

Can micro-enterprises use Tawarruq Fardi Financing (TFF) for fund raising?

Tawarruq
Fardi
Financing for
fund raising

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Abstract

Purpose – Micro-enterprises, like any other business entity, face financing challenges. However, micro-enterprises often cannot access financial institutions as they cannot fulfill the conditions to obtain financing facilities from a formal financial institution. As such, they have to rely on family or friends for financing needs. The most critical challenge faced in this regard to Muslim micro-enterprises is finding out a way in which family and friends could give a financial helping hand without the involvement of riba (interest). At the same time, the person giving the financing can enjoy a profit. This paper aims to propose the Tawarruq Fardi Financing (TFF) model that Islamic micro-enterprises could use to fulfill their financial needs. It becomes a solution when obtaining financing from friends and family or any other third party who could be a private investor who does not want to engage in an equity relationship.

Design/methodology/approach – This study adopts a qualitative research methodology, combining descriptive and content analysis using the inductive reasoning approach.

Findings – The paper's outcome shows that the proposed TFF could assist Islamic micro-enterprises in obtaining Shariah-compliant financing without engaging in an equity partnership. It allows them to fulfill their financing needs bearing in mind the interest of both parties involved in the transaction.

Originality/value – This research will assist Islamic micro-enterprises to find out a Shariah-compliant financing facility from family, friends and any other private investors without entering into an equity relationship. The proposed model would be a Shariah-compliant alternative to interest-free loans and engaging in an equity relationship for the sake of getting benefits for both parties involved in the transaction.

Keywords Islamic finance, Islamic microfinance, New model, Tawarruq

Paper type Conceptual paper

1. Introduction

Micro-enterprises, including Islamic micro-enterprises, faced the challenge of obtaining financing facilities from the formal financial institutions as they could not fulfill the formal requirements stipulated by these institutions. Irrespective of the jurisdictions in which the micro-enterprises operate, the issue remains the same. They often rely on the financial help of family or friends or any private investor who wishes to assist them. However, it is not in all cases. They wish to engage in an equity relationship with microfinance to provide financial support and get a return, but they might wish to do it in a manner where a debt relationship is formed. From a conventional perspective, giving a loan with interest to a micro-enterprise is acceptable, and this is the norm.

However, due to the emergence of Islamic micro-enterprises that wish to follow a Shariah-compliant way of obtaining financing, engaging in a conventional loan, in this case, would trigger riba if interest has to be given. As such, the only way out for most Islamic micro-enterprises is to accept an interest-free loan that will not give any return to those who give it,

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compromising their interest in the transaction. It is common knowledge that without a gain, only a few would want to lend money. Besides, it is seen as a threat to Islamic micro-enterprises in obtaining financing.

Thus far, very few studies have been conducted on developing financing models for Islamic micro-enterprises. A study by [Thaker *et al.* \(2016\)](#) proposed an integrated cash waqf micro-enterprise investment. In this model, the cash waqf and micro-enterprises can complement each other. However, fundraising cash waqf itself is not an easy task, acknowledging the minimum awareness of Muslims on this matter. In addition, [Sofi \(2012\)](#) proposed a value-based hybrid model. In this structure, zakat and takaful contribution are dedicated to sustain a revolving fund mechanism. Similarly, this structure also needs significant awareness and effort to raise charitable fund. Hence, developing a commercial financing model for Islamic micro-enterprises is urgent.

There is a need to find a Shariah-compliant way in which Islamic micro-enterprises could obtain a financing facility from family, friends or any private investor creating a debt relationship where both parties could enjoy the benefit. This paper aims to propose a model that would help Islamic micro-enterprises seek Shariah-compliant debt-based financing in a way both parties involved in the transaction would be benefited.

This paper is divided into six sections. Following this introduction, Section 2 discusses the need to develop the TFF model for micro-enterprises, while Section 3 presents a literature review. Section 4 discusses the research methodology, while Section 5 presents the TFF model in detail. The final section presents recommendations and a conclusion. The research findings will assist the Islamic micro-enterprises to resolve the financing challenges they face using a model that is Shariah-compliant and convenient as well as profitable to all those parties engaging in the transaction.

2. Background

Microenterprises are considered the key engine of economic growth and employment creation. In different countries, there are different statutory definitions of micro-enterprises. For example, in Malaysia, micro-enterprises are defined as a business having a sales turnover of less than RM 30,000 or employing less than five people ([SME Corp. Malaysia, 2013](#)). Their characteristics include engaging in cash transactions with preferences to access funds through informal channels based on trust (friends and family). They also have limited knowledge regarding their banking needs due to a lack of financial literacy. As such, micro-enterprises have limited access to formal financial institutions.

In Indonesia, micro-enterprises are businesses with less than IDR 50 m in assets or earn less than IDR 300 m in annual sales ([Undang-Undang Republik Indonesia Nomor 20 Tahun, 2008](#)). Like in Malaysia, micro-enterprises in Indonesia struggle to access formal financing facilities. The situation is even worse for woman because there is a gender imbalance in terms of access to people's business credit, whereby only 1.2% of women, as the head of household, has access to it compared to men's 2.78% ([Ministry of Women Empowerment and Child Protection, 2016](#)). Moreover, the [Ministry of Women Empowerment and Child Protection \(2011\)](#), in its Policy Brief on Gender Equality, states that being a woman in Indonesia makes someone's probability of working in the informal sector up to 24%.

Moreover, the coronavirus pandemic has exacerbated the situation for micro-enterprises. For example, [Mirdha \(2020\)](#) records that the association of garment manufacturers and exporters in Bangladesh (BGME) reported that nearly 634.8 million garment items worth about US\$1.5 bn were canceled due to this pandemic up to the end of March 2020. It makes them difficult to get back to business, especially for getting financing from formal financial institutions.

There are many reasons why micro-enterprises have limited access to formal financial institutions. One of the main issues in this regard is having a high chance of default (Hassan *et al.*, 2011), the business operation being too small (Hassan *et al.*, 2011) and having a low level of knowledge on financial options available to them in the market (Selamat *et al.*, 2011). Purmiyati and Hidayati (2019) argued that it is important to increase the efficiency of micro-enterprises to alleviate them from poverty. Moreover, Herianingrum *et al.* (2019) emphasized the importance of motivation among group members to sustain the micro-enterprises besides the role of capital and access to government. Furthermore, Nihayah (2018) finds that financing access for micro-enterprises in the form of savings and loans programs may uplift the micro-enterprises and reduce poverty.

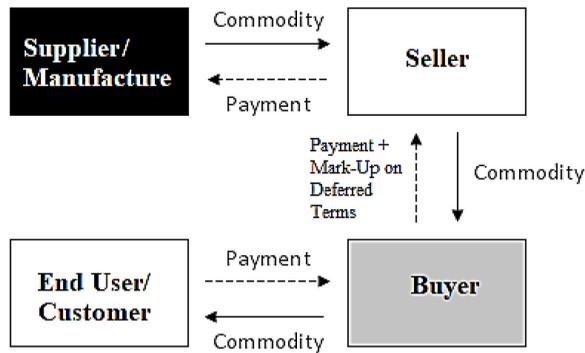
Due to those factors, the micro-enterprises have no choice but to rely on internal funding from family members, friend and their savings (Aris, 2007; Uzialko, 2020). It has been also said that for micro-enterprises to survive, it is not only financial support that is required, but emotional support is also required. A semi-annual survey conducted by the Bank of America on small business owners in the USA revealed that out of 1,000 respondents, 53% of them depend on their family to offer them business roles such as giving advice, being employees, acting as partners and being investors. About 38% of the respondents admitted that they had obtained a financial loan or a gift from family or/and friends during their course of business. Then around 35% of the respondents said that their family and friends help them run the business. This result shows the significant role played by family and friends in assisting micro-enterprises to survive (Uzialko, 2020).

Islamic micro-enterprises are businesses run by mainly Muslims who want to operate the business in a Shariah-compliant way. It is estimated that 72% of people living in Muslim-majority countries do not have access to formal financial services. Furthermore, if formal financial services are accessible and if Shariah-compliant financing options are absent, then the micro-enterprises do not have access to financing (Vogel, 2013). Shariah-compliant financing is given paramount consideration as any conventional debt with interest will trigger *riba*, which is prohibited in Islam. However, if a loan is given without interest and the lender does not gain any financial benefit, the interest-free loan to a micro-enterprise might not be so attractive. Therefore, there is a need to find an alternative Shariah-compliant debt-based model to finance Islamic micro-enterprises that wish to obtain financing from family or friends or a third party that is not an institution to fulfilling their financing needs.

3. Literature review

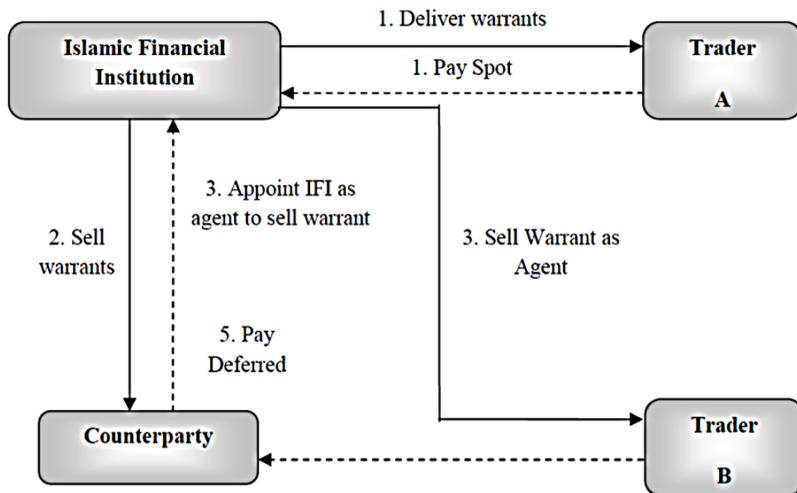
3.1 Concept of Tawarruq

The Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) defines “Tawarruq as the process of purchasing a commodity for a deferred price determined through a *Musawamah* (bargaining) transaction or *Murabaha* (mark-up sale) transaction and selling it to a third party for a spot price in order to obtain cash” (AAOIFI, 2010, p. 758). The technical meaning is buying a commodity on a deferred payment basis and then selling it on a cash basis to a person other than the original seller, i.e. at a lower price. Generally, it can be said that the above-given definitions are the basic definition for Tawarruq, which, later, is also known as Classical Tawarruq (CT) or al Tawarruq al-Fiqhi or al-Tawarruq al-Fardi or non-Organized Tawarruq (OT). In contrast, when the seller plays a role formalizing the sell and acquires the cash for the *mustawriq*, it is referred to as OT (Bouheraoua, 2009), in commercial contexts also known as Financial Tawarruq, which is meant to be attributed to a bank as the main practitioner. The issue of OT arises in the modern age of Islamic banking, in which the principle of CT is customized to suit the landscape of the current financial system. Thus, the discussion is narrowed down to the contemporary Tawarruq products (CTPs) offered by IFIs, particularly CT provided in Figure 1 and OT provided in Figure 2.



Source(s): Author's Own

Figure 1. Modus operandi of CT



Note(s): Majority of commodity Murabahah transactions use London Metal Exchange (LME) base metals as an asset since they meet all criteria for a commodity (i.e. no-perishable, freely available and can be uniquely identify) and are easily identifiable via warrants

Source(s): Fahmi *et al.* (2008)

Figure 2. Modus operandi of Organized Tawarruq

3.2 Classical tawarruq (CT)

Bouheraoua (2009) refers to CT as the purchase of a commodity possessed and owned by the seller on a deferred basis. Then the buyer resells it to a third party (other than the original seller) to acquire cash (al-wariq). First, there are three different parties involved in this contract. The first party is the seller or finance provider. The second party is the buyer or borrower, who is looking for liquidity, and finally, the third party purchases the commodity from the mustawriq. Second, in terms of the legal control of the contract, there are two separate transactions without any pre-arrangement between parties. Finally, the second sale aims to get the money.

Bank Negara Malaysia (BNM) states that Tawarruq consists of two sale and purchase contracts (BNM, 2018). The first involves the sale of an asset by a seller to a purchaser on a deferred basis. Subsequently, the purchaser of the first sale will sell the same asset to a third party on a cash and spot basis.

The CT transaction is started when the buyer buys the commodity from the seller on a credit basis where the price is higher than the cash price. Then the buyer sells the commodity to a third party on a cash basis where the cash price is lower than the credit price to obtain cash. According to modern juristic views, CT is acceptable. For instance, in its 15th meeting, the OIC Fiqh Academy chose that CT is permitted in principle (Tijani, 2013). The majority of scholars argue that its permissibility relies on the fact that the seller/finance provider does not involve in the resale of the commodity, no prearrangement between seller and the end buyer, and that buyer receives cash directly from the end buyer as shown in Figure 1.

However, there is still a differing opinion regarding this transaction. The first group opines that it is permissible due to the involvement of a third party, which makes the trading permissible and not considered hilah, regardless of the higher price in the deferred sale. Meanwhile, the second group opines that it is prohibited (or reprehensible) by some scholars due to 'illah of gaining money with money (darahim bi darahim), which is considered hilah, regardless of the involvement of a third party.

3.3 Organised Tawarruq (OT)

Bouheraoua (2009) defines OT as the sale of a commodity, where the seller levers the process of acquiring the cash for the buyer. Therefore, OT is the process where the original seller plays the key role to acquire the cash on behalf of the buyer. OT can be characterized by the following. First, there are mainly three parties involved in this contract. The first party is the seller (the creditor), the second party is the buyer (mustawriq), who is looking for liquidity, and finally, the financial intermediary. Second, in terms of the legal control of the contract, there are two separate transactions with pre-arrangement between the parties. Finally, in terms of the contract's purpose, the second sale aims to get the money for the buyer.

OT is more complicated than CT due to the involvement of a financial intermediary. The role of a financial intermediary is to regulate the sell and purchase process to ensure possession of the commodity and the payment of the proceeds. To avoid such complexities, the buyer usually appoints the original seller as the agent to sell the commodities on his/her behalf and get the money. The primary reason for the OT to be in existence is to overcome the shortcoming of "Inah" so that the commodity does not return to its original vendor.

The critical steps involved in the above structure could be described as follows. First, the client (the buyer/counterparty) would approach the IFI (the original seller) and would make a promise (Wa'd) to buy the commodity from the IFI after buying it from the supplier or manufacturer. The IFI will purchase it from the supplier or the broker. Then, the IFI sells the commodity to the client on a deferred payment basis. The client would appoint the IFI (original seller) as his/her agent to sell the commodity on a cash basis. Then, the IFI would sell the commodity to a third party on a cash basis.

The cash obtained will be transferred from the IFI to the client.

Finally, the client (mustawriq) obtains the needed liquidity and is obliged to pay the IFI (original seller) as shown in Figure 2.

3.4 The differences between Classical Tawarruq (CT) and Organized Tawarruq (OT) and contemporary practice of tawarruq

The main difference between CT and OT is twofold. In OT, the original seller acts as an intermediary by selling the commodity for cash on behalf of the mustawriq (the monetization

beneficiary), and the mustawariq receives the cash from the original seller to whom he/she owes the delayed price.

Islamic financial institutions formally organize the sale of goods (other than gold or silver) between an international commodity market and mustawariq for deferred payment on a binding condition stipulated in the contract or corresponding to the custom guiding such a commodity. The IFI, for example, will represent the mustawariq in selling the commodity to another buyer for cash, at which point the IFI will transfer the cash to the mustawariq.

The first stage in BSAS (Bursa Suq Al Sila) Tawarruq mechanism (Figure 3) implicates the bids by banks and CPO suppliers before the market opens. Orders are randomized and matched by the BSAS engine. Hence, the trade commences with the CPO trader. The commodities are ordered to the banks via a broker (broker A). The second phase involves Bank A crediting the Bursa Malaysia Islamic Service (BMIS)'s account after the BMIS confirms the delivery and hence the performance of the relevant supplier. Later, in the third stage, the bank sells the commodity to the client on a deferred basis via a Murabahah contract; consequently, the ownership title of the commodity is changed by the BSAS to signify this sale transaction. During the subsequent stage, the client appoints the same bank as the agent to sell the goods to the BMIS at the market price (usually lower than the agreed deferred price) and collects payment from the BMIS through the bank (by charging the BMIS's account and crediting the client's account). Thus, the commodity ownership is transferred to the BMIS. Finally, the commodity is offered to the suppliers randomly based on the bids. The broker (after receiving ownership) may re-offer the commodity to the BSAS market for future trading.

The stated BSAS mechanism demonstrates the endeavor to resolve the disputes and concerns of the scholars on OT. Thus, the BSAS uses CPO and plastic resin (both commodities are of significant value and importance to Malaysia). The delivery of e-certificates to the clients deals with ownership recognition. Nevertheless, the sheer volumes of transactions required, particularly by the banks increasing their reliance on Tawarruq contracts. Hence, the majority of the financing and liquidity applications are causing skepticism regarding the sufficiency of stocks of the commodities. Additionally, Dusuki (2010) points out that although BSAS allows for the delivery of the commodity, there is a high

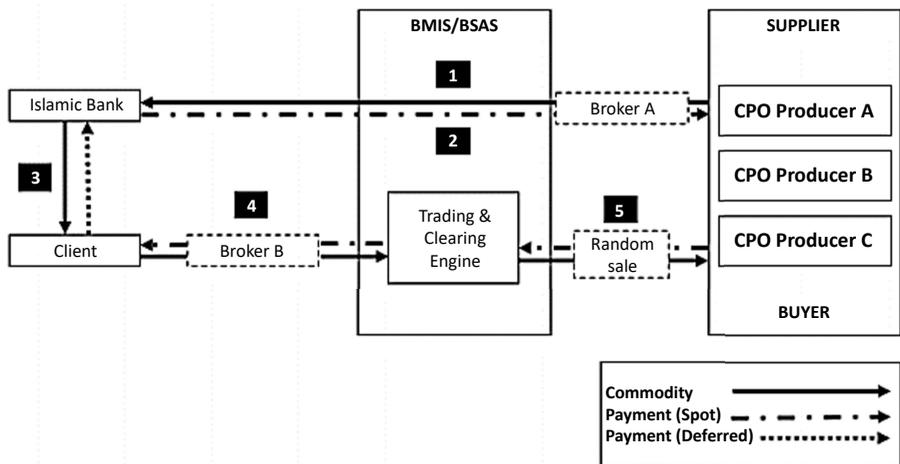


Figure 3.
Modus operandi of
Organized Tawarruq
in Malaysia

Source(s): Ahmad *et al.* (2017), p. 40

processing fee for the delivery, which discourages the delivery of the commodity, which goes against the essence of the classical Tawarruq contract.

A few contemporary scholars argue that although the constructive possession issue is taken care of, BASA is incapable of resolving the agency issue and consequently was rejected by the AAOIFI. The failure can be ascribed to the banking practices and clients' unwillingness to deliver. Those who argue in favor of OT claim that the agency contract is valid and the client seeking financing has the liberty to appoint anyone the agent, including the bank (Roslan *et al.*, 2020).

BNM does not overtly discuss the pre-arranged element in the OT. Yet, the mechanism has been approved to be implemented by local Islamic banks based on the permissibility of CT. No Shariah standard or parameter has been issued to define the requirement. Conversely, the structure of OT is outlawed by several international fiqh bodies and Shariah scholars, where it is deemed fabricated and considered hilah for riba. Shariah's concerns in regards to OT are the fictitious components related to commodity ownership and possession. Therefore, careful management of these features will avoid potential suspicion will eventually make Tawarruq permissible, thus will harmonize the disputes between the fundamental and the operational viewpoint. The table below illustrates the modern juristic views on OT (see Table 1).

BSAS is the world's first fully Shariah-compliant commodity trading platform, which was established mainly to facilitate the transaction for Tawarruq or Commodity Murabahah (Global Custodian, 2009). Its establishment has significantly impacted the transaction difficulties in Tawarruq concept, which is applicable mostly for personal financing, credit card and house financing. Nevertheless, certain Shariah issues are arising in its transaction that contemporary scholars have criticized. Mazlan *et al.* (2015) argued that there are two prevalent Shariah issues in BSAS operations: the situation of the commodity traded and the issue of double ownership of the commodity. However, the issues are resolved by tagging the identified commodity to be traded with the respective buyer and seller as well as by issuing an electronic certificate to the buyer or seller of the commodity. It ensures that the commodity traded belongs to the rightful owner for eliminating the issue of gharar (ambiguity), and this tagging method was approved by the Shariah Advisory Council (SAC) of Bank Negara Malaysia (BNM).

Furthermore, BSAS is also attempting to develop a list of other potential Shariah-compliant commodities to be traded, such as cars, air-conditioners, aluminum and copper, to suit the needs of industry players. As a result, BSAS has received good acceptance from the industry players by looking at the total number of trading values per year, increasing since its inception in 2009. The total number of institutional members also rose from 78 in 2013 to 109 local and international institutions in 2015 (Othman, 2016). Even Ahmad *et al.* (2017) state that all transactions related to Tawarruq contract commodity must be done through BSAS.

Fatwa issuing body ruling

| | |
|----------------------------|--|
| OIC Fiqh Academy AAOIFI | Ruled organized tawarruq is impermissible in 2009 |
| SAC of BNM | The Accounting and Auditing Organization of Islamic Financial Institutions (AAOIFI) approved the use of organized Tawarruq in 2006 subject to strict fulfilment of the requirements relating to the commodity and the agency relationship under the (Shariah standard 30 Article 4/5- The commodity, Article 4/7 to 4/10 – Agency Issues) The Shariah Advisory Council (SAC) of Bank Negara Malaysia made Tawarruq (Commodity Murabahah) concept permissible in 2005 It is widely used by Islamic banks in Malaysia in deposit products, financing, liquidity management and risk management |

Source(s): Naim (2016, pp. 305–308)

Table 1.
Modern juristic views
on Organized
Tawarruq

Even though numerous research studies have been conducted on the application of Tawarruq in Islamic banking in Malaysia (Amin and Hassan, 2022; Mahyudin and Seman, 2018; Asni, 2022), no research so far has been conducted to understand the potential of Tawarruq between individuals. As such, this research intends to fill this research gap.

4. Methodology

This study adopts a qualitative research method, combining descriptive and content analysis using the inductive reasoning approach. The content analysis aims to organize and elicit meaning from the data collected (Vaismoradi and Snelgrove, 2019). Data are collected using primary sources such as Shariah standards, and secondary sources such as journal articles and books on the subject matter have been reviewed to derive conclusions using an inductive reasoning approach to develop the proposed TFF model. The inductive reasoning approach, the “bottom-up” approach, is appropriate for this research to develop the proposed Shariah-compliant financial product. Specific observations and measures related to the subject are used to detect patterns and regularities, leading to the formulation of some tentative hypotheses that can ultimately enable authors to develop proposed Shariah-compliant financial products.

5. Proposed Tawarruq Fardi Financing (TFF) model for micro-enterprises

To provide an alternative for interest-free loans and equity-based partnerships to finance Islamic microenterprises, this paper proposes the TFF model for micro-enterprises. As such, in this section of the paper, the specific details and modus operandi of TTF are discussed.

The TTF model proposed is a private Tawarruq arrangement, which is made between the micro-enterprise and the fund provider who trust the micro-enterprise who could be a related party to the owners of the micro-enterprise such as a family member or a friend or anyone who intend to provide financing without engaging in an equity relationship or entering into an interest-free loan. To execute the proposed TTF model, the pre-requisite is to have an interested party who trusts the micro-enterprise and is willing to provide financing, and there should be financing need on the part of the micro-enterprise to purchase some defined underlying assets. It is essential to note that, unlike a formal Islamic financial institution regulated by a regulatory authority, micro-enterprises will not adopt proper Shariah governance practices, such as having a Shariah Supervisory Board to oversee its operations. Therefore, what is proposed in this paper is for the micro-enterprise to adopt the structure and the agreements of TTF, which is approved by an independent Shariah advisor or a qualified Shariah expert. This way, the operational cost in entering into TTF will not be high, and at the same time, Shariah’s compliance of the transaction will not be compromised. Therefore, for the micro-enterprise, entering into a TTF transaction will be easy as entering into a conventional interest-based loan transaction where the agreements entered is ready-made to be implemented as TTF will have a standardized agreement template that could be customized based on the particulars of the parties and nature of the underlying asset involved in the transaction.

To understand the modus operandi of the TTF model, a hypothetical example is used. ABC micro-enterprise is a business that sells customized designed T-shirts to the retail market. In their business, what they do is first purchase plain T-shirts in bulk from a wholesaler, then hire artists to draw designs on them and then sell them to the retail market. Sometimes, they also get orders to design T-shirts for corporate clients. In this particular instance, ABC micro-enterprise is in need of RM 50,000 to resolve a liquidity issue they faced as due to a cash flow issue, they are unable to expand their business by purchasing new designing equipment and hiring new artists. Since ABC micro-enterprise’s business

operation is small, it has challenges in obtaining a financing facility from a financial institution. A family friend of the owner of the ABC micro-enterprise, Ali, is interested in financing RM 50,000 for the business. However, Ali is not keen to form an equity relationship with ABC micro-enterprise nor does he wants to give a conventional loan as it will have the element of *riba*. Also, he is not willing to give an interest-free loan as he expects a return to be made from the money he intends to offer. His motive is to make an investment that will give him a reasonable return. The challenge in this case for ABC micro-enterprise is to find a suitable financing structure that will convince Ali to fund their business. The TTF model is proposed as a funding mechanism in situations similar to this case, and how the TTF model will work in this case is illustrated in Figure 4. In this TTF transaction, the ABC micro-enterprise will have to identify a Shariah-compliant asset that is required by them and by having such assets which ABC micro-enterprise could generate profit in the future. The most suitable asset for this purpose that could be identified by ABC micro-enterprise is buying white-T shirts to use to draw designs and, once ready, sell them to a client for profit.

The TTF model proposed may look simple, but the implementation would be more complicated than that of a conventional loan transaction. This is because, in a conventional loan, there is no involvement of an asset sale; rather, it is based on making money out of money by taking an interest. There are certain risks involved in the proposed TTF model that must be understood. The first risk would be the party's inability to provide funding to independently assess the best vendor and quality of the asset that needs to be purchased due to a lack of adequate knowledge and skills in business conducted by the micro-enterprise. Therefore, the party providing the funding will have to rely on the expertise of the micro-enterprise or an independent third party's expert opinion. In this case, if an independent third party's expert opinion is sought by the party providing funding, then some cost will be incurred, increasing the transaction cost. The most feasible alternative left in this regard is for the party providing funding to rely on the advice given by the micro-enterprise on the most suitable asset for their business. The second risk faced in this proposed TTF model is the risk the funding party will face if the micro-enterprise refuses to enter into the Murabahah transaction after the assets have been purchased from the vendor. From a Shariah perspective, the first sale transaction entered between the party providing funding and the

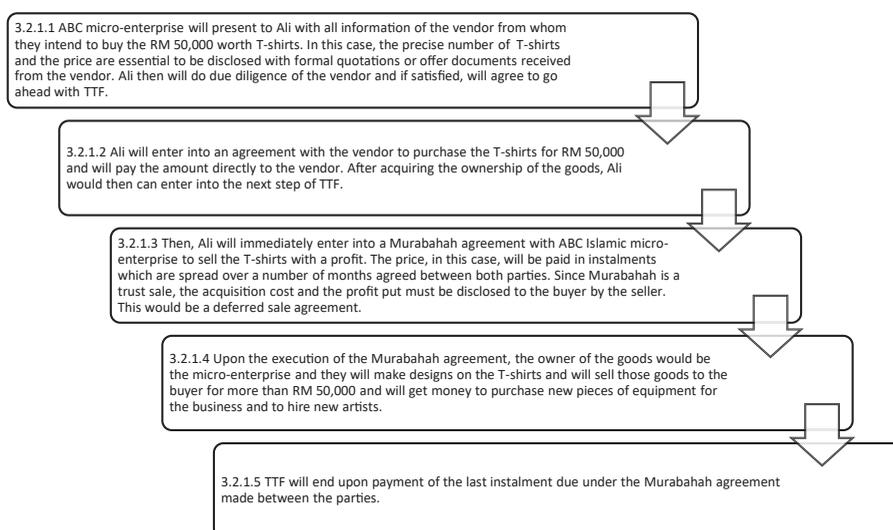


Figure 4.
Modus operandi
of TTF

vendor is independent of the subsequent Murabahah transaction between the party providing funding and the micro-enterprise. As such, there is autonomy for the micro-enterprise to refuse to enter into the Murabahah agreement even if the assets have been purchased for them by the party providing funding. To mitigate this risk, the first sale agreement and Murabahah agreement could be entered on the same day. However, in this case, the time of the agreement ought to be recorded in the agreements to ensure that the proper sequence of the TTM model is followed to achieve Shariah compliance of the transaction. In Shariah, there is a rule followed in the sale contracts where it is said that one cannot sell what he does not own. Therefore, recording the time of the agreements, in this case, would help to determine even if both agreements are signed on the same day, which agreement has been executed first can be determined as if Murabahah agreement is entered first, then the party providing funding will sell what it does not own making the transaction invalid from Shariah perspective. The final risk that could arise in the TTM model is default risk. It happens when the micro-enterprise defaults in making the installments of the price of sold assets to the party providing funding as agreed. To mitigate this risk, collateral or a guarantor or post-dated cheques could be produced by the micro-enterprise. It would provide some assurance to the party providing funding that it has some options to recover the defaulted amount.

As for the documentation requirements, though three independent sale transactions are involved in the TTF model proposed, since two sale transactions are made on the spot, there is no need to make an agreement between the parties involved. In this case, the only evidence required is the sale receipt which will be the proof of payment of the full price and will be used as evidence to prove the transfer of ownership from one party to another. Therefore, in this proposed TTF structure, the only agreement required would be the Murabahah agreement made between Ali and ABC micro-enterprise in the example shown, where the obligation to pay the price is a future obligation within the specified period.

6. Recommendations and conclusion

Following are the recommendations proposed to mitigate the potential risks involved in the implementation of this proposed TTF model.

As mentioned in the Holy Quran (2:282), whenever commercial dealings with future obligations are entered by the parties, irrespective of the trust and the confidence between the parties, it should be the best practice to enter into a written agreement between the parties to mitigate future disagreements that could arise between them for any reason. In implementing the proposed product, it is recommended not only to put the main sale agreements made between the parties but also to put all communications from the negotiations until the end in writing to eliminate ambiguities or mistakes that could be a point of dispute between the parties. This means that if an oral meeting is made between the parties through a physical meeting or via discussion through phone, the main points discussed could be made in writing after the meeting. Both parties could sign or acknowledge it via email or exchange physical copies of it. This way, any potential conflict that could arise due to a difference in understanding of what is being discussed would be eliminated.

In terms of doing the due diligence of the parties involved in the transaction, it is recommended to do general and specific due diligence by each party involved in the transaction individually. The general criteria may include the party's background with three parties they know or whom they have previously dealt with in commercial transactions to determine their credibility. In doing so, emphasis must be given to collecting and verifying some of their background information documents, such as their identification documents and bank details. Other documents must be exchanged and verified before the commencement of the business relationship. There is no way one could be 100% sure about the success of the

future transaction that is going to take between the parties. However, historical facts and with whom the party has dealt would provide comfort and assurance that at least they are credible enough to commence a business relationship. The specific criteria for due diligence can be left up to the parties to decide based on the circumstance; this could be an optional part.

To secure future payment obligations, the seller could take security using the concepts of Rahn (pledge) or Kafalah (guarantee). However, due to the financial position of the parties, if the valuable property is unable to be pledged, the least one could do is to ask for guarantors. Kafalah contract is permissible based on proofs available in the Quran, Sunnah and juristic consensus and is a contract whereby the guarantor will guarantee the performance, action and undertaking to the beneficiary where the guarantor will underwrite any claim and obligation that should be fulfilled by the guaranteed party (Muneeza and Mustapha, 2020). If the parties could agree, they may even choose to have the option of giving postdated cheques to the seller by the buyer for the period of the financing facility. This way, there is a financial comfort given to the seller.

Since the parties involved in this transaction are unregistered entities to provide financing facilities or individuals who conduct business transactions personally to regulate the transaction between the parties, it is imperative to register Murabahah agreement formally as per the law of the respective country. This way, again, the parties will be assured that the terms and conditions agreed between the parties will happen as per the agreement. Since their agreement is registered legally in the court, the parties would understand the seriousness of the agreement and give more respect to the agreements made between them. However, it is true that from a Shariah perspective, whether the agreement is written or unwritten, registered or unregistered, one should honor it and fulfill the covenants made (Al-Quran. 5:1).

Assisting Islamic micro-enterprises that require Shariah-compliant funding from family or friends or any other interested party informally is an area that is often unspoken and unresearched about. Numerous literature studies are on Islamic microfinance and Islamic finance in general, but often a solution for those who wish to engage in private Shariah-compliant debt-based financing is not provided. This results in the misconception that the only available Shariah-compliant option for them is to engage in interest-free loans that do not give a financial return to the lender. Therefore, this paper is novel in this regard, providing a timely and practical solution to those micro-enterprises who are looking for a solution in this regard. The proposed TTF model is motivated by the practice of Tawarruq in the formal finance industry, and it is anticipated that following a standardized process and document template approved by competent Shariah scholars would ensure that the Islamic micro-enterprises enjoy a Shariah-compliant debt-based financing that provides benefit to all parties entering into the transaction. In countries with no commodity platform to practice Tawarruq, the proposed TTF model could be adopted between the deficit and surplus units within the economy to ease the liquidity needs faced by micro-enterprises. The TTF model proposed in this paper provides an opportunity to enter into Tawarruq transactions by customizing the transaction as per the parties' needs without getting involved in the formal banking sector. Since there is no similar research conducted on the same topic, the findings of this research will pave way to conduct future research on how Tawarruq can be utilized in private transactions conducted between the parties.

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