



# SHAPING THE POTENTIAL OF ISLAMIC SOCIAL FINANCE

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Presented by:

**MOHD ZIKRI BIN MOHD SHAIRY**

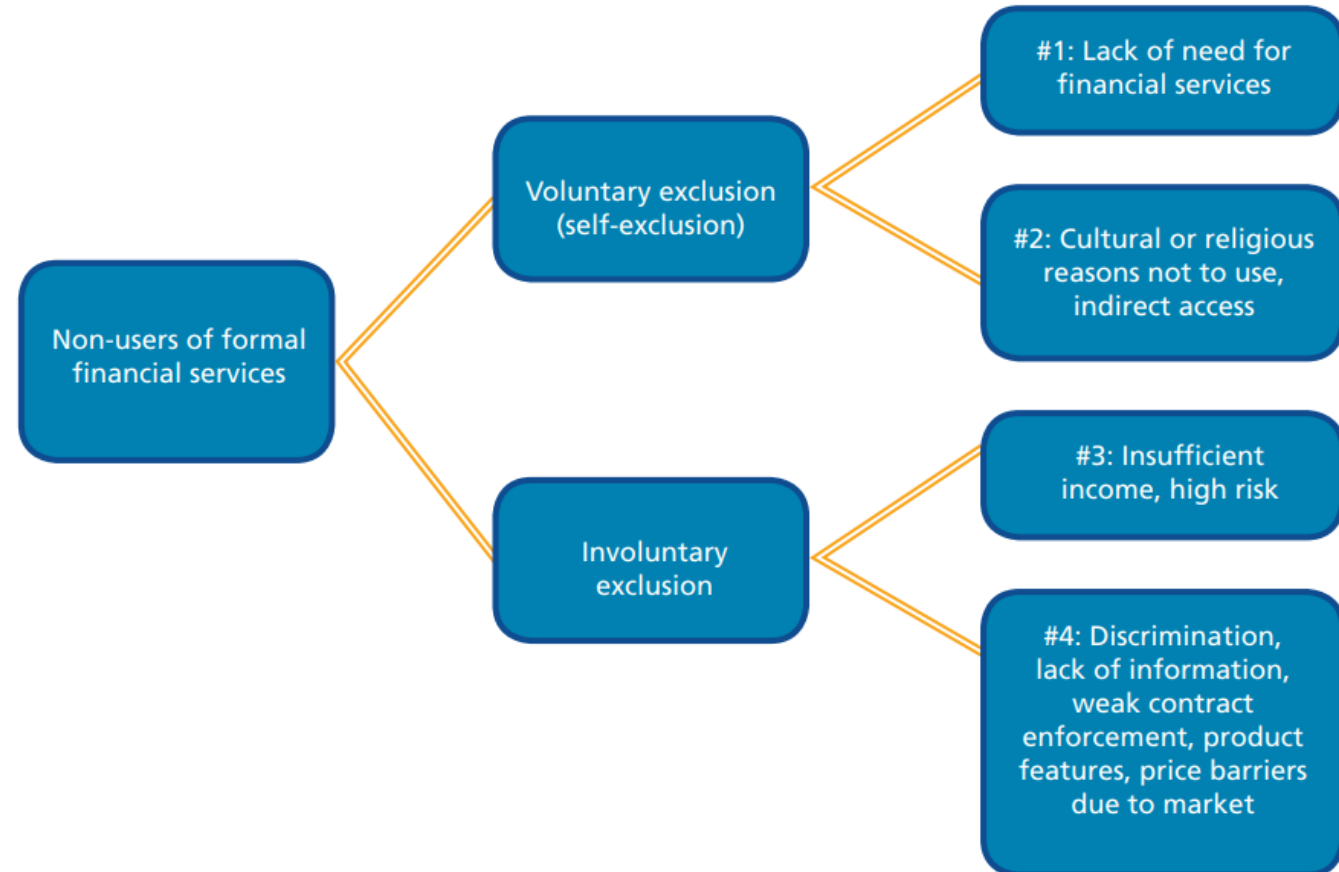
**2 DECEMBER 2025**

# Target Group of Social Finance from Bankers' Perspective

TO BRING THOSE EXCLUDED FROM FINANCIAL SERVICES FOR FINANCIAL INCLUSION

## 4 Major Forms of Financial Exclusion

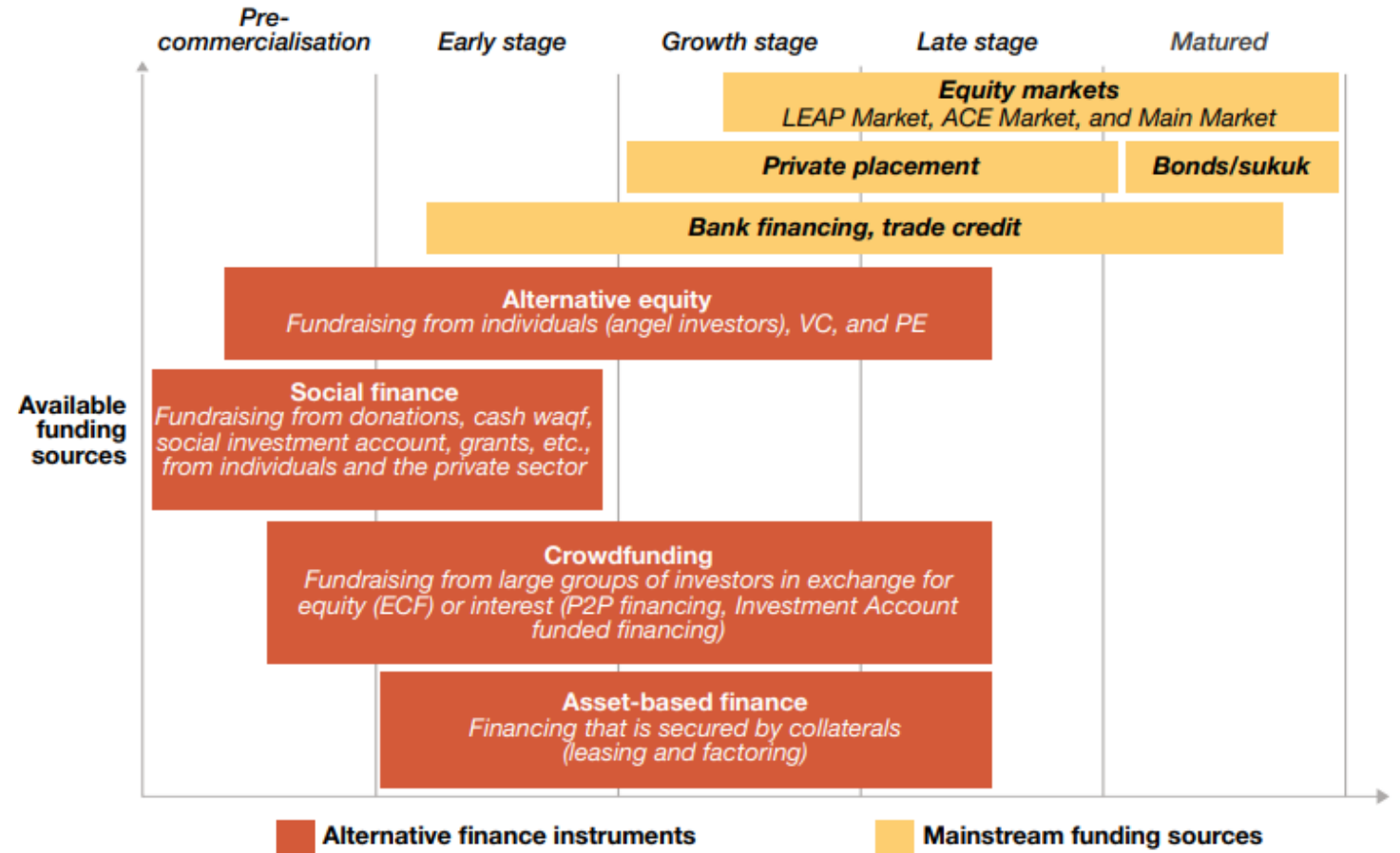
- The World Bank's Global Financial Development Report (GFDR) identifies four major forms of financial exclusion classified broadly into voluntary and involuntary exclusion
- **Voluntary exclusion** refers to the segment of the population or firms that choose not to use financial services either because they do not need those services due to a lack of promising projects or cultural or religious reasons.
- On the other hand, some individuals or firms may be **involuntarily** excluded because they lack sufficient income or in the case of credit markets, an extensive lending risk profile.



Source: World Bank

# Social Finance as the Catalyst for Pre-Commercialization Stage

Social finance is recognised by BNM to meet diversified funding needs of entrepreneurs throughout stages of development from pre-commercialisation to the early stage, before such entrepreneurs would be eligible for **mainstream funding sources** as well as alternative finance instruments.



Source: Bank Negara Malaysia, the Securities Commission

# Economic Empowerment Approach by IsDB (1/3)

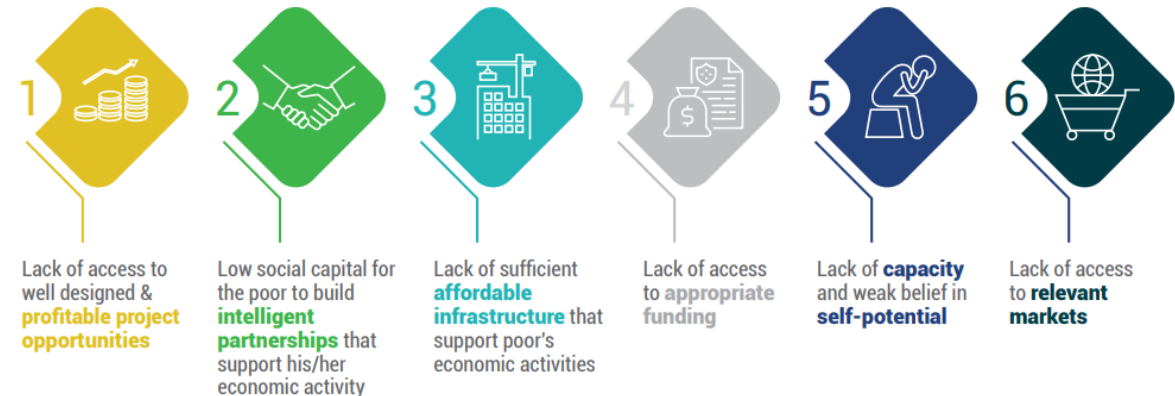


- In the early 2000, the Islamic Development Bank (IsDB) began to augment its Microfinance interventions to address the overlooked segments of society.
- In 2020, the IsDB further refined its approach by launching a tailored innovative solution, The Economic Empowerment Approach (EEA), which enables targeted beneficiaries to play an active role in the economies whilst progressing towards self-sufficiency.
- It entails providing financial and nonfinancial solutions – necessary for the poor and disadvantaged pupils to improve and develop their economic situation.
- The approach targets individuals and groups who are economically fragile or do not have sufficient resources and thus lack control of their economic destiny whilst remaining aid dependent.
- The EEA starts by designing innovative interventions and proposing investment opportunities that take into account:
  - 1) access to finance;
  - 2) access to markets;
  - 3) supporting basic infrastructure;
  - 4) strong partnerships with the public sector, private sector & Civil Society;
  - 5) capacity building; and
  - 6) Business Engineering.
- Thus, a solid and sustainable ecosystem is built in collaboration with strategic partners around the end-beneficiary.

# Economic Empowerment Approach by IsDB (2/3)

- The EEA considers the multi-facet needs of the poor, which goes beyond financial services.
- Studies indicate that microloans are more beneficial to borrowers living above the poverty line than to borrowers living below the poverty line.
- Clients with more income are willing to take the risks, such as investing in new technologies that will most likely increase income flows.
- Poorer borrowers, on the other hand, tend to take out conservative loans that protect their subsistence activities, merely to survive rather than to grow and climb up the rungs of development. Regrettably, a microloan taken by the poor often exacerbates their poverty with more debt obligations.
- Beyond the apparent objectives of microfinance and microloans, Poverty alleviation is about addressing a broader set of needs. Amartya Sen, the Nobel Prize winning economist, eloquently argues that development is “**a process of expanding the real freedoms that people enjoy.**”

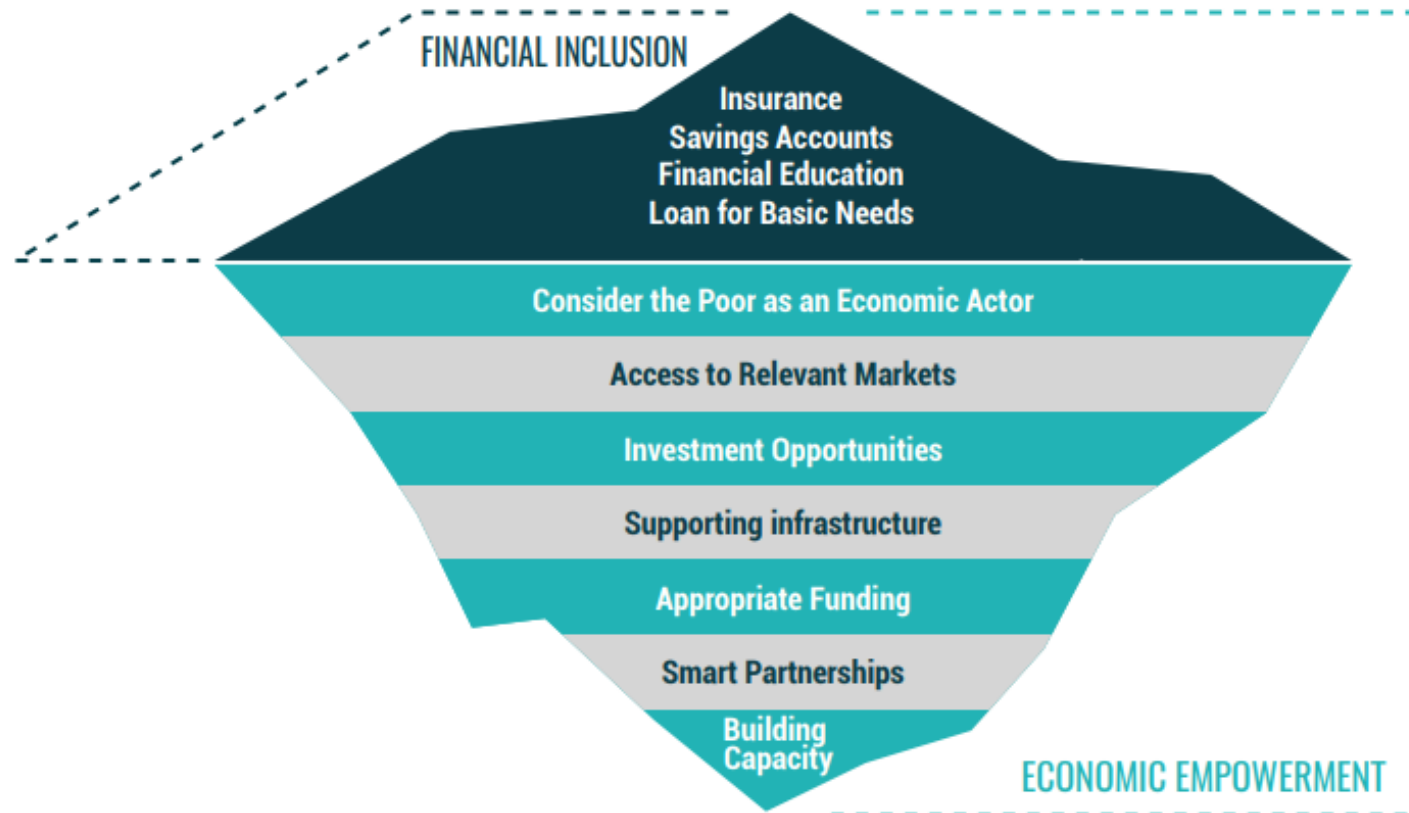
- Thus, in the EEA framework, poverty alleviation starts and ends with Economic Inclusion.
- Considering multi-faceted nature of poverty, at least 6 obstacles below need to be removed from the poor’s path to unlock their potential:



# Economic Empowerment Approach by IsDB (3/3)

## FINANCIAL INCLUSION → ECONOMIC INCLUSION

EEA interventions provide the poor with the appropriate access to the required inputs/means to achieve **not only** financial inclusion but also ensures that the poor is fully economically included



# SHAPING THE POTENTIAL OF ISLAMIC SOCIAL FINANCE (ISF)

## 1. IT IS IMPORTANT TO BE CLEAR ON THE PURPOSE OF INTEGRATING ISF INTO THE CORE OF ISLAMIC BANKING - IFIs NEED TO EMBRACE THE PHILOSOPHY & REASONS OF DOING ISF

يَمْحَقُ اللَّهُ الرَّبْوَا وَيُرِي الصَّدَقَاتِ وَاللَّهُ لَا يُحِبُّ كُلَّ كَفَّارٍ أَثِيمٍ

Allah deprives interest of all blessing, whereas He blesses charity with growth. Allah loves none who is ungrateful and persists in sin.  
[al-Baqarah: 276]

Economic growth that is balanced, progressive, sustainable and inclusive



**1 Bank Negara Malaysia** issued Financial Sector Blueprint 2022-2026 (“FSB”), laid down a direction way forward for BNM to focus on building social resilience by “mainstreaming social finance” towards 2026.

Under **Strategic Thrust 5 of the FSB, Strategy 5C** is focusing to **mainstream social finance** so that it becomes an integral part of the Islamic finance ecosystem.

Social finance is envisioned to play a greater role, with Islamic finance leading the way – **complementing**:

- Public sector finance;
- Commercially-driven financial solutions; and
- CSR activities.

**2 Maldives Monetary Authority (MMA)** launched Maldives Islamic Social Finance Initiative (MISFI) as the national agenda in May 2025, launched by the President of Maldives.



# SHAPING THE POTENTIAL OF ISLAMIC SOCIAL FINANCE (ISF)

## 2. IFI TO ADD VALUE & FURTHER STRENGTHEN THE EXISTING ECOSYSTEM OF ISF

- IFI should not replicate other initiatives run by zakat and awqaf authorities, NGOs/ NPOs and other social impact-based entities.
- Instead, IFI should add value and empower the existing ecosystem of ISF by leveraging on the IFI's expertise to mobilise and maximise fund and asset.

Learning from Yale University → Chief Investment Officer & Investment Office.



In Malaysia, Bank Islam Malaysia Berhad established **Sadaqa House** in 2018 as the catalyst for the ISF implementation.

### Completing Islamic Economics Components



Sadaqa House fully operated by Bank Islam playing the role to create social impact **in the social welfare sector** thus completing the third component in Islamic economy.

The similar corporate governance practice for a well-governed Islamic bank is implemented in operating Sadaqa House.



### About Sadaqa House



Launched on **19<sup>th</sup> January 2018**, Sadaqa House is social finance driver that mobilises the philanthropic and concessional capitals of sadaqah (voluntary charity), waqf (endowment) and zakat (tithe) to make positive outcomes and tangible differences for the country's unbanked and underserved segments within an inclusive Islamic economic ecosystem in Malaysia.



Social reforms are made possible through collaborations with carefully selected **Change-makers** who facilitate the fund distribution to beneficiaries.

**100% donation is meant for beneficiaries**

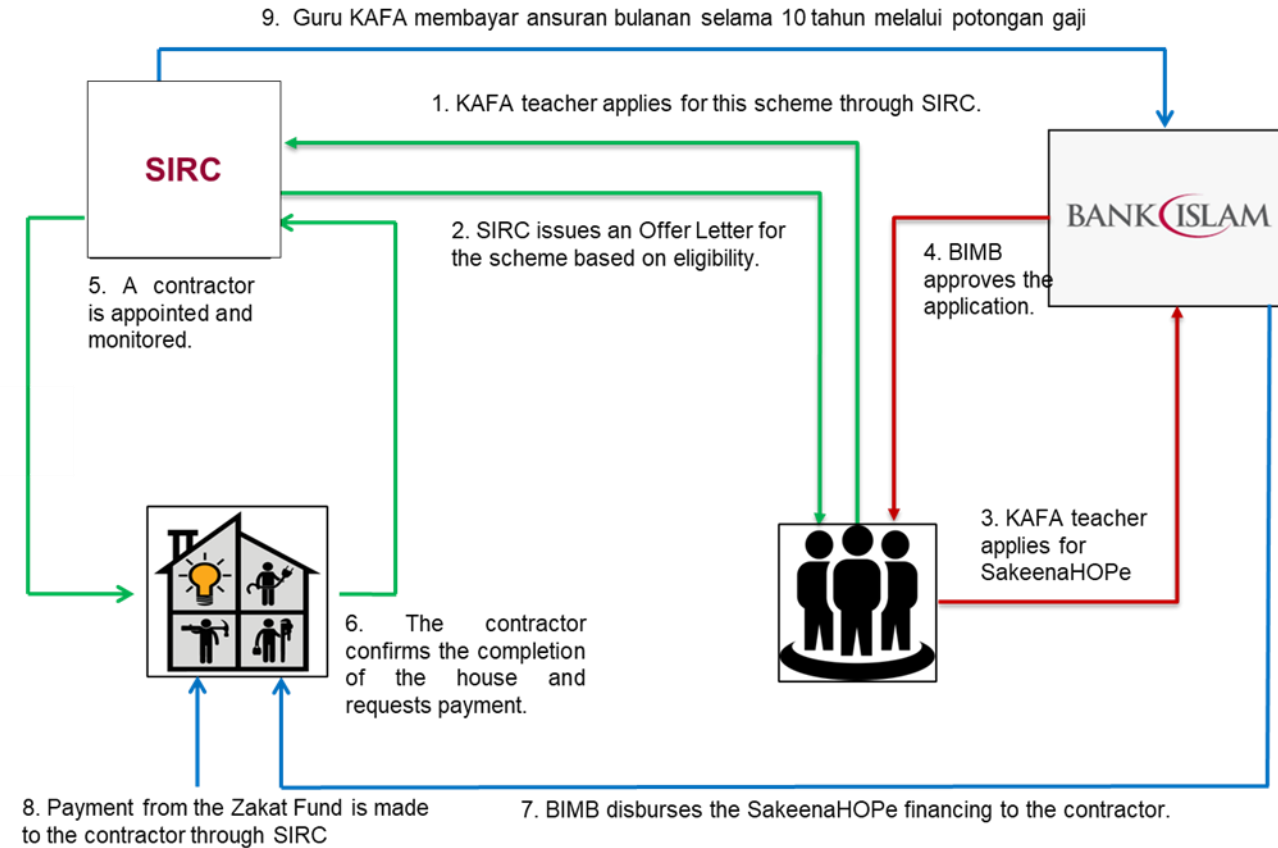
*No portion of donations are retained for operating cost/ management fee*

**100% operating cost is borne by Bank Islam**

# Case Study on Zakat

## TakeenaHOPE – Enabling House Ownership for Salaried Asnaf

- Home ownership remains a persistent issue, particularly for asnaf groups with fixed incomes such as Kafa teachers. Commercial banks are also unable to meet their financing needs due to high credit risk.
- BIMB and Lembaga Zakat Negeri Kedah (“LZNK”) have developed a financing model approved by Bank Negara Malaysia (“BNM”) and implemented since 2020, combining Zakat funds with TakeenaHOPE Financing to fund the construction of homes on owned land.
- Cost of the house (based on market value, e.g., RM70,000): RM35,000 is financed through BIMB's TakeenaHOPE Financing, while the remaining amount is covered by Zakat funds.

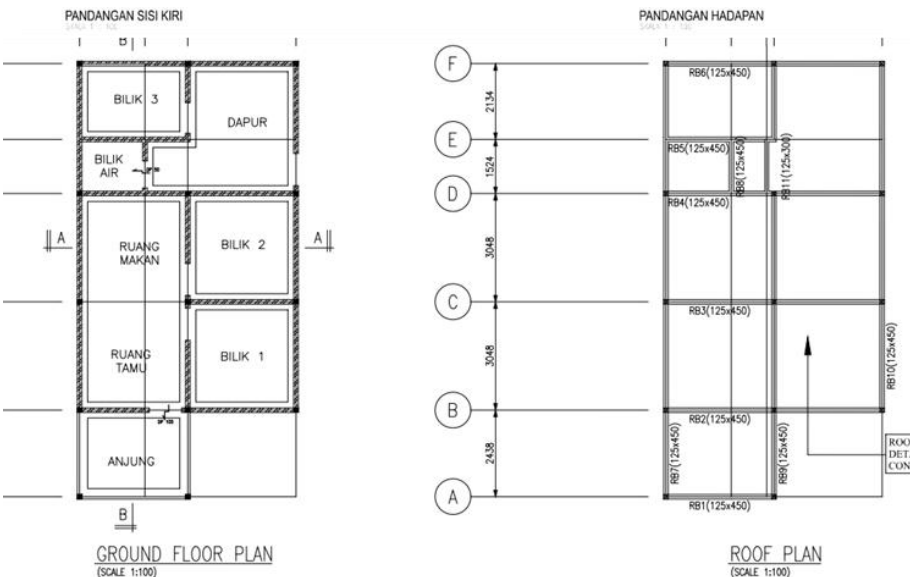


Financing Amount (RM)	Financing Tenure (Year) / Monthly Installment (RM)					
	5	6	7	8	9	10
35,000	694.46	597.24	527.79	475.71	435.20	<b>402.79</b>
40,000	793.67	682.56	603.19	543.67	497.37	460.33
45,000	892.88	767.88	678.59	611.63	559.54	517.88
50,000	992.08	853.19	753.99	679.58	621.71	575.42

Status	Number
Completed and handed-over houses	12
Houses under construction	1
Applications under credit assessment	195

# Case Study on Zakat

## SakeenaHOPE – House Model

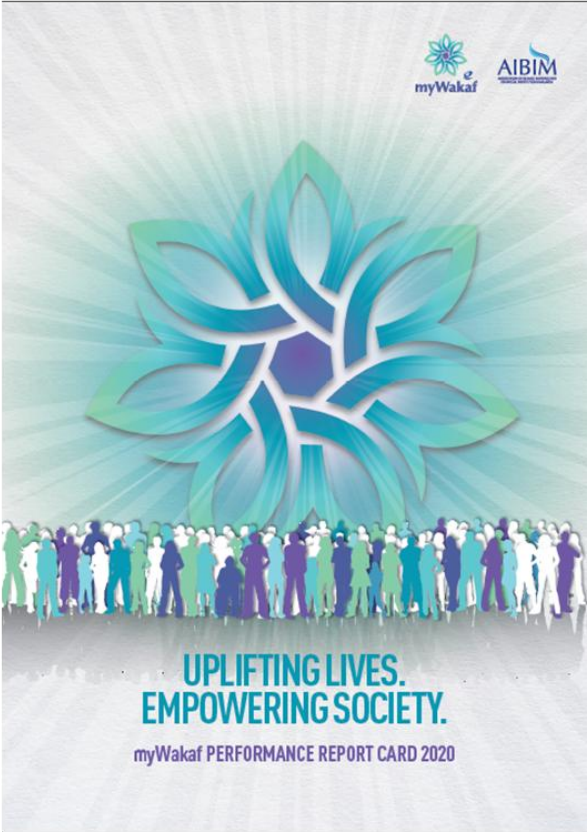
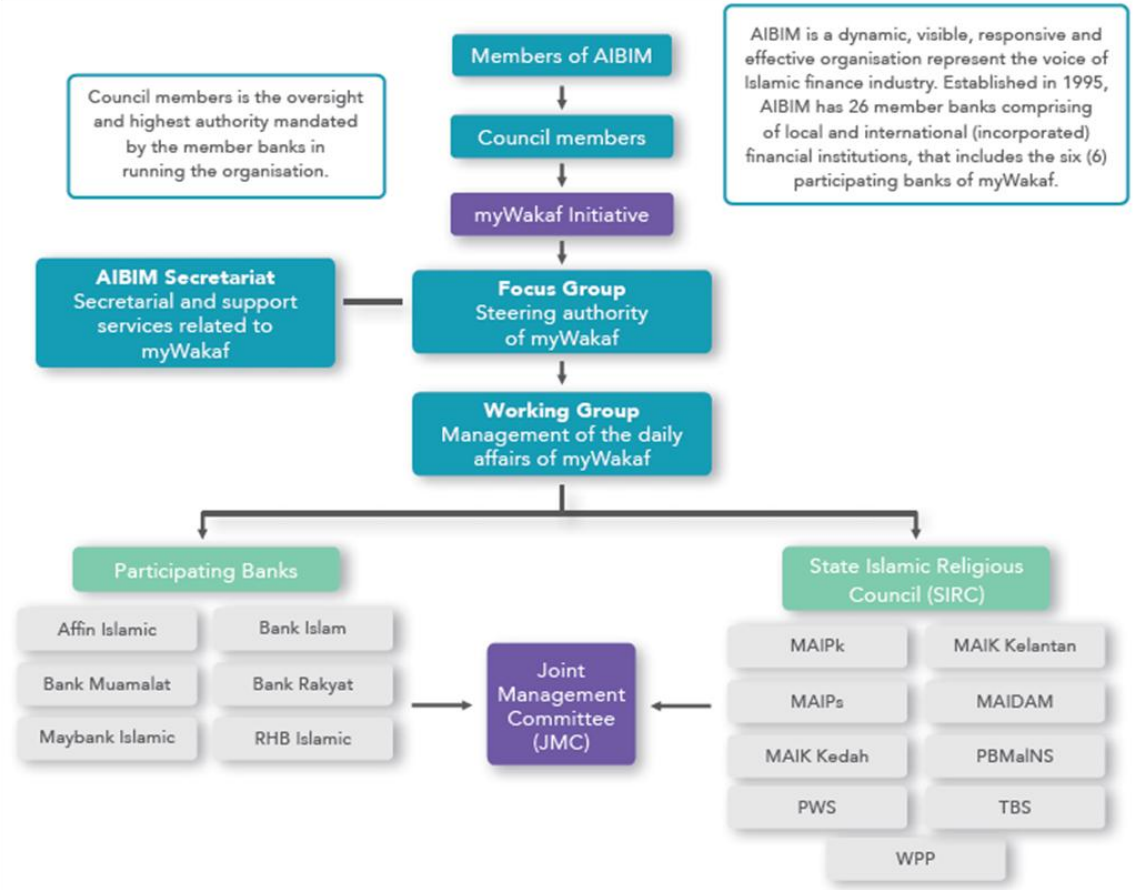



Completed House that was handed over to one of the recipients

# Case Study on Waqf

## AIBIM myWakaf

In 2017, Six (6) Islamic Banks launched the consortium, AIBIM myWakaf to scale up waqf application. Current membership is eleven (11).

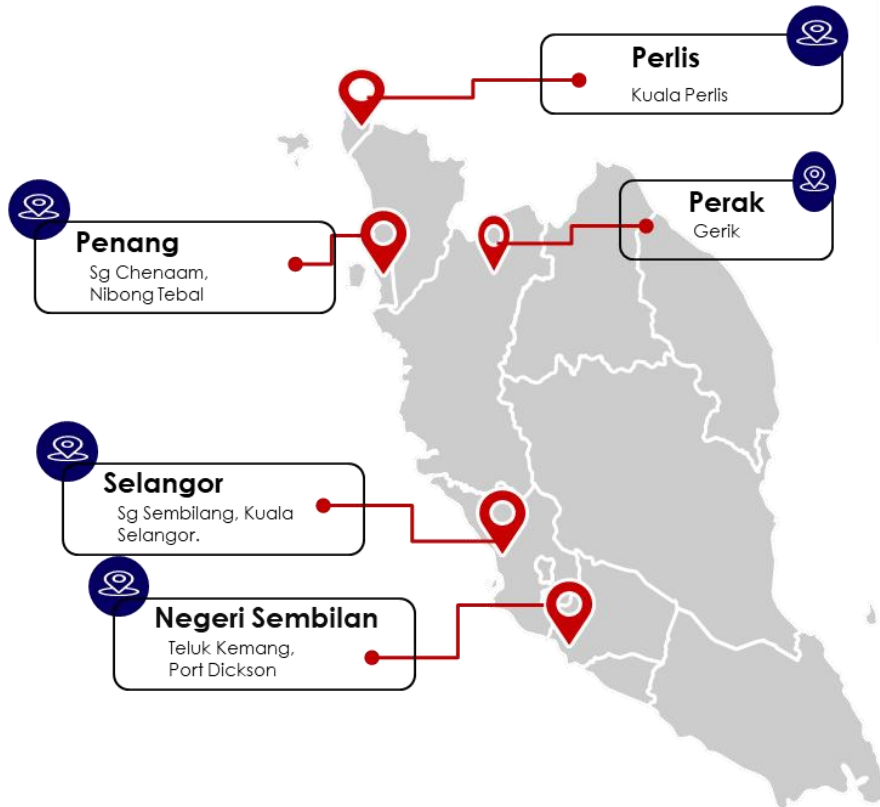


# Case Study on Waqf

AIBIM myWakaf

## AIBIM myWakaf 2.0 – Waqf Solar Dome Dryer (“SDD”) As the Catalyst In LCD Intervention (Beyond Waqf Initiative)

Phase 1 (2023 - 2025) Completed 5 SDDs



- ✓ Increment in household income of fishermen or farmers.
- ✓ Halalan toyyiban in drying sea or agriculture products.
- ✓ Business handholding by Resident Bank
- ✓ AIBIM myWakaf as aggregator to get agencies support to elevate wellbeing of the community.
- ✓ Other intervention in the community:
  - Local ITEKAD implementation
  - Academic programs
- ✓ Impact measurement.

# Case Study on Waqf

## Unit Trust with Waqf Feature

- Launched in 2021 by a fund manager, BIMB Investment, a subsidiary of Bank Islam
- AIBIM myWakaf is entrusted to manage the waqf portion from unitholders



- The fund is a qualified Sustainable and Responsible Investment (“SRI”) under the guideline issued by the Securities Commission Malaysia. The fund integrates ESG in its capital allocation process and employs negative screening for Shariah compliance.
- The fund allows unitholders to channel 50% of their monthly income to waqf projects managed by myWakaf.
- As of 2025, myWakaf has received a total of RM600,000 contribution from the unit holders where partly has been used to finance:
  1. Orphanage improvement project at Sarawak
  2. Delivery of a van to Youth Empowerment Foundation.
  3. Project Hassan (a MILC national project) – commercial waqf of a paddy mill in Kedah



# Case Study on Waqf

## Project Hassan

- Project Hassan, initiated by Lembaga Zakat Negeri Kedah (LZNK), seeks to create a shared economic ownership model within the rice industry, ensuring collective ownership across the economic chain. This approach strengthens community bonds, dismantles third-party monopolies, and distributes economic benefits more equitably.
- The project transforms Asnaf in Kedah from village laborers into agricultural entrepreneurs by integrating Asnaf-managed paddy fields with an LZNK-operated rice mill, enhancing food security, reducing costs, and improving yields. Income diversification through maize cultivation and egg-laying ducks further boosts economic resilience.
- Recognized by Prime Minister YBhg. Dato' Seri Anwar Ibrahim at the 2024 Global Islamic Economy and Finance Forum, Project Hassan is featured in the MIFC Leadership Council's Position Paper, Establishing Islah Through Islamic Finance. Supported by MLC, INCEIF, and AIBIM member banks, it is recognised as a model for impactful zakat initiatives that uplift the Asnaf.

<b>5</b> MLC KEY FOCUS AREA (MKFAs) <b>STRENGTHENING ZAKAT</b>
<b>PROJECT (MIP)</b> 6. 'Project Hassan' (an initiative by MLC, LZNK, INCEIF, and AIBIM member banks)
<b>OUTLINE</b> MLC, AIBIM and INCEIF University will collaborate with Lembaga Zakat Negeri Kedah to upscale zakat initiatives for the benefit of the asnaf (zakat recipients).
<b>LINK TO ISLAH</b> (REFER TO SECTION ON 10 SHIFTS FOR CHANGE) Shifts 3 (Philanthropic Capital), 5 (Financial Inclusion), 6 (Greater Empowerment), 7 (Nahi Munkar)



### PM Anwar: Govt commits RM100m to foster innovation in Islamic finance



Prime Minister Datuk Seri Anwar Ibrahim delivers his keynote address during the Global Forum on Islamic Economics and Finance at the KL Convention Centre in Kuala Lumpur May 28, 2024. — Picture by Shaifwan Zaidon

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Tuesday, 28 May 2024 1:51 PM MYT

KUALA LUMPUR, May 28 — Prime Minister Datuk Seri Anwar Ibrahim has reiterated the government's commitment towards Islamic finance innovation via partnerships, and announced a commitment of RM100 million to boost more such innovations.

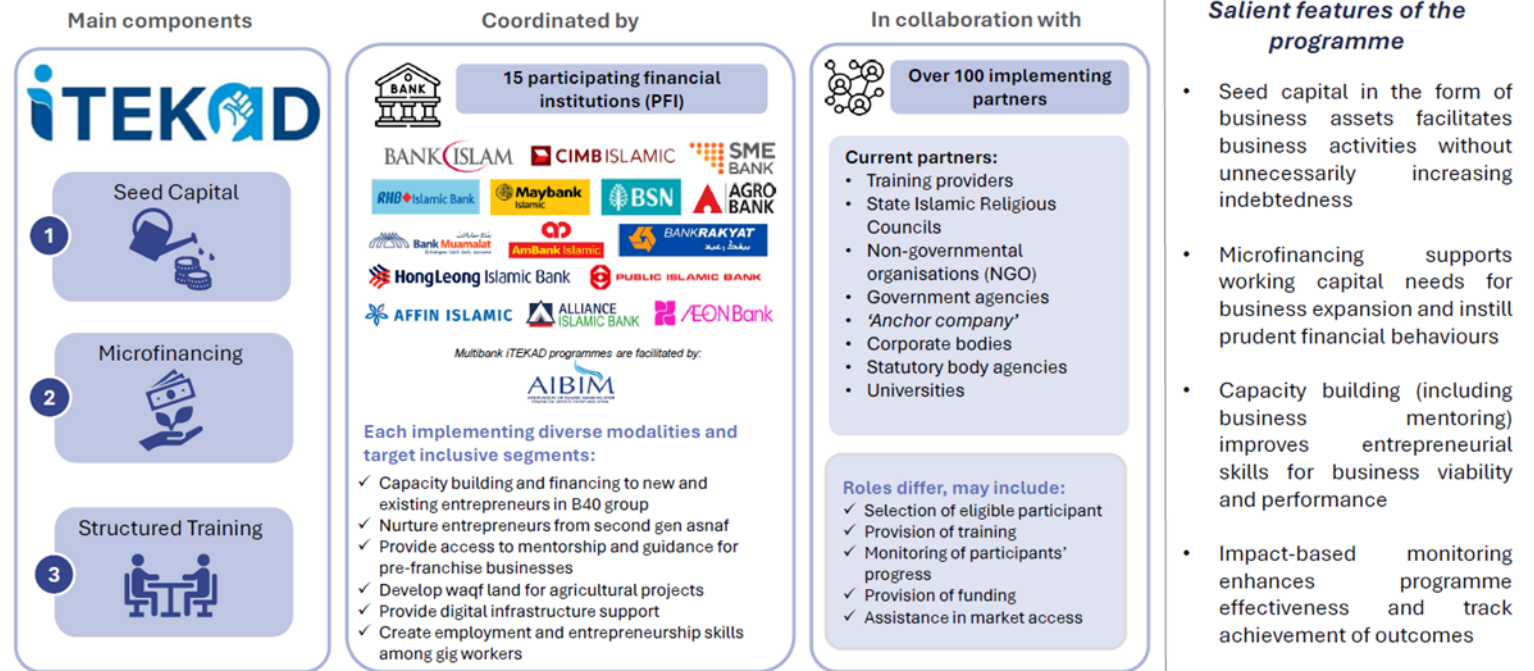
In line with the commitment, Anwar, who is also the finance minister, has announced two new blended finance innovations — a pilot programme on greening halal businesses, and 'Project Hassan'.

# Case Study on Microfinance

## iTEKAD Entrepreneurship

- Launched in March 2020, iTEKAD aims to assist low-income micro-entrepreneurs in strengthening financial management and business acumen towards generating sustainable income.
- Components of iTEKAD:
  - Provision of business assets funded through social finance instruments (such as donations, social impact investments, zakat, and cash waqf) combined with micro-finance; and
  - Structured financial and business training.
- BIMB was the pioneering bank to implement iTEKAD, launched in May 2020 in collaboration with Majelis Agama Islam Wilayah Persekutuan (MAIWP) and SME Corp. Malaysia as implementation partners.

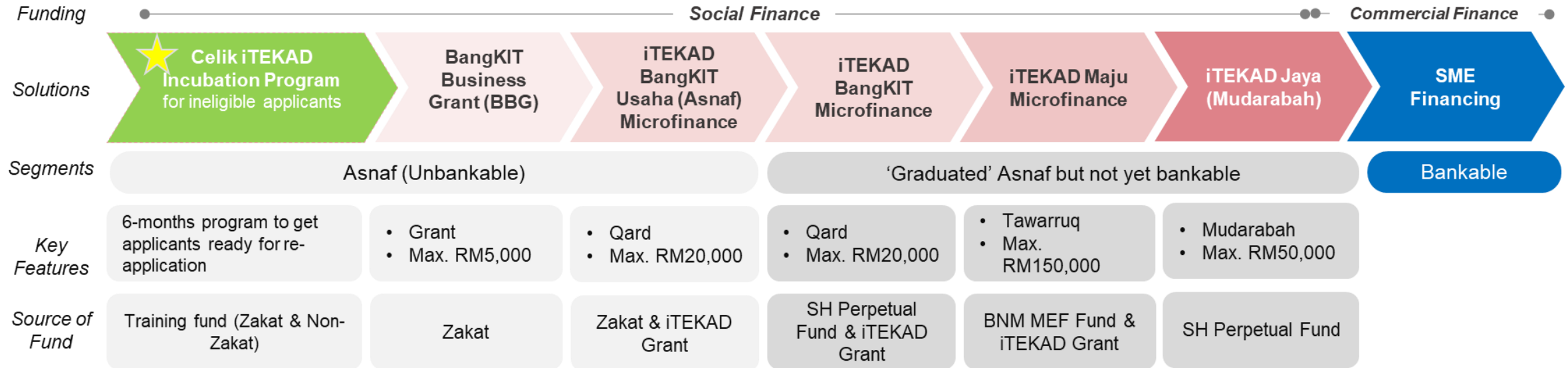
Since 2020, the iTEKAD initiative has supported low-income micro-entrepreneurs to generate sustainable income and subsequently upgrade their socioeconomic status



# Case Study on Microfinance

## Creation of Credit History in Entrepreneurship Development Efforts

### From Unbankable to Bankable, With Good Credit History



The tiered social finance solutions create a journey for our entrepreneurs to gradually develop 3 important elements of a bankable person:

- Credit history**
- Business improvement
- Digitalization



This journey is coupled with essential "hand-holding" programs – mentorship, training, and ongoing guidance.

These programs enabling Upward Mobility which aim to equip them with the skills and confidence they need to build successful business and achieve impactful and lasting change.

**ROLE OF ZAKAT:**

- iTEKAD BangKIT Financing (Iqradh al-Zakat) with the condition that the recipient is asnaf, and direct disbursement to the asnaf after a 3-year financing cycle.
- Training Fund
- Gharimin Fund in cases of default (with strict conditions, including the calculation of had kifayah and after MIA 9), to preserve the size of the revolving fund for the benefit of other entrepreneurs.

# Entrepreneurship: Creation of Credit History & Upward Mobility

Post disbursement of the fund to micro-entrepreneurs, the following strategies are implemented for upward mobility:



Achieving **upward mobility** means the micro-entrepreneurs have **advanced** into new stage in business growth and development.

## Impact Measurement Framework for Upward Mobility

### Grade 1

Micro-entrepreneurs **graduated to SME facilities**:

- Any SME facility from BIMB
- Any SME facility from other Bank
- Ready documentation and have potential business growth to apply SME facility

### Grade 2

- Micro-entrepreneurs improve their **credit worthiness**.
- Have structured business documentation and potential growth to apply for next financing/ facilities

### Grade 3

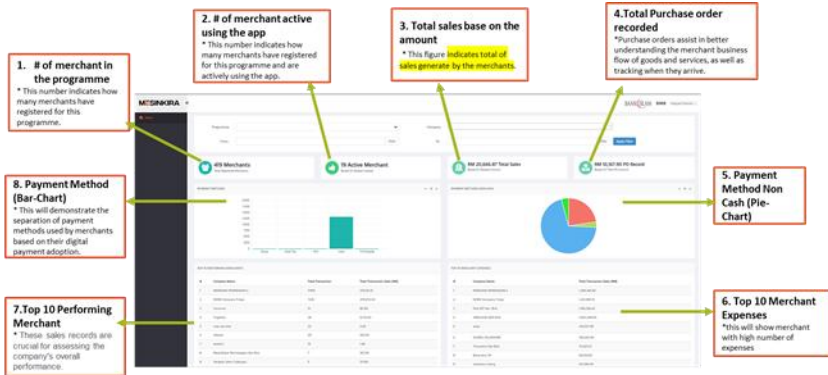
Micro-entrepreneurs improve in any **general dimension**:

- Income/ Sale
- Asset
- Saving
- Job creation
- Digitalization

# Experimenting digitalization on underbanked entrepreneurs



MesinKira app for the underbanked micro-entrepreneurs



Note: The dashboard dataset could be sorted by date (daily, monthly, or yearly).

SOURCE: MesinKira



Online learning and mentoring



# Case Study on Broader Benefits of ISF

## Breaking the Poverty Lifecycle through Education

### Paving the Path for Employability

- Since 2022, Sadaqa House Bank Islam has been sponsoring 25 orphans from PEYATIM who are pursuing various courses at UCB, including nursing, Early Childhood Education, plantation, Islamic studies, and others.
- To further support these students in securing employment opportunities, Sadaqa House Bank Islam successfully collaborated with KMI Healthcare Sdn Bhd. The partnership was formalized through an MoU signing ceremony held in August 2024.
- KMI Healthcare, incorporated in 2013 as a subsidiary of TDM Berhad’s healthcare division, manages specialist hospitals offering affordably priced secondary healthcare services to the community. The list of hospitals are as below:

No	Hospital
1	KMI Kelana Jaya Medical Centre (KMI Kelana Jaya) in Petaling Jaya, Selangor
2	KMI Kuantan Medical Centre (KMI Kuantan) in Kuantan, Pahang
3	KMI Kuala Terengganu Medical Centre (KMI KT), in Kuala Terengganu, Terengganu
4	KMI Taman Desa Medical Centre (KMI Taman Desa) in Kuala Lumpur
5	KMI Tawau Medical Centre (KMI Tawau) in Tawau, Sabah

- KMI Healthcare continues to deliver quality healthcare services through its well-trained and competent staff. Its advanced medical facilities across all hospitals strengthen its capacity to provide exceptional medical assistance and services.



Provide scholarship to nursing students (Orphan)



Offer placement of student in UCB (Nursing Faculty)



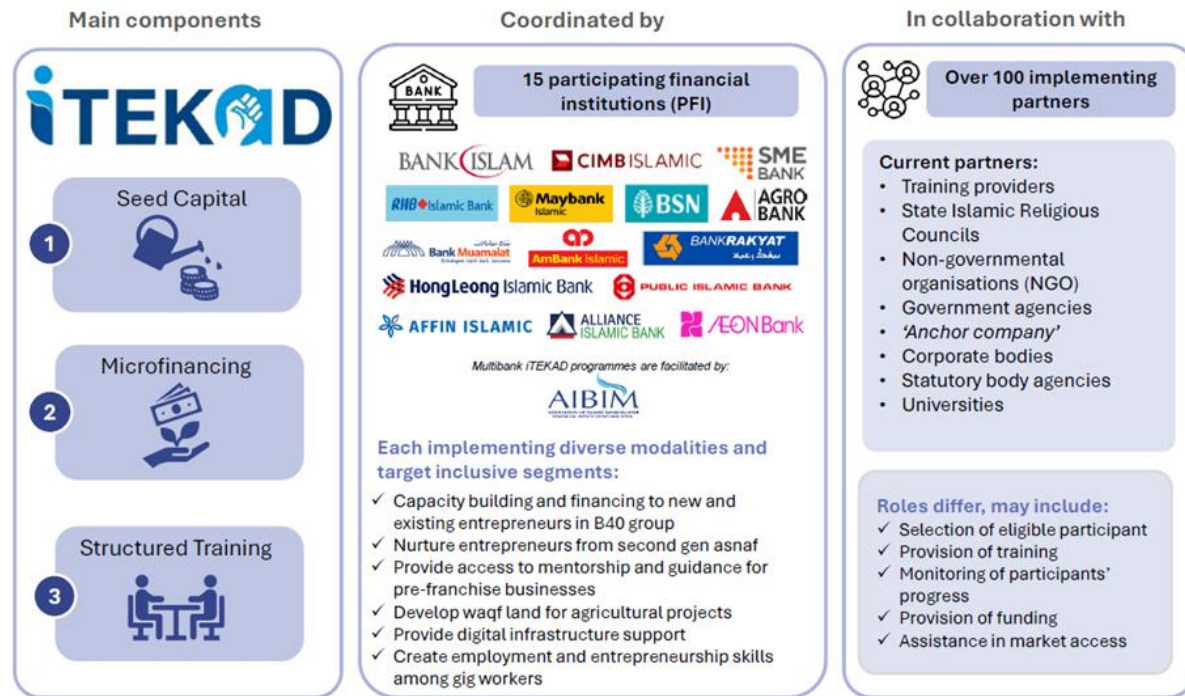
Undertake to employ the orphans in it's hospitals

# SHAPING THE POTENTIAL OF ISLAMIC SOCIAL FINANCE (ISF)

## 3. SYNERGY & STRATEGIC COLLABORATION AMONG STAKEHOLDERS ARE IMPORTANT

- No competition among stakeholders to determine which entities win in social finance agenda.
- The true winner are beneficiaries who successfully transform through social finance agenda.
- To address root issues/ painpoints of beneficiaries strategically.

Since 2020, the iTEKAD initiative has supported low-income micro-entrepreneurs to generate sustainable income and subsequently upgrade their socioeconomic status



### Salient features of the programme

- Seed capital in the form of business assets facilitates business activities without unnecessarily increasing indebtedness
- Microfinancing supports working capital needs for business expansion and instill prudent financial behaviours
- Capacity building (including business mentoring) improves entrepreneurial skills for business viability and performance
- Impact-based monitoring enhances programme effectiveness and track achievement of outcomes

## 4. ELEVATE IMPACT MEASUREMENT & DISCLOSURE

- Financial indicator vs. Transformational indicator
- Methodologies suitable to measure ISF impacts, including impact dimensions and the depth.
- Effective and practical ways of obtaining data.
- To consider both **upside (positive)** and **downside (negative)** effects of ISF interventions on beneficiaries.



Achieving **upward mobility** means the micro-entrepreneurs have advanced into new stage in business growth and development.



### Impact Measurement for *Upward Mobility* (as at SEP25)

#### Grade 1 (3 clients)

- Micro-entrepreneurs who had eligible for SME financing

#### Grade 2 (170 clients)

- Micro-entrepreneurs improve their credit worthiness.
- Have structured business documentation and potential growth to apply for next financing/ facilities

#### Grade 3 (657 clients)

- Micro-entrepreneurs improve in any general dimension:
  - Income/ Sale
  - Asset
  - Saving
  - Job creation
  - Digitalization

## SHAPING THE POTENTIAL OF ISLAMIC SOCIAL FINANCE (ISF)

### 5. ACTION-ORIENTED LEADERSHIP

“In my view, to elevate the values of Islamic finance to the next level, the industry must seek to embody and exemplify the value of *ihsan*, continuously striving for attainment of excellence.

A hadith narrated in *Sahih Muslim* reported that Prophet Muhammad (peace be upon him) said, "Verily, God has enjoined excellence (*ihsan*) with regard to everything."

Manifesting *ihsan* in Islamic finance, thus, calls upon all stakeholders to steadfastly find ways to transform and deliver the highest standards in all aspects of its business.

In my mind, there are **three key imperatives** that can facilitate *ihsan* in Islamic finance to ensure that it continues to provide strong support for "value-based growth" – one that is balanced, progressive, sustainable and inclusive.”

“...The second imperative that reinforces the first one is **action-oriented leadership**.”

Excerpt from BNM Former Governor's Keynote Address at the Global Islamic Finance Forum 2022

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Multi-dimensional approaches to inculcate awareness similarlike “Sustainability” and “Environment”

Creative & Innovation (including courage)

E.g.

- hybrid funding to enable salaried Asnaf own a house
- Wakaf Seetee Aisah
- iTEKAD

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Mobilising collaboration among stakeholders

# Q&A

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# Thank you

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