

ISLAMIC SOCIAL FINANCE AND FINANCIAL INCLUSION: A CASE STUDY OF BSN MICRO-I MADANI IN MALAYSIA

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Abstract

This paper examines BSN Micro-i MADANI, an Islamic microfinance product, within Malaysia's broader Islamic social finance ecosystem and the MADANI policy agenda. The study adopts a documentary analysis approach, drawing on policy frameworks, institutional documents, product disclosure materials, and relevant scholarly literature to analyse the product's Shariah structure, design features, and alignment with financial inclusion objectives. The analysis finds that while tawarruq-based microfinance enables scalable Shariah-compliant cash financing for micro-entrepreneurs, its debt-based nature, flat-rate pricing, and formal eligibility requirements may limit accessibility for ultra-poor and informal segments. Beyond the case of BSN, the paper highlights broader implications for the design of Islamic microfinance products in Malaysia, particularly the need to align commercial microfinance instruments with Islamic social finance objectives and Maqasid al-Shariah. By proposing a Two-Tier Islamic Social Finance–Microfinance Model, this study offers a conceptual framework that can inform policymakers, Islamic financial institutions, and zakat and waqf authorities in structuring inclusive, tiered financing pathways for diverse micro-entrepreneur segments. The paper contributes to the literature by advancing an integrated perspective on Islamic social finance and microfinance that is applicable beyond a single institution.

Keywords: Islamic microfinance; BSN Micro-i Madani; *Tawarruq* financing; Shariah-compliant product design; Islamic social finance; financial inclusion; micro-entrepreneurs; Malaysia.

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INTRODUCTION

In an official 2025 release, the Department of Statistics Malaysia reported the performance of Malaysia's micro, small, and medium enterprises (MSMEs) for the year 2024. MSMEs recorded Gross Domestic Product (GDP) growth of 5.8%, contributing 39.5% to the national economy, equivalent to RM652.4 billion in value added (Department of Statistics Malaysia, 2024). This strong performance is

also reflected in other dimensions of the economy, such as exports and employment. The Edge Malaysia (2023) highlighted regarding informal workers, including domestic workers, street vendors, and the self-employed, although situated at the bottom of the economic pyramid, continue to contribute meaningfully to Malaysia's GDP through their participation in entrepreneurial activities. Given the clear contribution of entrepreneurship to national output, it is evident that this sector warrants direct and sustained government support.

Malaysia's Strategic Thrust 1A on sustaining a strong economic recovery emphasises strengthening the role of development finance institutions (DFIs) in bridging financing gaps for strategic economic sectors and underserved segments that are often perceived by commercial banks as high risk or less profitable. In line with this, Bank Negara Malaysia has continued to refine the performance measurement framework for DFIs introduced in 2018, as outlined in the Financial Sector Blueprint 2022–2026 (Bank Negara Malaysia, 2022). The framework integrates development-oriented key result indicators (KRIs) designed to capture the socioeconomic impact of DFI operations more effectively. Indicators such as financing extended to first-time borrowers, employment generated by funded projects, and private-sector capital mobilised for underserved or emerging segments reflect the evolving priorities of Malaysia's economic landscape. As dynamic instruments, these KRIs are intended to adapt to shifting national goals and to reinforce the role of DFIs as transparent and accountable public institutions.

Concurrently, the MADANI policy framework articulated by the Prime Minister of Malaysia, Dato' Seri Anwar Ibrahim, seeks to address rising living costs and broader socioeconomic vulnerabilities through a values-based development approach. Among its initiatives, the MADANI agenda emphasises the establishment of special national funds to support grants, scholarships, and innovative economic and business practices (Anwar Ibrahim, 2023). This vision aligns with the objectives of microfinance, which aims to provide targeted, small-scale funding for entrepreneurship and income generation. In addition, initiatives under *Perniagaan MADANI* and *Belanjawan 2025*, such as support schemes for micro and small businesses, including BSN Micro-i MADANI, aim to strengthen entrepreneurial ecosystems and facilitate access to finance for vulnerable groups (Ministry of Finance Malaysia, 2025).

Women's essential contributions to economic growth and social development are increasingly recognised worldwide, leading to a substantial rise in initiatives to empower women entrepreneurs in recent years. Nevertheless, within this broader group, single-mother entrepreneurs constitute a particularly resilient yet underserved segment that continues to face distinct and complex challenges (Rapi et al., 2025). These efforts resonate with microfinance goals of supporting micro and small businesses in emerging economic areas, including digital entrepreneurship, by combining access to finance with an enabling environment.

Despite the availability of various microfinance schemes in Malaysia, significant financing gaps persist, particularly among low-income and vulnerable micro-entrepreneurs (Naeem & Ul Haq, 2025). Within this context, Bank Simpanan Nasional's (BSN) Micro-i MADANI has emerged as an Islamic microfinance product explicitly aligned with the MADANI policy agenda.

However, there remains limited academic analysis of BSN Micro-i MADANI as an Islamic microfinance and Islamic social finance instrument, particularly in comparison with zakat- and waqf-based initiatives or innovative bank-led products such as BangKIT Microfinance. (Wahab et al., 2023).

This conceptual paper seeks to address this gap by providing a structured, document-based analysis of BSN Micro-i MADANI within the broader framework of Islamic social finance and financial inclusion in Malaysia. Specifically, the paper is guided by the following questions:

- To what extent, at a conceptual level, does BSN Micro-i MADANI align with Islamic social finance principles and financial inclusion objectives?

This paper undertakes a documentary-based analysis of BSN Micro-i MADANI to examine its Shariah structure, product design, and alignment with Islamic social finance and financial inclusion objectives, thereby contributing to debates on the role of state-linked institutions in advancing the MADANI agenda.

LITERATURE REVIEW

Islamic Microfinance in Malaysia

Islamic microfinance in Malaysia has played a central role in poverty alleviation and inclusive development, evolving from early initiatives like Project Ikhtiar into a comprehensive ecosystem of government-supported microfinance institutions and innovative Islamic social finance products such as BangKIT Microfinance. Islamic social finance instruments have supported socioeconomic development and poverty reduction for centuries by channelling resources to disadvantaged groups. In Malaysia, modern microfinance began in the mid-1980s with Project Ikhtiar, which later became Amanah Ikhtiar Malaysia (AIM), a dedicated institution providing microcredit to low-income

households to support entrepreneurship and raise living standards. Today, AIM operates alongside several other major microfinance providers (as summarised in Table 1): Tabung Ekonomi Kumpulan Usaha Niaga (TEKUN), Yayasan Usaha Maju (YUM), and People’s Credit Cooperation (Koperasi Kredit Rakyat, KKR). AIM, TEKUN and YUM receive strong government backing to serve underprivileged groups nationwide, while KKR focuses specifically on poorer communities in Sabah, East Malaysia. The federal government has consistently expanded budgetary support for microfinance, with TEKUN and related schemes receiving several hundred million ringgit annually to widen outreach among micro-entrepreneurs. In parallel, Malaysia’s financial sector blueprints encourage banks to promote inclusive finance and Islamic microcredit, contributing to high international rankings in “Getting Credit” indicators within the World Bank’s ease of doing business assessments.

Malaysian microfinance programmes typically offer relatively simple application procedures, fast approval and disbursement, and collateral-free financing tailored to the needs of small businesses. To further reduce costs for borrowers, the government provides measures such as stamp-duty exemptions on smaller loans within designated microfinance schemes. Bank Islam Malaysia Berhad (BIMB) recently introduced BangKIT Microfinance as a pioneering Islamic social finance product that combines *sadaqah*-funded capital with Islamic crowdfunding to support unbanked and underbanked micro-entrepreneurs. The initiative is designed to offer affordable, Shariah-compliant, often interest-free financing together with entrepreneurship training, positioning it as a potential model that can be replicated in other communities seeking to integrate Islamic social finance with microenterprise development.

The microfinance providers presented in Table 1 are not intended to represent an exhaustive list of all microfinance institutions operating in Malaysia. Instead, the selection focuses on major, policy-relevant providers that are frequently cited in the literature and play a significant role in national financial inclusion efforts. These institutions represent different organisational models, including government-supported microfinance institutions (AIM, TEKUN, YUM), regionally focused initiatives (KKR), and bank-led Islamic social finance innovation (BangKIT Microfinance). The table is therefore designed to provide a conceptual mapping of key institutional archetypes within Malaysia’s microfinance ecosystem rather than a comprehensive industry census (Wajdi Dusuki, 2008; Wahab et al., 2023; Bank Negara Malaysia, 2022).

Table 1 Main microfinance providers in Malaysia

Institution	Primary focus / clientele	Key characteristics
Amanah Ikhtiar Malaysia (AIM)	Poor households nationwide	Poverty-oriented, Grameen-inspired microcredit, group-based lending.
Yayasan Usaha Maju (YUM)	Poor communities in Sabah	Poverty-focused, individual lending adapted to local geography.

TEKUN Nasional	Micro-entrepreneurs across Malaysia	Fast, collateral-free microcredit, wider income range including “not-so-poor”.
Koperasi Kredit Rakyat (KKR)	Low-income groups in Sabah	Cooperative-based microcredit tailored to local needs.
BangKIT Microfinance (BIMB)	Unbanked/underbanked micro-entrepreneurs	Islamic social finance product funded by <i>sadaqah</i> and crowdfunding.

Source: Authors’ own compilation

Microfinance and Financial Inclusion

Microfinance has long been promoted as a tool for financial inclusion and poverty reduction by extending small-scale financing to low-income households and micro-entrepreneurs excluded from formal banking systems. Recent reviews, however, suggest that while microfinance can generate positive effects on business activity and resilience, its impact on poverty and income is often modest and heterogeneous across contexts (Meki & Quinn, 2024). Within this broader debate, Islamic microfinance has emerged as a distinct model that seeks not only to enhance financial access but also to reflect the ethical and distributive principles of Shariah (Malik, 2024; Naeem & Ul Haq, 2025).

In Muslim-majority countries, Islamic microfinance is increasingly viewed as an instrument for deepening financial inclusion among populations with strong religious preferences regarding finance, as well as among vulnerable income groups such as the B40 segment. In Malaysia, the B40, M40, and T20 income classifications provide a policy framework for targeting different socioeconomic groups, with B40 households often facing heightened financial vulnerability and credit constraints (e-Central, 2025).

Islamic Microfinance and Comparison with Conventional Models

Islamic microfinance differs from conventional microfinance primarily in its prohibition of *riba* and its emphasis on contracts that promote fairness, asset-backing, and shared responsibility. Malik, (2024) highlights that Islamic microfinance shares many operational features with conventional microfinance, such as small loan sizes, group-based mechanisms, and an entrepreneurial focus, yet aspires to achieve

broader social objectives through instruments such as *qard hassan*, *musharakah*, and *murabahah*. Comparative work further notes that Islamic microfinance frameworks aim to integrate ethical constraints and social justice concerns more explicitly than conventional microfinance. However, in practice, implementation sometimes converges on debt-based models similar to conventional lending

(Naeem & Ul Haq, 2025). These observations underscore a key tension in the industry: the need to balance commercial sustainability with the Maqasid-oriented goals of promoting welfare, equity, and dignity for low-income clients. This tension is particularly relevant for products structured through *tawarruq*, where legal compliance may be achieved, but the substantive economic effect resembles that of interest-bearing debt.

Islamic Social Finance, Maqasid al-Shariah and Sustainable Development

Islamic social finance (ISF) encompasses instruments such as zakat, waqf, *sadaqah*, and *qard hassan* that are explicitly oriented towards redistribution, poverty alleviation, and community development. Recent scholarship emphasises the alignment between ISF and the Sustainable Development Goals (SDGs) when guided by Maqasid al-Shariah, particularly the preservation of faith, life, intellect, progeny, and wealth (Awang et al., 2025; N. Ibrahim & Markom, 2024). Hassan (2023) argues that embedding Maqasid al-Shariah into Islamic finance practices enhances their contribution to sustainability by refocusing attention on real economic benefits, social justice, and environmental stewardship. At the institutional level, ISF is increasingly conceptualised through integrated models that link charitable and philanthropic funds with more commercial Islamic finance instruments. Othman et al. (2022), for instance, propose an integrated Islamic social finance model to achieve sustainable funding by coordinating the roles of zakat, waqf, and Islamic financial institutions. Such models suggest that combining grant-like resources with market-based financing can expand outreach while maintaining financial viability.

Zakat, Waqf and Qard Hassan-Based Microfinance Initiatives

Empirical and conceptual studies in Malaysia provide rich examples of ISF-based microfinance. Abdullah Thaidi et al. (2024) examine a zakat-based microfinance programme implemented by the Melaka Islamic Religious Council (MAIM), highlighting how zakat funds can be structured as productive financing to support entrepreneurial activities among low-income beneficiaries. Z. Ibrahim et al. (2024) explore the potential of cash waqf to underpin ethical and sustainable *qard hassan* microfinancing for B40 and M40 groups, stressing its role in inclusive development.

At the institutional level, mosque-based initiatives have also been proposed. Noordeen et al. (2024) introduce a mosque-based *ijarah* financing model funded by cash waqf for micro-enterprises in Selangor, demonstrating how local religious institutions can function as nodes for community-level microfinance. These studies collectively show that zakat, waqf, and *qard hassan* can be mobilised beyond traditional consumption-based transfers towards productive, empowerment-oriented microfinancing. More recently, Rapi et al. (2025) discuss Islamic social finance as a catalyst for growth among B40 single-mother entrepreneurs in Malaysia, underscoring the importance of gender-sensitive design and targeted support for vulnerable groups. Together, these contributions highlight the potential

of ISF instruments to address both financial exclusion and multidimensional vulnerability when effectively institutionalised.

***Tawarruq*-based financing in Islamic banking**

Despite the prominence of social finance instruments, many Islamic financial institutions, including banks, continue to rely heavily on *tawarruq*-based products. *Tawarruq* allows customers to obtain cash financing through a series of commodity transactions and is widely used in retail and corporate financing in Malaysia. Ahmad et al. (2017) provide a detailed analysis of *tawarruq* as a financing product in the Malaysian Islamic banking system, noting both its flexibility and the Shariah concerns that arise when transactions become highly organised or lack genuine transfer of ownership. Hasmad & Alosman (2022) document the extensive use of *tawarruq* across various Islamic banking products in Malaysia, raising questions about overreliance on debt-like structures.

From a Shariah perspective, debates persist regarding the extent to which organised *tawarruq* fulfils the spirit of Islamic commercial law. The Islamic Economist (2016) offers a critical Shariah analysis of *tawarruq*-based products, highlighting issues such as form over substance, the role of brokers, and the risk that transactions are merely legal artifices for interest-based lending. These concerns become particularly salient when *tawarruq* is used in microfinance aimed at low-income clients, where the social objectives of Islamic finance are expected to be most visible.

Islamic Social Finance Initiatives in Malaysian Banking

Within the Malaysian banking landscape, there has been a gradual move towards embedding Islamic social finance elements into retail banking products. Wahab et al. (2023) analyse Bank Islam Malaysia Berhad's innovative BangKIT microfinance product, which blends Islamic social finance mechanisms with micro-entrepreneurial support. Their study illustrates how a bank can design microfinance products that incorporate social objectives, concessional terms, and non-financial support while operating within a regulated environment.

Other works, such as Balqis Mohamed Othman et al. (2024) and Awang et al. (2025), further reinforce the view that integrating ISF with broader development agendas such as the SDGs and national socioeconomic strategies, requires more systematic collaboration between Islamic financial institutions, state Islamic religious councils, and government agencies.

Selected Studies on Islamic Microfinance and Islamic Social Finance

Table 2 presents a focused synthesis of core conceptual and empirical studies on Islamic microfinance and Islamic social finance that inform the development of the proposed two-tier Islamic social finance-

microfinance model.

Table 2: Core Studies on Islamic Microfinance and Islamic Social Finance

Author(s) & Year	Focus of Study	Research Approach	Key Insights Relevant to This Study
Wajdi Dusuki (2008)	Role of Islamic banks in socioeconomic development through microfinance	Conceptual analysis	Emphasises the need for Islamic microfinance models that go beyond conventional debt-based financing and incorporate social intermediation and poverty-oriented mechanisms.
Kaleem & Ahmed (2010)	Charity-based Islamic microfinance institutions	Conceptual framework	Highlights the importance of philanthropic instruments such as zakat and ṣadaqah in sustaining the social mission of Islamic microfinance institutions.
Smolo & Ismail (2011)	Theoretical framework of IsMFIs for poverty reduction	Conceptual study	Proposes that Islamic microfinance can effectively reduce poverty when aligned with Shariah principles and social justice objectives.
Bhuiyan et al. (2012)	Islamic microfinance and sustainable livelihoods	Conceptual analysis	Demonstrates that integrating qard hassan and zakat into microfinance frameworks enhances financial inclusion and livelihood sustainability.
El-Komi & Croson (2013)	Shariah-compliant contracts under information asymmetry	Experimental study	Finds higher compliance and repayment behaviour under profit- and loss-sharing contracts compared to conventional interest-based arrangements.
Ashraf et al. (2014)	Performance of MFIs in Muslim and non-Muslim countries	Empirical study	Identifies the role of female borrowers and institutional factors in improving loan recovery and organisational performance.
Obaidullah ,(2015)	Role of IsMFIs in enhancing food security	Case study	Highlights both the potential and operational challenges faced by IsMFIs in addressing multidimensional poverty among rural households.
Kurt et al. (2020)	Religion and spirituality in Islamic microfinance participation	Qualitative empirical study	Shows that religious and spiritual motivations significantly influence clients' commitment to Islamic microfinance programmes.

(Zitouni & Ben Jedidia, 2022)	Islamic microfinance and economic empowerment	Survey-based empirical study	Concludes that Islamic microfinance contributes to economic empowerment when supported by enabling infrastructure and institutional investment.
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Source: Authors' own compilation based on selected Scopus-indexed literature.

The studies summarised in Table 2 collectively demonstrate that Islamic microfinance has strong potential to promote financial inclusion, poverty alleviation, and socioeconomic empowerment when aligned with Shariah principles and social justice objectives. Conceptual works consistently emphasise the importance of integrating philanthropic instruments such as *zakat*, *sadaqah*, and *qard hassan* to preserve the social mission of Islamic microfinance, while empirical studies highlight the role of institutional design, governance, and client motivation in shaping outcomes (Bhuiyan et al., 2012; Kaleem & Ahmed, 2010; Kurt et al., 2020; Wajdi Dusuki, 2008).

However, the existing literature also reveals several limitations. First, many studies examine Islamic microfinance either from a purely philanthropic perspective or through conventional institutional performance lenses, without sufficiently integrating both dimensions within a single analytical framework. Second, relatively limited attention has been given to how debt-based Islamic microfinance instruments, such as *tawarruq*, interact with Islamic social finance objectives, particularly when applied to low-income and vulnerable segments. In the Malaysian context, existing research has largely focused on *zakat*- and *waqf*-based microfinance initiatives or innovative products such as BangKIT Microfinance offered by Islamic commercial banks. In contrast, there is a notable absence of academic studies examining state-linked Islamic microfinance products structured using *tawarruq* and explicitly aligned with national development frameworks such as MADANI.

Identified Research Gap and Conceptual Positioning of BSN Micro-i MADANI

The existing literature provides substantial insights into Islamic social finance instruments, including *zakat*- and *waqf*-based microfinance, integrated Islamic social finance models, and innovative bank-led initiatives such as BangKIT (Abdullah Thaidi et al., 2024; N. Ibrahim & Markom, 2024; Noordeen et al., 2024; Rapi et al., 2025; Wahab et al., 2023). It also documents the widespread reliance on *tawarruq*-based financing in Malaysian Islamic banking, together with ongoing Shariah and substantive concerns regarding its debt-based nature (Ahmad et al., 2017; Hasmad & Alosman, 2024; Islamic Economist, 2016).

However, there remains limited conceptual analysis of BSN Micro-i MADANI as a *tawarruq*-based Islamic microfinance product explicitly linked to the MADANI policy agenda and national financial inclusion objectives. Existing studies tend to examine either *zakat*- and *waqf*-based Islamic social finance initiatives or Islamic banking products in isolation, without sufficiently integrating both

dimensions within a unified analytical framework.

This paper addresses this gap by conceptually positioning BSN Micro-i MADANI within Malaysia's Islamic social finance ecosystem and proposing a Two-Tier Islamic Social Finance–Microfinance Model that links zakat- and waqf-funded *qard hassan* with *tawarruq*-based microfinance for different segments of micro-entrepreneurs.

METHODOLOGY

Research Design and Case Selection Rationale

This study adopts a conceptual, documentary-based research design, which is appropriate for examining Islamic financial products that are embedded within policy frameworks, Shariah governance structures, and institutional mandates. Conceptual analysis is widely used in Islamic finance and Islamic social finance research to develop analytical frameworks, identify structural tensions, and generate propositions for future empirical testing (Wajdi Dusuki, 2008; Kaleem & Ahmed, 2010; Smolo & Ismail, 2011).

Selection of Bank Simpanan Nasional (BSN)

Bank Simpanan Nasional (BSN) was selected as the focal institution because of its developmental mandate as a state-linked financial institution and its explicit role in implementing government-led financial inclusion initiatives. Unlike fully commercial banks, BSN operates at the intersection of public policy and retail finance, making it a relevant case for examining how Islamic microfinance is operationalised within national development frameworks such as MADANI (Bank Negara Malaysia, 2022; Ministry of Finance Malaysia, 2025).

Selection of BSN Micro-i MADANI

BSN Micro-i MADANI was selected because it is an explicitly Shariah-compliant microfinance product that is directly aligned with the MADANI policy agenda and targeted at micro-entrepreneurs. The product represents a widely adopted *Tawarruq*-based microfinance structure within a regulated banking environment, making it a suitable case for analysing the alignment and tension between Islamic commercial financing practices and Islamic social finance objectives. Its formal eligibility criteria, flat-rate pricing, and scalability further allow for conceptual evaluation of inclusivity and Maqasid al-Shariah considerations.

Rationale for Comparison with BangKIT Microfinance (BIMB)

The comparison with Bank Islam Malaysia Berhad's BangKIT Microfinance is employed for analytical contrast rather than empirical benchmarking. BangKIT represents a bank-led Islamic social finance initiative funded through *sadaqah* and structured around *qard hassan*, which differs fundamentally from BSN Micro-i MADANI's *Tawarruq*-based financing. This contrast enables the study to conceptually illustrate how different Islamic finance instruments serve different segments of micro-entrepreneurs, thereby supporting the development of the proposed Two-Tier Islamic Social Finance–Microfinance Model (Wahab et al., 2023).

Justification for a Conceptual Research Approach

This study is conceptual in nature because of the limited availability of publicly accessible micro-level data on client outcomes and operational performance of Islamic microfinance products. Rather than measuring impact empirically, the study aims to theorise, integrate, and synthesise insights from existing literature, policy documents, and product disclosures to position BSN Micro-i MADANI within Malaysia's Islamic social finance ecosystem. Conceptual research is particularly appropriate at this stage to clarify theoretical linkages, identify design gaps, and propose integrative models that can guide future empirical investigation.

Islamic Micro Products by BSN

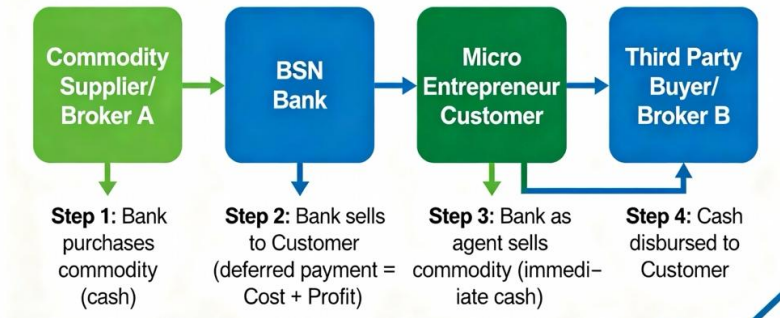
Bank Simpanan Nasional (BSN) offers both conventional and Islamic microfinance products aimed at supporting micro-entrepreneurs across a range of economic sectors. While both product categories pursue similar development objectives, BSN Micro-i MADANI differs from its conventional counterpart by being structured in accordance with Shariah principles and positioned within the broader MADANI policy framework.

BSN Micro-i MADANI is an unsecured Islamic microfinance product designed to support business growth among micro-entrepreneurs through financing for working capital, asset acquisition, and business-related expenses. The product is priced using a flat-rate financing structure, whereby the profit amount is calculated based on the initial financing amount approved at the commencement of the financing period (BSN, n.d.). This structure offers predictability in repayment obligations but may also increase the effective repayment burden over longer tenures.

The Shariah principle applied in BSN Micro-i MADANI is *tawarruq* (commodity murabahah), which involves a sequence of sale and purchase transactions to facilitate cash financing. In this structure, BSN sells a commodity to the customer at a deferred price comprising the financing amount plus an agreed profit margin. The customer subsequently sells the commodity to a third party on a spot basis to obtain cash, with BSN acting as the customer's appointed agent in executing the transactions (BSN, n.d.).

Figure 1 illustrates the *tawarruq* structure underpinning BSN Micro-i MADANI and summarises the flow of transactions between the bank, the customer, and third-party commodity brokers. The figure is generated by the authors based on information disclosed in BSN’s product documentation and serves to provide a simplified conceptual representation of the financing mechanism rather than a replication of internal operational processes.

Figure 1 *Tawarruq* structure underpinning BSN Micro-i MADANI



Source: Authors’ own conceptualisation based on BSN Product Disclosure Sheet.

The financing amount can range from RM2,000 to RM100,000, with a tenure of 1 to 7 years. The finance rate is a flat rate from 3.50% to 4.0% annually. The payment example is provided in the illustrative payment schedule (Table 3), which shows that when the approved financing amount is RM100,000, the profit rate is 4.00% and the financing tenure is 7 years. The Bank Selling Price will be RM128,000. The monthly instalment will be a fixed amount of RM1,524.00, and by the end of the final month of payment, it will decrease to RM1,508.00. Since they are Shariah-compliant products, they are explained more transparently than the conventional versions. To be eligible for this program, applicants must be microenterprises operating in any business sector, including sole proprietorships, partnerships, limited liability partnerships, or private limited companies. The business must be Malaysian-owned, and self-employed professionals such as accountants, doctors, and lawyers are also qualified to apply. Additionally, the business or professional practice must be registered with the Companies Commission of Malaysia (CCM), a Local Authority (LA), or a recognized professional body or agency, depending on the nature of the profession. Lastly, the business must have been in operation for a minimum of three months, as determined by its category and type.

Table 3 Illustrative Payment Schedule for Shariah-Compliant Micro-Financing Scheme

Item	Details
Financing Concept	Shariah-Compliant (Murabahah/Tawarruq)
Approved Financing Amount	RM 100,000.00
Profit Rate (Flat)	4.00% per annum

Financing Tenure	7 Years (84 Months)
Total Profit Charge	RM 28,000.00
Bank Selling Price	RM 128,000.00
Monthly Instalment (Months 1–83)	RM 1,524.00
Final Month Instalment (Month 84)	RM 1,508.00

(Note: The term "Bank Selling Price" indicates a sale-based contract structure. Profit is calculated as $RM100,000 \times 4.00\% \times 7 \text{ years} = RM28,000.$)

Source: Authors' own conceptualisation based on BSN Product Disclosure Sheet.

The application process is easy and can be applied online on the BSN website. Applicants must prepare several key documents. These include a copy of the identification card for the proprietor, partners, or all directors (if applicable), along with a valid business registration certificate issued by the Companies Commission of Malaysia (CCM), a business license from the Local Authority (LA), or professional registration and certificate of practice for those in regulated professions. Additionally, applicants must provide bank account statements from the past three to six months, utility bills (electricity and water) for the business premises, and any other supporting documents requested by the bank. Applicants can upload the needed documents online or prepare all the documents and go to the BSN Micro Finance Centre or the BSN State Main Branches. The waiting period for confirmation is within six working days after receiving complete documents to update the status of the application.

Comparison Between BangKIT Microfinance and BSN Micro-i MADANI

Bank Islam Malaysia Berhad (BIMB) offers a microfinance product known as BangKIT Microfinance, which was introduced in December 2020, prior to the articulation of the MADANI policy framework. Unlike Bank Simpanan Nasional (BSN), which operates as a national savings institution with a development mandate, BIMB is a fully fledged Islamic commercial bank. BangKIT Microfinance is widely recognised as one of the earliest bank-led Islamic microfinance initiatives funded through voluntary charitable contributions (*sadaqah*), reflecting a strong Islamic social finance orientation (Wahab et al., 2023).

Although BangKIT Microfinance and BSN Micro-i MADANI share similar objectives of promoting financial inclusion and supporting micro-entrepreneurs, they differ substantially in terms of Shariah structure, funding sources, financing size, and tenure. These differences reflect the distinct institutional mandates and operational models of BIMB and BSN. Table 4 summarises the key differences between the two products.

Table 4 Comparison between BangKIT and BSN Micro-I MADANI

Dimension	BangKIT (BIMB)	BSN Micro-i Madani
Shariah concept	<i>Qarḍ</i> funded by <i>ṣadaqah</i>	<i>Tawarruq</i> -based microfinancing
Funding source	<i>Sadaqah</i> pool	BSN funding is supported by government schemes
Financing size	Approx. RM500–20,000	RM2,000–100,000
Tenure	6 months–3 years	1–7 years

Source: Authors' own compilation based on (Wahab et al., 2023) and BSN Product Disclosure Sheet

The comparison highlights that BSN Micro-i MADANI offers larger financing amounts and longer repayment tenures than BangKIT Microfinance. This difference can be attributed to BSN's development-oriented mandate and its role in implementing government-supported financing programmes. The longer tenure available under BSN Micro-i MADANI may reduce monthly instalment amounts, potentially making repayments more manageable for micro-entrepreneurs with relatively stable cash flows.

However, these features also imply that BSN Micro-i MADANI is more suitable for bankable micro-entrepreneurs, while BangKIT Microfinance, with its smaller financing size and benevolent *qard hassan* structure, is more aligned with vulnerable and early-stage micro-entrepreneurs. This contrast reinforces the argument that a single microfinance product is unlikely to meet the needs of all segments, thereby supporting the rationale for a tiered Islamic social finance–microfinance approach.

Shariah Analysis of the *Tawarruq* Structure Underpinning BSN Micro-I Madani

Tawarruq has become one of the most widely utilised financing structures in Malaysian Islamic banking, particularly for retail and microfinance products that require cash-based financing. Structurally, *tawarruq* enables customers to obtain liquidity through a series of sale and purchase transactions involving commodities, thereby avoiding explicit interest-based lending. From an operational perspective, this structure offers standardisation, regulatory compatibility, and scalability for Islamic financial institutions (Ahmad et al., 2017; Hasmad & Alosman, 2022).

In the case of BSN Micro-i MADANI, the application of organised *tawarruq* follows a commonly adopted Malaysian Islamic banking practice, where the bank facilitates the entire transaction flow on behalf of the customer. While this arrangement is generally recognised as Shariah-compliant by the Shariah Advisory Council of Bank Negara Malaysia, scholarly debates continue regarding its substantive alignment with the objectives of Islamic commercial law. Critics argue that organised

tawarruq may prioritise contractual form over economic substance, particularly when the sequence of transactions closely resembles conventional debt financing (Islamic Economist, 2016).

From a Maqasid al-Shariah perspective, the use of *tawarruq* in microfinance raises additional considerations. Although *tawarruq* satisfies legal compliance requirements, its debt-based nature may place repayment pressure on low-income and vulnerable micro-entrepreneurs, potentially conflicting with Maqasid objectives such as the protection of wealth (*hifz al-mal*), prevention of hardship (*raf' al-haraj*), and promotion of social justice. These concerns are amplified when flat-rate pricing structures are applied to borrowers with unstable income streams.

Nevertheless, it is important to acknowledge that *tawarruq*-based financing also plays a functional role within a regulated banking environment. For bankable micro-entrepreneurs with relatively stable cash flows, *tawarruq* can provide access to larger financing amounts, structured repayment schedules, and formal financial inclusion. Accordingly, the Shariah concern surrounding *tawarruq* lies not in its permissibility per se, but in its appropriateness across different segments of micro-entrepreneurs.

This analysis suggests that while BSN Micro-i MADANI's *tawarruq* structure is suitable for commercially viable micro-entrepreneurs, it may be less aligned with Islamic social finance objectives when applied uniformly to highly vulnerable or ultra-poor groups. This conceptual tension underpins the need for a differentiated financing approach, thereby motivating the Two-Tier Islamic Social Finance Microfinance Model proposed in this paper, in which zakat- and waqf-funded *qard hassan* complements *tawarruq*-based microfinance for different levels of client readiness.

Positioning BSN Micro-i MADANI Within the Two -Tier Model

This study proposes a Two-Tier Islamic Social Finance-Microfinance Model to reconcile the redistributive objectives of Islamic social finance with the operational realities of bank-based Islamic microfinance. The model recognizes that micro-entrepreneurs differ in terms of vulnerability, financial readiness, and repayment capacity, and therefore require differentiated financing instruments.

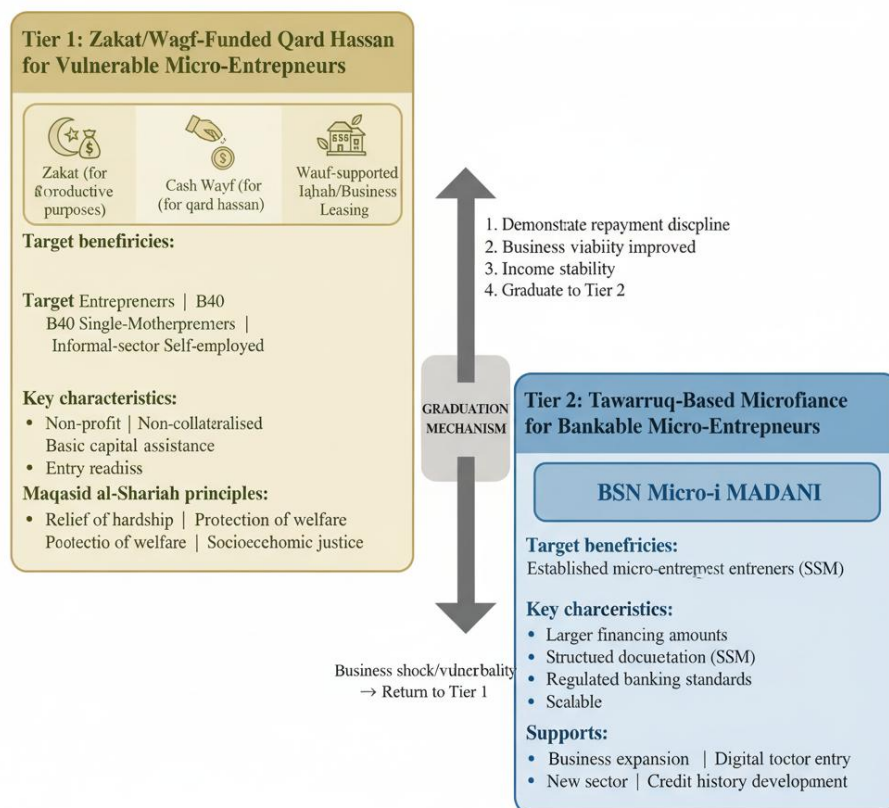
Tier 1 targets vulnerable and ultra-poor micro-entrepreneurs who face unstable income, limited documentation, and high repayment sensitivity. This tier relies on zakat- and waqf-funded *qard hassan* and other concessional Islamic social finance instruments to provide basic capital support, minimize debt burden, and enhance business readiness in line with Maqasid al-Shariah.

Tier 2 serves relatively bankable micro-entrepreneurs with more stable cash flows and formal business arrangements. At this stage, *tawarruq*-based microfinance products, such as BSN Micro-i MADANI, become appropriate by offering larger financing amounts, longer tenures, and structured repayment mechanisms within a regulated banking framework.

The model incorporates a graduation pathway; whereby micro-entrepreneurs may transition from Tier 1 to Tier 2 as their financial capacity and business sustainability improve. This tiered approach enables Islamic microfinance to remain inclusive while preserving institutional sustainability and regulatory compliance.

Figure 2 illustrates the proposed Two-Tier Islamic Social Finance-Microfinance Model. The diagram shows Tier 1 at the foundation, supported by zakat and waqf institutions, targeting vulnerable micro-entrepreneurs through *qard hassan*. Tier 2 builds upon this foundation by providing tawarruq-based microfinance through institutions such as BSN for bankable micro-entrepreneurs. The directional arrows indicate a graduation mechanism, reflecting the progression from concessional social finance to structured commercial financing as client readiness increases.

Figure 2 Two-Tier Islamic Social Finance-Microfinance Model



Integration: Coordinated effort between social finance institutions and Islamic financial institutions

Source: Authors' own conceptualisation

Methodological Limitations

As a conceptual and documentary-based study, this research does not empirically measure borrower-level outcomes or financial performance. To mitigate this limitation, the analysis triangulates multiple secondary sources, including policy frameworks, institutional documents, and peer-reviewed literature, to enhance analytical robustness. Furthermore, by proposing a Two-Tier Islamic Social Finance–Microfinance Model, the study generates theoretical propositions that can be empirically tested in future research using qualitative interviews, surveys, or mixed-method approaches. This positioning ensures that the conceptual nature of the study is a strength in theory development, rather than a weakness in empirical generalisation.

DISCUSSION, CONTRIBUTIONS, CHALLENGES, AND AREAS FOR ENHANCEMENT

1. Contribution of BSN Micro-i MADANI to Islamic Social Finance and Financial Inclusion

Conceptually, BSN Micro-i MADANI illustrates how a state-linked savings institution can operationalise Islamic microfinance within a national development framework such as MADANI. By adopting a *tawarruq*-based structure, BSN is able to extend Shariah-compliant financing to micro-entrepreneurs across a wide range of sectors, with financing sizes between RM2,000 and RM100,000 and tenures of one to seven years at flat profit rates of 3.5-4.0%.

Within the Two-Tier Islamic Social Finance-Microfinance Model (Figure 2), BSN Micro-i MADANI is positioned in Tier 2, serving relatively bankable micro-entrepreneurs with stable cash flows and formal business arrangements. In this role, the product complements zakat- and waqf-based Tier 1 programmes that target ultra-poor and vulnerable entrepreneurs through concessional or benevolent financing. This positioning highlights BSN Micro-i MADANI’s contribution at the commercial end of the Islamic finance spectrum, supporting MSME growth and job creation while aligning with the Financial Sector Blueprint’s “Finance for All” agenda.

2. Structural and Access-Related Challenges

Despite these strengths, several structural challenges limit the ability of BSN Micro-i MADANI to fully realise MADANI’s aspiration that “no group is left behind.” These challenges underscore the importance of a differentiated financing approach, as illustrated in Figure 2.

2.1 Entry Barriers, Formalisation, and the Digital Divide

Many low-income and informal micro-entrepreneurs face significant barriers at the initial stage of the microfinance journey, particularly in formalising their businesses and meeting eligibility requirements. Limited awareness of registration procedures, low literacy levels, weak digital skills, and inadequate infrastructure constrain access to online application systems and banking services, especially in rural

and marginalised areas.

As depicted in Tier 1 of Figure 2, zakat and waqf-supported programmes are better positioned to address these entry barriers by providing handholding support, including registration assistance, basic financial literacy, and documentation support. In contrast, Tier 2 products such as BSN Micro-i MADANI, which require formal registration and banking documentation, are more suitable for entrepreneurs who have already achieved a minimum level of readiness. This distinction reinforces the rationale for a staged pathway from Tier 1 to Tier 2 rather than a one-size-fits-all microfinance solution.

2.2 Affordability and Repayment Burden under Flat-Rate Pricing

A second key challenge relates to affordability. Although the flat profit rate of 3.5-4.0% appears modest, the effective repayment burden can be substantial for B40 households with low and unstable incomes. Illustrative schedules indicate that monthly instalments for higher financing amounts may consume a significant proportion of household income, limiting capacity for consumption smoothing and business reinvestment.

Within the framework presented in Figure 2, this challenge further supports the argument that *tawarruq*-based financing should be concentrated in Tier 2, where clients possess stronger repayment capacity. Tier 1, by contrast, relies on *qard hassan* and subsidised financing supported by zakat or waqf to buffer vulnerable households from excessive debt exposure. This tiered allocation helps preserve the social mission of microfinance while maintaining institutional sustainability.

3. Contractual and Maqasid al-Shariah-Related Tensions

The repayment burden associated with flat-rate *tawarruq* financing also reflects a broader contractual tension in Islamic microfinance. While *tawarruq* is widely used due to its practicality and standardisation, its debt-based nature may dilute the social objectives of Islamic finance when applied to poverty-focused segments. As conceptualised in Figure 2, combining benevolent and redistributive instruments in Tier 1 with commercial *tawarruq*-based financing in Tier 2 allows Islamic microfinance to better align with Maqasid al-Shariah, particularly the protection of wealth, prevention of hardship, and promotion of dignified livelihoods. Rather than rejecting *tawarruq* outright, the model emphasises its appropriate placement within a broader Islamic social finance ecosystem.

4. Implications for the Two-Tier Model and Policy Alignment

The challenges identified, entry barriers, affordability constraints, and Maqasid-related tensions, do not negate the value of BSN Micro-i MADANI. Instead, they highlight the need for complementary policies and institutional coordination, as illustrated in Figure 2.

First, Tier 1 programmes operated by state Islamic religious councils and community institutions should actively reduce entry barriers by combining concessional financing with capacity-building support. Second, Tier 2 products such as BSN Micro-i MADANI may incorporate selective subsidies or risk-

sharing mechanisms for borderline B40 clients without undermining commercial viability. Third, non-financial support, including mentoring and digitalisation initiatives, is essential to ensure that progression from Tier 1 to Tier 2 translates into sustainable business growth.

CONCLUSION

This conceptual paper has examined BSN Micro-i MADANI as a *tawarruq*-based Islamic microfinance product within Malaysia's evolving Islamic social finance landscape. The analysis demonstrates that while BSN Micro-i MADANI plays an important role in expanding access to Shariah-compliant financing for micro-entrepreneurs, its effectiveness is shaped by structural features such as eligibility requirements, flat-rate pricing, and repayment capacity.

By situating BSN Micro-i MADANI within the Two-Tier Islamic Social Finance-Microfinance Model (Figure 2), this study highlights the importance of differentiating financing instruments according to client vulnerability and readiness. Zakat- and waqf-funded *qard hassan* and concessional financing are more appropriate for ultra-poor and pre-formal entrepreneurs (Tier 1), while *tawarruq*-based microfinance is better suited for relatively bankable micro-entrepreneurs seeking business expansion (Tier 2). The proposed graduation pathway between the two tiers allows Islamic microfinance to remain inclusive without compromising institutional sustainability.

From a policy perspective, the findings suggest that closer coordination between Islamic financial institutions, state Islamic religious councils, and government agencies is essential to operationalise such a tiered approach. Integrating social finance instruments with regulated banking products can enhance alignment with Maqasid al-Shariah, particularly in terms of preventing hardship, protecting wealth, and promoting dignified livelihoods. Future research may empirically test the proposed model across different institutional settings and assess its impact on long-term micro-entrepreneur resilience and financial inclusion outcomes.

Practical and Policy Implications

The proposed Two-Tier Islamic Social Finance-Microfinance Model offers several practical and policy-relevant implications. For Islamic financial institutions such as BSN, the model highlights the importance of differentiating microfinance products according to client readiness, rather than applying a uniform financing structure across heterogeneous micro-entrepreneurs. For state Islamic religious councils (MAIN) and zakat/waqf institutions, the findings underscore the need to position concessional *qard hassan* programmes as a foundational tier that prepares vulnerable entrepreneurs for eventual participation in formal banking finance. At the policy level, closer coordination between financial institutions, zakat authorities, and government agencies can enhance alignment between Islamic social finance and national development frameworks such as MADANI.

Institutional Recommendations

Based on the conceptual analysis, several institutional recommendations emerge. First, BSN may consider strengthening linkages with zakat and waqf institutions through referral mechanisms or co-designed programmes that facilitate client graduation from Tier 1 to Tier 2. Second, zakat and waqf institutions could complement financing with non-financial support, including business formalisation assistance, financial literacy, and digital skills training. Third, policymakers may explore targeted subsidies, risk-sharing arrangements, or blended finance mechanisms to reduce repayment burdens for borderline B40 micro-entrepreneurs without undermining institutional sustainability.

Limitations of the Study

This study is subject to several limitations. As a conceptual and documentary-based analysis, it does not empirically test the proposed two-tier model or measure actual client outcomes. The analysis relies on publicly available documents and secondary sources, which may not fully capture operational practices or client experiences. Furthermore, the focus on BSN Micro-i MADANI limits the generalisability of the findings to other institutional contexts or jurisdictions.

Directions for Future Research

Future research could empirically examine the effectiveness of the proposed two-tier model using qualitative or mixed-methods approaches, including interviews with micro-entrepreneurs, financial institutions, and zakat authorities. Comparative studies across different Islamic financial institutions or countries would further enrich understanding of how tiered Islamic microfinance models perform under varying regulatory and socioeconomic conditions. Longitudinal research assessing graduation pathways from Tier 1 to Tier 2 could also provide valuable insights into the sustainability and inclusivity of Islamic microfinance interventions.

CONFLICT OF INTEREST

The authors declare no conflicts of interest.

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DECLARATION OF GENERATIVE AI AND AI-ASSISTED TECHNOLOGIES

During the preparation of this work, the authors used ChatGPT solely for language refinement and grammar checking. After using this tool, the authors reviewed and edited the content as needed and take full responsibility for the final content.

ETHICS STATEMENT

Not applicable.

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