly influence the entrepreneurial development of Asnaf entrepreneurs.

Zakat Aid Distribution (ZAD) and Entrepreneurial Development (ED)

The effective distribution of Zakat aid is a crucial factor in supporting Asnaf entrepreneurs and fostering their entrepreneurial development (DiMaggio & Powell, 1983). Efficient distribution ensures timely and impactful financial assistance, which can translate into tangible outcomes such as business expansion, increased revenues, and job creation. Establishing a positive relationship between Zakat aid distribution and entrepreneurial development is essential for

the success of the proposed model, as it directly correlates with the socioeconomic impact on Asnaf entrepreneurs.

(H2): Efficient Zakat aid distribution significantly correlates with improved entrepreneurial development among Asnaf entrepreneurs.

Zakat Collection Enhancement (ZCE) and Entrepreneurial Development (ED)

Strengthening Zakat collection processes is integral to sustaining financial resources for supporting asnaf entrepreneurs (North, 1991). An improved collection system contributes to the availability of funds for business capital injection, which can enhance entrepreneurial development. Establishing a positive link between Zakat collection enhancement and entrepreneurial development aligns with the broader goal of creating self-sustaining businesses within the asnaf community.

(H3): Enhancing Zakat collection significantly contributes to the entrepreneurial development of asnaf individuals

Initial Business Conditions (IBC) and Entrepreneurial Development (ED)

The conditions under which asnaf entrepreneurs initiate their businesses play a crucial role in shaping subsequent development (Battilana & Dorado, 2010). Investigating the impact of initial business conditions, including market dynamics and resource availability, provides valuable insights into the resilience and growth potential of these enterprises. Understanding these conditions is essential for tailoring interventions that address specific challenges, ultimately contributing to the long-term entrepreneurial development of the asnaf community.

(H4): The initial business conditions significantly influence the entrepreneurial development of asnaf entrepreneurs.

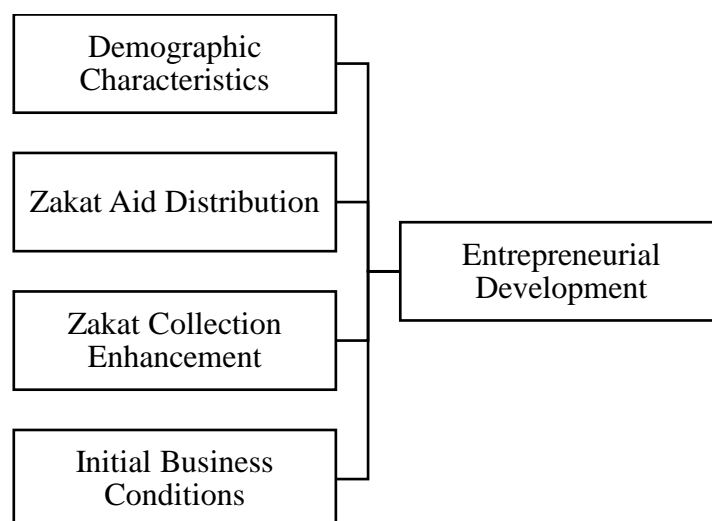


Figure 1: Research Framework

Methodology

A Comprehensive Approach for In-Depth Insights

The research methodology adopted for this study employs a robust mixed-method approach, combining both qualitative and quantitative methods. This methodological choice ensures a comprehensive understanding of the challenges faced by asnaf entrepreneurs in repaying business capital and facilitates the development of effective and practical solutions. The study unfolds in two distinct phases, each contributing uniquely to the overall research objectives.

First Phase: Quantitative and Qualitative Inquiry

In the initial phase, a mixed-methods strategy, encompassing both quantitative and qualitative research techniques, will be implemented. The primary focus will be on survey questionnaires distributed to 150 entrepreneurs identified as asnaf. The questionnaire consists of two main sections: the first delving into respondents' demographics, and the second concentrating on identifying potential solutions to alleviate the burden of business capital debt. The primary goal of this phase is to paint a detailed picture of the challenges, constraints, and intricacies associated with the repayment of business capital among asnaf entrepreneurs.

Second Phase: Qualitative Deep Dive

The second phase of the research will exclusively employ qualitative methods, incorporating interviews and focus group discussions. Interviews will be conducted with staff from the Kedah State Zakat Office, with a targeted sample size ranging from one to five respondents. Simultaneously, focus group discussions will be conducted with selected asnaf entrepreneurs, involving 15 respondents distributed across three distinct groups. The primary aim of this phase is twofold: to garner insights from the Kedah State Zakat Office based on the proposals emanating from the first phase, and to re-engage with the asnaf entrepreneurs through the dynamic forum of focus group discussions, ensuring their perspectives are central to the research findings. This multifaceted methodology ensures a comprehensive exploration of the challenges and potential solutions surrounding business capital repayment within the context of zakat-supported entrepreneurship.

Discussion

The agenda to assist asnaf entrepreneurs aligns seamlessly with the broader governmental strategy aimed at empowering the micro sector. This strategic initiative addresses critical issues of poverty and unemployment, particularly in rural areas, where economic challenges are often more pronounced. In consonance with the Zakat mantra of transforming recipients into contributors, this study is strategically designed to offer viable solutions for zakat entrepreneurs, fostering the growth of their existing businesses. The study's focal point revolves around the infusion of business capital into asnaf entrepreneurs, employing Islamic banking contracts. Unlike profit-oriented financial instruments, these contracts offer a distinctive approach, providing a balanced solution for both zakat distribution and collection. Recognizing the limitations of conventional market-based loans and business assistance, especially with the imposition of high interest rates or profits by financial agencies, this research endeavors to introduce a model that is inherently more supportive to small-scale entrepreneurs.

The chosen research methodology, a combination of qualitative and quantitative approaches, serves as a comprehensive tool to understand the nuanced needs of entrepreneurs. Through surveys and in-depth interviews, the study aims to identify the challenges faced by asnaf entrepreneurs and solicit feedback on the proposed capital injection model. By leveraging this mixed-method approach, the study seeks not only to capture the quantitative data on entrepreneurs' needs but also to provide a qualitative understanding of their experiences, aspirations, and obstacles. Furthermore, the study acknowledges the importance of validating the feedback received from asnaf entrepreneurs. This validation process involves consulting zakat officials and financial agencies, ensuring the proposed model's relevance and identifying the most effective implementation strategies. The collaboration between entrepreneurs, zakat officials, and financial agencies becomes a crucial element in fine-tuning the model for optimal impact.

The anticipated outcome of this study is twofold. Firstly, it aims to offer practical and effective solutions for asnaf entrepreneurs, facilitating the development of their businesses. Simultaneously, the proposed model is expected to streamline zakat aid distribution and enhance zakat collection. Ultimately, the study aspires to contribute towards realizing the transformative slogan "from zakat recipients to zakat payers," marking a significant step in empowering asnaf entrepreneurs and fostering sustainable economic growth within the framework of Islamic finance principles.

Conclusion

In conclusion, as outlined in the problem statement, the issues surrounding fund sourcing faced by asnaf entrepreneurs have a detrimental impact on their survival, especially during contemporary economic challenges. The purpose of this study is to propose solutions and develop a suitable model for Zakat institutions to assist them through benevolent loans or based on Al Qard contracts. Although Zakat institutions have previously offered similar schemes, the outcomes have not been satisfactory. Therefore, the primary focus of this study is to identify factors that can aid in the development of entrepreneurs among the asnaf community. These factors include demographic characteristics, distribution of Zakat aid, enhancement of Zakat collection, initial business conditions, and entrepreneurial development among asnaf entrepreneurs. The significance of utilizing these variables lies in their potential to assist asnaf entrepreneurs and Zakat institutions in determining the best approach for screening loan recipients, optimizing Zakat distribution channels, and incentivizing recipients to contribute as Zakat payers after receiving assistance.

By applying institutional theory and social entrepreneurship theory, this study aims to elucidate how these factors influence the effectiveness of injecting business capital through Zakat-supported Islamic banking contracts. The hypotheses outlined provide a framework for empirical testing, shedding light on the complex relationships within this context. This study contributes to existing literature by offering empirical insights into the factors shaping entrepreneurial development within Zakat-supported initiatives. It provides a nuanced understanding of how demographic factors, aid distribution mechanisms, collection enhancements, and initial business conditions collectively contribute to the growth and resilience of asnaf entrepreneurs. Practically, this study serves as a guide for stakeholders involved in designing and implementing programs aimed at injecting business capital into asnaf entrepreneurs. By identifying key determinants of entrepreneurial success, the study

facilitates the development of more effective and tailored interventions, thereby contributing to the broader goal of poverty alleviation and sustainable economic development. Ultimately, this study aspires to pave the way for transformative practices, wherein asnaf entrepreneurs not only receive financial support but also actively contribute to Zakat funds, realizing the aspirational journey "from zakat recipients to zakat payers." Through this dual transformation, the study envisions a more self-reliant and empowered asnaf community, underscoring the potential for positive social change within the framework of Islamic finance principles.

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