

# ISLAMIC SOCIAL FINANCE INITIATIVES: AN INSIGHT INTO BANK ISLAM MALAYSIA BERHAD'S INNOVATIVE BANGKIT MICROFINANCE PRODUCT

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## ABSTRACT

**Purpose** — The aim of this study is to explore the initiative taken by Bank Islam Malaysia Berhad (BIMB) in upholding Islamic social finance (ISF) through the innovative BangKIT Microfinance product.

**Design/Methodology/Approach** — This paper adopts the qualitative approach to review and synthesise the relevant literature on microfinance and Islamic microfinance and, moreover, analyses the BangKIT Microfinance product offered by BIMB.

**Findings** — The paper identifies the ISF initiative undertaken by BIMB as one of the primary objectives of Islamic banks with the noble aim to contribute to the society. This study makes some recommendations for further improvement of the product to unlock the full potential of ISF. It also proposes such a unique *sadaqah*-based product to other Islamic financial institutions (IFIs) and Islamic microfinance institutions (IsMFIs) to promote the provision of credits to individuals and businesses that lack access to fundamental financial products and services.

**Originality/Value** — This paper sheds light on the use of loans and *sadaqah*-based products as a microfinance initiative offered by an Islamic bank. Although there are several microfinance institutions (MFIs) in Malaysia, this product is amongst the pioneer contributions to the role of Islamic banks in ISF.

**Keywords** — Financial inclusion, Islamic bank, Islamic social finance, Microfinance, Sustainability

**Article Classification** — Technical paper



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## INTRODUCTION

Helping to combat acute levels of poverty and prevent wealth concentration in the hands of a few remain serious challenges besieging many national economies globally. The Muslim world has witnessed the prevalence of poverty at a rate that represents about half of global poverty, while there are about 1.8 billion Muslims on the planet—nearly 24 per cent of the global population (Bin-Nashwan *et al.*, 2021). Although relentless attempts have been made to provide sustainable financing to fight poverty around the world, the battle has not yet been won. Therefore, the concern for financial inclusion arose—a concept which fundamentally promotes the provision of credits to individuals and businesses that lack access to essential financial products and services (Omar & Inaba, 2020). Microfinance thus emerged as an appropriate strategy to pull households out of poverty by reaching out to the unbanked end of the community.

Malaysia is an upper-middle-income country with per capita national income of about USD27,607 (2017 PPP) as of 2019, as reported by the World Bank (2021). An estimated 5.6 per cent of Malaysian households lived below the absolute poverty line in 2019, while it was 7.6 per cent in 2016. Although a strict set of preventive measures by the government to contain the COVID-19 outbreak that began in March 2020 was effective, there have been significant levels of disruption and devastating impacts on gross domestic product (GDP) and livelihoods. With the implementation of the movement control order (MCO 1.0, 2.0 and 3.0) nationwide in response to the pandemic outbreak, many low-income and vulnerable groups have been close to breaking point, despite the government efforts to provide much-needed aid and support (UNICEF, 2021). Although the economic recovery is now back in focus, against a backdrop of increased vaccination coverage and the reopening of economic sectors, the impact of the pandemic and recovery trajectory appears uneven. According to a recent World Bank survey, Malaysian households, which braved the pandemic with resilience, now find themselves increasingly vulnerable (Purnamasari & Ahmad, 2021). Islamic social finance (ISF) is promising to play a crucial role in monitoring and tracking the welfare of households and individuals in such unprecedented crises.

Microfinance—the provision of small loans or investments—has for decades been instrumental in developing small businesses and eradicating poverty faster with wider and deeper financial inclusion. Several experts, researchers and policymakers have reported that Islamic microfinance boosts entrepreneurship and increases income-generating activities, thereby reducing poverty, empowering the poor, and building social capital among the less privileged segments (ZahidMahmood *et al.*, 2017). In Malaysia, Bank Negara Malaysia (BNM) defines microfinance as ‘small business loans up to RM50,000 for micro-enterprises and self-employed individuals with loan tenure not more than seven years’ (BNM, 2014, p. 1).

Within the framework of Islamic financial institutions (IFIs) efforts in providing social financing solutions, BIMB has launched the BangKIT Microfinance—a first of its kind initiative funded by *sadaqah* (voluntary charity). Offered in December 2020, the BangKIT Microfinance programme aims to provide affordable microfinancing to low-income and underbanked members of communities who are excluded from financing facilities and ordinary banking services. Under the interest-free *qard* (loan) contract, this innovative microfinance targets to finance from as low as RM500–3,000 for start-up businesses and RM3,000–20,000 for business expansion. The repayment tenure ranges from 6 months to 3 years. Given the importance and relevance of such a novel initiative in tackling the current challenges and crises plaguing many countries and national economies that have been heavily affected by the pandemic, the present study aims to provide analysis and insight into the

BangKIT Microfinance programme and explore all possible options to boost the nation's economy and people's livelihood.

There is a growing body of research conducted all over the world that has examined Islamic banks and their promising role in offering Sharī'ah-compliant microfinance schemes (Seibel, 2008; Rahman & Ahmad, 2010; Ashraf *et al.*, 2014; Widiarto & Emrouznejad, 2015; Fianto *et al.*, 2018; Kurt *et al.*, 2020; Fithria *et al.*, 2021). However, there is still a pressing need to analyse innovative programmes of Islamic microfinance initiatives shifting the focus towards sustainable development. As such, the present study advances the knowledge by critically examining the innovative microfinance programme by BIMB in Malaysia, which provides a ground-breaking model that could be emulated by other Islamic institutions either in Malaysia or in other countries.

This paper is organised as follows. The next section discusses microfinance and Islamic microfinance, followed by the development of microfinance in Malaysia. The paper then reviews prior studies on Islamic microfinance. It then delineates the methodology adopted to achieve the aim of this study. The following section examines the ISF product developed by BIMB, specifically discussing the BangKIT Microfinance product, followed by some analysis and discussion on the innovative product. The last section concludes the paper.

## LITERATURE REVIEW

### Microfinance and Islamic Microfinance

Microfinance can serve as an instrument to provide financial services, particularly credit and savings, to poverty-stricken segments of the society. The basic argument, indeed, is that in many low-income communities, formal financial institutions have failed to fulfil the financial needs and demands of the less fortunate (Rahayu, 2020). The development of small-scale providers can help poverty-stricken communities to engage in a number of financial activities; e.g., fishing, farming, and small businesses.

Globally recognised as a mechanism for poverty mitigation in vulnerable communities, different models of microfinance exist throughout the world. The contemporary movement of microfinance is attributed to Dr Muhammad Yunus, the founder of Grameen Bank (Umar *et al.*, 2021). Yunus's idea implemented by Grameen Bank is to provide low-income women with nontraditional credit programmes, which have received great interest from international agencies (Rahayu, 2020). As such, an influential international organisation (called Microfinance Summit) has promoted the microfinance model of Grameen Bank as an ideal way to empower women and achieve human wellbeing (Rahayu, 2020).

Islamic microfinance institutions (IsMFIs) are basically microfinance institutions (MFIs) that operate in the light of Sharī'ah (Islamic law). These institutions strive to abide by fundamental principles, for instance, the prohibition of *ribā* (interest) and *gharar* (excessive uncertainty) and ensure that all activities are *halāl* (permissible) in line with the principle of profit and loss sharing (Garner, 2013). Tireless efforts have been exerted globally to make optimum use of microfinance in community development by providing benefits to the poor, creating values and enhancing living standards. Despite that, Islamic microfinance is still in its infancy, making up less than one per cent of the total global outreach of microfinance (Global Islamic Finance Report, 2016).

### Microfinance in Malaysia

Islamic social finance (ISF) tools have been instrumental in socioeconomic development and the alleviation of poverty for over 1,400 years (World Bank *et al.*, 2019). In 1985, the first-ever microfinance initiative was launched with "Project Ikhtiar" in Malaysia. This initiative aimed to achieve several goals, such as improving the standard of living and economic status of poverty-stricken people through microcredit as initial capital to support entrepreneurship.

'Project Ikhtiar' was later transformed to Amanah Ikhtiar Malaysia (AIM) that is currently one of the four main MFIs in Malaysia, in addition to the National Entrepreneur Group Economic Fund (TEKUN), People's Credit Cooperation (KKR) and Yayasan Usaha Maju (YUM). The microfinance programmes offered by AIM, TEKUN and YUM are fully supported by the government with the aim of providing less privileged groups across the country with financial needs, whereas KKR is set up specifically to cater for the needs of the poor in Sabah, East Malaysia.

Relentless efforts and attempts have been made to enhance the growth and sustainability of microfinance outreach since then. Recently, the national budget allocation to microfinance initiatives has been strengthened. For instance, TEKUN and a few other institutions had a higher budget allocation of RM510 million in 2021 compared to RM300 million in the previous year. In contrast, with the constant budget allocation support, the total funds made available through AIM amounted to RM2.7 billion in 2018 (Kassim & Hassan, 2018). Furthermore, in order to diminish the operational costs of microfinance, a 100 per cent stamp duty waiver has been granted for loans up to RM50,000 within the framework of the microfinance scheme (Rahman *et al.*, 2015).

BNM (2011), in its financial sector blueprint for the period of 2011–2020, indicated that financial institutions are encouraged to contribute to reinforcing the government's efforts and programmes for inclusive financial systems using initiatives such as Islamic microcredit and financial inclusion. In recognition of its efforts in pulling households out of poverty by extending financial services to them, Malaysia is placed first out of 183 countries for the 'Getting Credit' initiative, according to the World Bank (BNM, 2009). The microfinance industry has seen significant improvements and continuous development that include advanced and easy application procedures and quick response, disbursement, and approval of funds without the need for collateral, given the unique nature of small enterprises with regard to financing.

BIMB has recently kicked off a unique microfinance initiative in Malaysia and in the Islamic world in general, known as BangKIT Microfinance. It is of great importance to highlight and analyse this first-of-its-kind experience to researchers, practitioners and policymakers so that they might envisage a model which can be expanded and applied in similar communities.

### Research on Islamic Microfinance

The Islamic finance industry has witnessed remarkable global success providing financial services to middle and upper-class demographic segments, leading to increasing calls for a paradigm shift in its contribution to Muslim poverty-stricken communities. According to Alam *et al.* (2015), Sharī'ah-compliant microfinance through IFIs is constituted as a viable alternative framework for maximising socioeconomic benefits. However, despite strong appeals and demands in Muslim communities, there are still not many Islamic microfinance programmes offered across the globe (Hassan *et al.*, 2021). This could be attributed to a number of reasons, for instance, the microfinance provided by IFIs is structured on a debt basis that is similar in many ways to the interest-based structure of traditional microfinance but with greater administrative costs (Muhammad, 2012). Another reason for the lack of microfinance initiatives could be the need to closely deal with this vulnerable group in order to manage the credit risk of the portfolio, which also raises the costs.

Reviewing the literature which examined Islamic microfinance's role in socioeconomic development of the society (as summarised in **Table 1**), it was found that Islamic microfinance offered by IFIs is facing some challenges that may limit its socioeconomic contribution to societies. Challenges pertain to, for instance, lack of funds, unfavourable regulation and higher transaction cost (Rahman & Ahmad, 2010; Kaleem &

Ahmed, 2010; Ashraf, 2018). Previous research (e.g., Dusuki, 2008; Bhuiyan *et al.*, 2012) has proposed innovative Sharī‘ah-compliant microfinance models that engage with Islamic banks as an effective solution to penetrate the global microfinance market. BangKIT Microfinance is anticipated to be a role model and novel instrument added to the Islamic finance industry in Malaysia, backed by *sadaqah* and supported by the official portal of Islamic crowdfunding (Sadaqa House). Although there is growing interest in the literature regarding the potential of Islamic microfinance initiatives to cater for the needs of Muslim communities that are financially excluded from the banking system, little attention has been given to the use of loans and *sadaqah*-based products as a microfinance initiative offered by Islamic bankss. The present study is a pioneer attempt to understand and analyse such a novel product.

## METHODOLOGY

As a crucial part of the methodology, this study reviews and synthesises the relevant literature on microfinance and Islamic microfinance and assesses the BangKIT Microfinance product offered by BIMB, using secondary sources of literature.

## ISLAMIC SOCIAL FINANCE PRODUCT BY BIMB

BIMB is the first Malaysian Islamic bank. It was established in 1983 as the largest network of 'dedicated Islamic banking channels' and has more than 144 branches across the country. BIMB aims to fulfil the financial needs of Muslims and extends its services to the entire population. Being an IFI, BIMB is expected to contribute to the Malaysian economy. One of the viable ways to assist the micro, small, and medium enterprises (MSMEs) is through ISF. From the BIMB perspective, social finance is an instrument that helps strategically leverage financial products and services and provides sustainable development, especially to those unbankable segments of the society.

Sadaqa House was launched in January 2018 and is the first charity-based crowdfunding initiative where charity projects and potential donors come together at a common point facilitated by BIMB. Relying on Sadaqa House, BIMB attempts to provide value-added services for collecting, managing and distributing donation from the public by directing these funds towards specific charitable projects that achieve positive outcomes for the less fortunate from selected sectors.

With the aim of delivering a positive and sustainable effect, professional fund management and good governance are implemented in every aspect of the operations. This could instil high assurance and confidence that donations through Sadaqa House will be directed towards significant charitable projects attaining the wellbeing of target groups.

Sadaqa House serves not only Muslims but also non-Muslims, whether donors or beneficiaries. This unique programme stems from BIMB's perception of the need for everyone to have opportunities to propagate philanthropic behaviour and help all citizens in managing their donations from beginning to end.

Sadaqa House has successfully made an impact through the involvement of a number of change-makers, including the National Heart Institute Foundation, Sultanah Bahiyah Foundation, Mercy Mission Malaysia, and others. The projects offered by Sadaqa House include financial relief for patients with paediatric congenital heart diseases from the *asnāf* (poor and needy), giving a hand to women micro-entrepreneurs by purchasing business equipment for them, and many others. The January 2018–September 2020 inaugural report of Sadaqa House was launched in November 2020 to provide impact disclosure for public assessment.

**Table 1: Summary of Scopus-Indexed Research on Islamic Microfinance (2008–2022)**

Study	Objective	Nature	Main Results
Dusuki (2008)	To explore how Islamic banks could be involved in socioeconomic initiatives through microfinance programmes	Conceptual study	Innovative microfinance models are required beyond the conventional microfinance structures. Social intermediation and the design of group lending programmes are considered to be effective instruments to diminish transaction costs and financial risk with regard to the provision of credits to less privileged segments. The special purpose vehicle (SPV) can be used as a potential alternative for Islamic banks to channel financing to poverty-stricken groups.
Seibel (2008)	To examine Islamic microfinance in Indonesia	Conceptual study	Potential role of Islamic banks in offering Islamic microfinance products through the establishment of specialised units.
Kaleem & Ahmed (2010)	To develop a conceptual framework for charity-based IsMFIs	Conceptual study	Volunteer-based, philanthropic, local and brotherhood services are essential concepts for charity-based IsMFIs to be financially and socially sustainable.
Rahman & Ahmad (2010)	To understand how microfinance schemes can be used in alleviating rural poverty	Empirical study	Household income, the productivity of livestock and crops, employment and expenditure were considerably increased by the money invested. Socioeconomic factors (e.g., total land size, number of family members in farming, clients' morals and ethics, and age) were strongly associated with household income.
Smolo & Ismail (2011)	To propose a theoretical framework of IsMFIs for poverty reduction	Conceptual study	Using the proposed contractual framework in modelling the IsMFIs, the authors found that IsMFIs show a significant effect on capital and financial inclusion for microenterprises.
Bhuiyan <i>et al.</i> (2012)	To describe the relationship between Islamic microfinance and sustainable livelihood	Conceptual study	Islamic microfinance framework incorporating <i>qard hasan</i> and zakat components has an important impact on alleviating poverty and sustainable livelihoods.
El-Komi & Croson (2013)	To examine Sharī'ah-compliant microfinance items in the information asymmetry context	Empirical study – 44 participants completed the experiment	Sharī'ah-compliant contracts (profit and loss sharing) show higher compliance rates compared to conventional contracts (interest-based).
Ashraf <i>et al.</i> (2014)	To examine performance measures of MFIs in Muslim countries compared to those of non-Muslim MFIs	Empirical study – cross-sectional data and secondary data	A positive relationship between country gross domestic product size and profitability. Moreover, female borrowers play a significant role in driving company profitability and loan recovery in the Organisation of Islamic Cooperation (OIC) region.
Obaidullah (2015)	To explore the role of IsMFIs in enhancing food security	Case study	IsMFIs face some challenges and risks in enhancing food security for rural households.
Widiarto & Emrouznejad (2015)	To measure the performance of IsMFIs compared to traditional MFIs	Empirical study – data envelopment analysis for MFIs efficiency	Traditional MFIs outperform IsMFIs in terms of social and financial efficiency in East Asia and the Pacific, and South Asia.
Fianto <i>et al.</i>	To examine the effect of	Empirical study –	IsMFIs are positively and significantly

(2018)	Islamic microfinance on the welfare of Indonesian rural households	secondary data	related to the welfare of rural households in Indonesia.
Kurt <i>et al.</i> (2020)	To test the relevance of religion and spirituality in Islamic microfinance	Empirical study – qualitative research design through semi-structured interviews	Spirituality is a strong driver for members' commitment to the Islamic microfinance network.
Rahayu (2020)	To investigate the significance of IsMFIs in empowering women	Empirical study – qualitative research design	The issues of poverty alleviation and of loan sharks are crucial factors driving the inception of IsMFIs.
Fithria <i>et al.</i> (2021)	To examine the role of management ownership in IsMFIs' performance	Empirical study – secondary data	Ownership by Sharī'ah supervisory boards shows a crucial role in increasing the profitability and efficiency of IsMFIs (i.e., Islamic rural banks) in Indonesia.
Zitouni & Ben Jedia (2022)	To access the potential of Islamic microfinance for achieving economic empowerment	Empirical study – structured questionnaire survey	Islamic microfinance programmes can contribute to the economic empowerment of most beneficiaries. Supportive infrastructure and investment are key components of economic empowerment.

Source: Authors' compilation

### BangKIT Microfinance

Since December 2020, Sadaqa House has been providing microfinancing to eligible 'underbanked' micro-entrepreneurs via a project named BangKIT Microfinance, which aims to amplify the social impact of Sadaqa House. BangKIT (means 'rise up' in Malay) microfinance is funded by the perpetual fund of Sadaqa House, whereby the donations are received and invested in Sharī'ah-compliant financial instruments, and any profit or return from the investment can be directed to identified charitable projects. In addition, the perpetual fund also includes donations received from institutional or individual donors for lending to eligible microfinance borrowers. As such, the borrowers are required to repay the loan without any interest.

Another two funds of Sadaqa House are the direct fund and the general fund. As the general fund is not specified, donors authorise the Bank's Sadaqa House & Zakat Committee to distribute it. Meanwhile, the direct fund will be distributed and utilised for specific charitable projects as indicated by the donors.

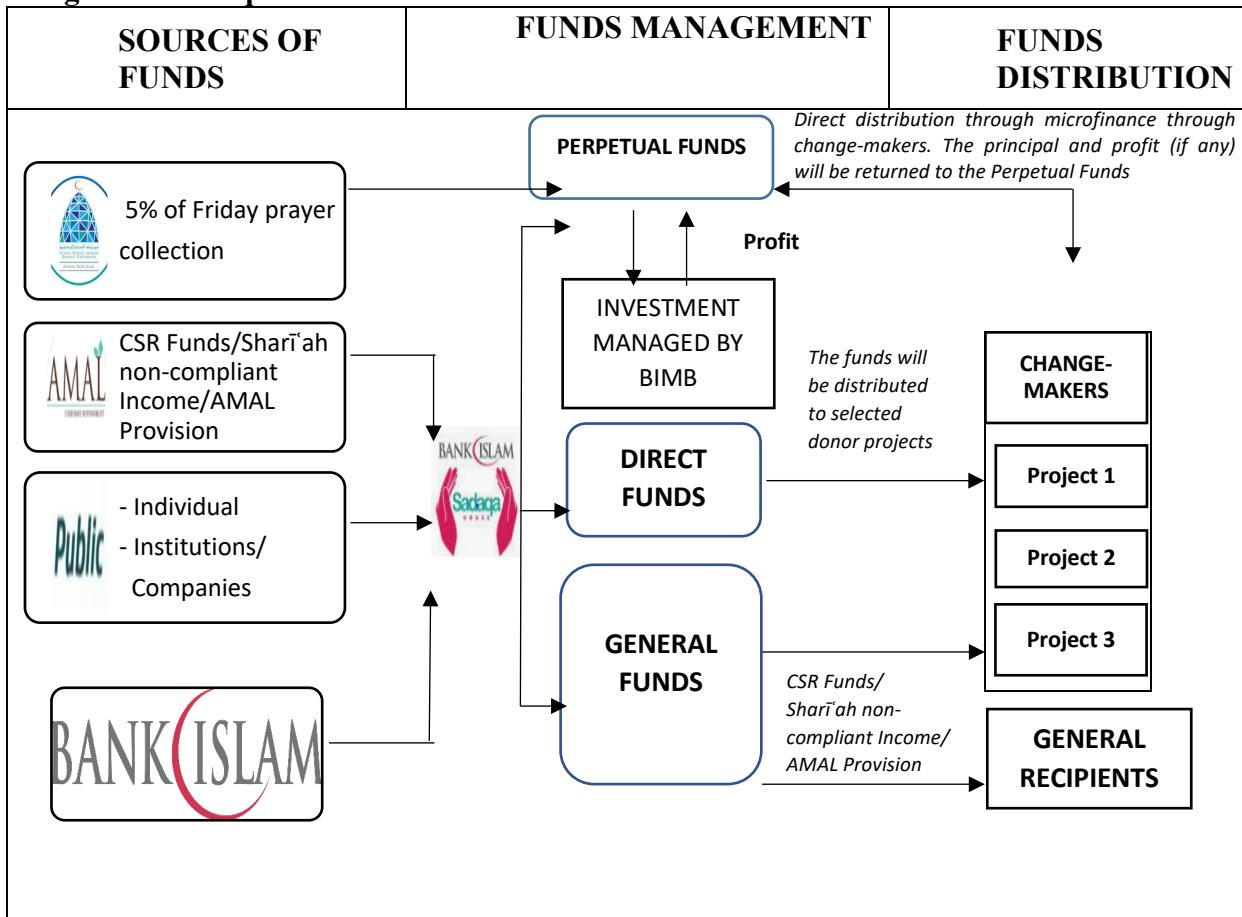
Overall, BangKIT Microfinance strives to achieve the following objectives:

1. To provide affordable microfinancing to underprivileged segments of the society who are not entitled to apply for ordinary banking services whereby clients would be introduced by appointed change-makers and they would be provided with hands-on business coaching and mentoring by designated change-makers for business development and sustainability of the businesses.
2. To capitalise the fund donated to Sadaqa House in creating sustainable social impact by a well-governed charity fund.
3. To nurture underbanked micro-entrepreneurs among the *asnāf* and lower B40 categories to become bankable through impactful synergy with key implementation partners.

**Figure 1** displays the Sadaqa House Fund Structure Model used by BIMB in the BangKIT Microfinance project. Funds for the projects may come from different sources, namely 5 per cent from Friday prayer collection every week at Surau Wakaf Ahmad Dawjee Dadabhoy, a mosque under the administration of BIMB, public funds, or purification fund and corporate

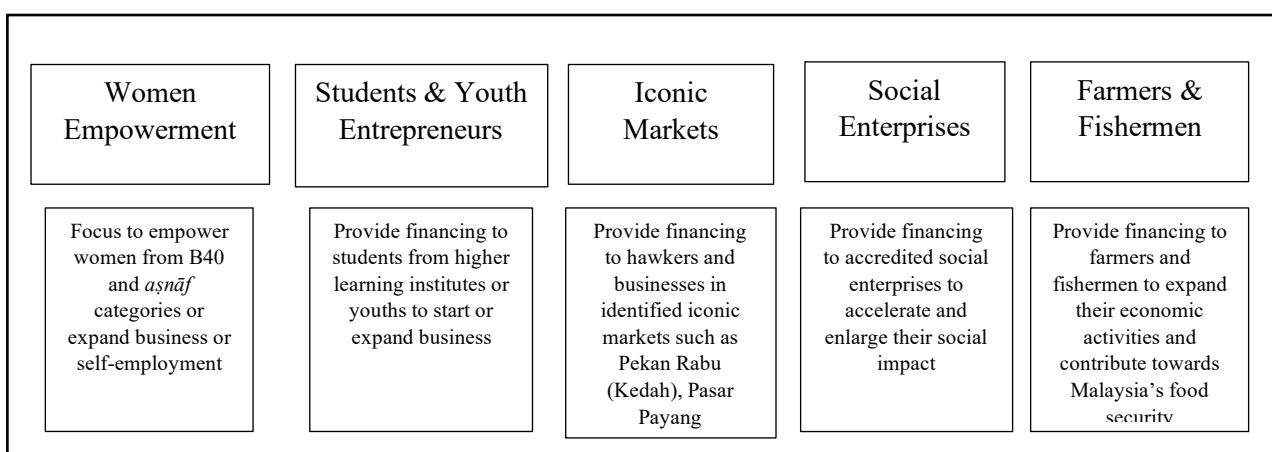
donation from BIMB itself. The funds will be channelled to selected projects which will be proposed by the change-makers (appointed by BIMB according to the focus segment of the recipients) and approved by BIMB.

**Figure 1: Sadaqa House Fund Structure Model**



Source: BIMB (2021a)

**Figure 2: Focus Segment of BangKIT Microfinance Programme**



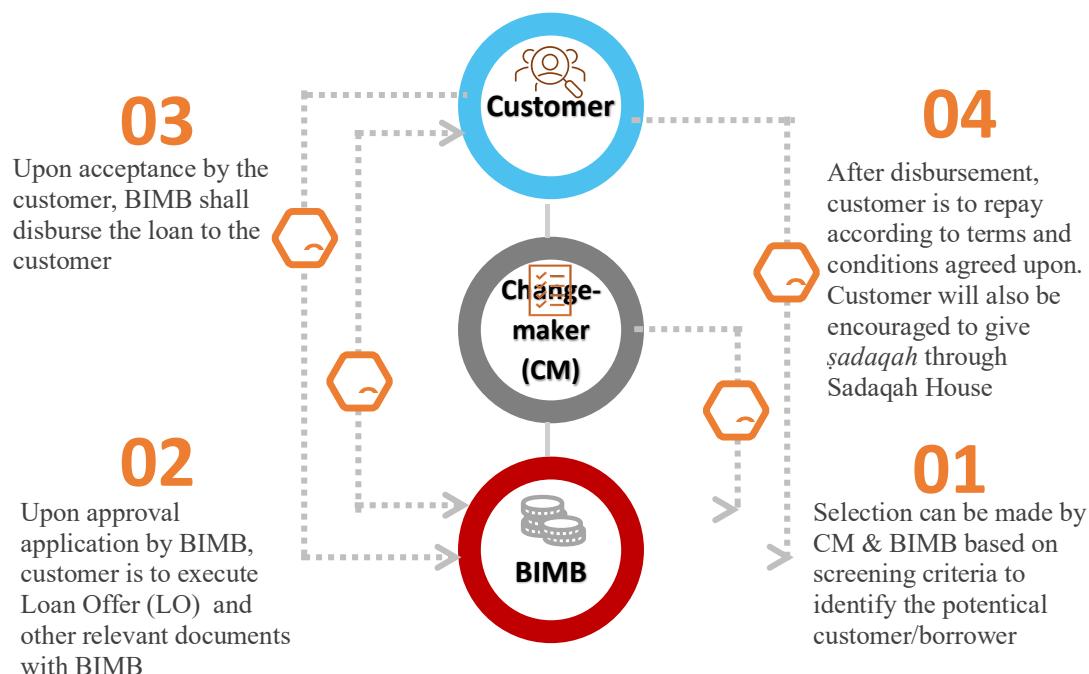
Source: BIMB (2021a)

**Figure 2** depicts the focus segment of the microfinance programme handled by BIMB. It focuses on five segments facing difficulties in getting financing due to income constraints, namely women, students and youth, iconic markets, social enterprises, and farmers and

fishermen. The funds given to the recipients are driven by the contract of *qard hasan* (benevolent loans) which requires the recipient to repay the loan based on the agreement without any interest. To ensure sustainability of the project, customers (the recipients) need to join entrepreneurship training programmes organised by BIMB and the change-makers. As reflected in its name (BangKIT), the letters KIT signify relevant courses offered to customers (or borrowers) as 'kit' or tool for success.

As at 31 July 2021, i.e., after seven months of its launching, BIMB has approved RM1.01 million BangKIT Microfinance to 95 borrowers with the anticipation of reaching RM2.5 million by the end of the financial year 2021 in collaboration with more than 25 change-makers. **Figure 3** summarises how the BangKIT Microfinance model works between the customer, the change-maker and BIMB.

**Figure 3: Modus Operandi of BIMB BangKIT Microfinance Product**



Source: BIMB (2021b)

As depicted in **Figure 3**, the operating process of BangKIT Microfinance begins with the public's donations, either from high-net-worth individuals or organisations. Donations can be given to Sadaqa House in order to create substantial social impact by a perpetual and well-governed fund. There are roles and responsibilities included in a strategic collaboration agreement between BIMB and the change-maker, such as the change-maker being responsible to provide information about the BangKIT Microfinance programme to target stakeholders and beneficiaries; in contrast, BIMB is required to provide all necessary relevant information about BangKIT to the change-maker. Moreover, the change-maker is responsible to identify potential customers and borrowers who meet eligibility criteria set by BIMB for the assessment and approval process. Additionally, the change-maker is required to provide reports to BIMB on the progress of the borrowers' businesses. The change-maker can also assist in providing training and mentoring, including spiritual activities, to customers and borrowers, as well as monitoring the financing repayment process. In the event of default, BIMB will not take any legal action towards the recipients as close

monitoring of the business has been undertaken by the change-maker and the recipients will be free from the obligation to pay back the amount.

On the other hand, customers and borrowers are required to execute the financing agreement with BIMB and to undertake the 'Borrower's Pledge of Financing Programme (*Ikrar Peminjam Program Pembiayaan*)', which includes embracing the spirit of *sadaqah*, encouraging the giving of *sadaqah* to the fund, and performing of *Duḥā* prayer as well as reciting *Sūrah al-Wāqi'ah* in line with the *hadīth* in which the Prophet (SAW) said, quoting Allah:

Son of Adam, perform four *rak'ahs* for Me at the beginning of the day: I will supply what you need till the end of it (al-Tirmidhī, 1975, *hadīth* no. 475).

Apart from that, customers and borrowers are also required to repay the loan. BIMB, in turn, is required to distribute funds to approved borrowers and customers; to frequently engage with customers to provide basic information related to borrowers' business progress; to assess whether the customers are eligible to obtain more commercial financing from the bank under BIMB's SME banking; and BIMB must perform the collection and recovery processes.

## ANALYSIS AND DISCUSSION

Microfinance is one of the ISF tools in Islamic economics. Islamic banks aim at attaining Islamic socioeconomic objectives and ensure that wealth is equitably distributed among the vulnerable and marginalised in society (Ibn Ashur, 2006). The initiative taken by BIMB through BangKIT Microfinance initiative is seen as an innovative product to overcome obstacles challenging Muslim entrepreneurs in acquiring funds from financial institutions to launch businesses or expand existing businesses since they cannot meet the tough criteria of commercial banking institutions. The bank being an IFI, it is understood that profit may be one of its objectives as a business entity. However, the profit motive should not be the only goal of an IFI; it may pursue multiple goals including social justice.

It is time to reorient Islamic banks to emphasise concerns related to socioeconomic ends and alleviation of life hardships, especially after the effect of COVID-19 on vulnerable groups in the society. As highlighted by Dusuki (2008), IFIs must embrace higher religious commitments and social welfare responsibilities to achieve Islamic socioeconomic objectives. In fact, the *raison d'être* of Sharī'ah-based financial institutions should be emphasised within the scope of their role in Muslim communities as a manifestation of religious beliefs and commitments to address issues of income inequality, poverty and social injustice.

Furthermore, it is urged that Islamic banks should act within the social intermediation process—a process in which investments are made in the development of both human resources and institutional capital, with the aim to increase the self-reliance of marginalised groups, preparing them to engage in formal financial intermediation (Pitt & Khandker, 1996). This aspect of social intermediation should eventually prepare individuals to enter into solid business relationships with formal financial institutions (Dusuki, 2008).

The noble objective of funding underbanked and unbanked customers should always be followed up with measures to ensure the sustainability of the businesses, which in turn affects the payment success. Hence, BIMB needs to be aware of risk exposures in supplying credit to less fortunate customers, especially those with no business skills and experience. The support from change-makers in this programme is an essential element for ensuring business sustainability as a support system to BIMB. Training, motivation and religious support is provided to enhance commitment by the customers. A strong relationship between change-makers and customers is enhanced by including training, coaching or

mentoring sessions which may include spiritual or religious practices and other knowledge practices in terms of capital management, saving requirement, and other skill sets.

The spiritual or religious factor has proven to be a significant factor in contributing to the success of a business entity. Ashraf *et al.* (2014), for instance, highlighted the importance of religious factors for MFIs' success. In this regard, praying *Duḥā* and reciting *Sūrah al-Wāqi'ah* may be seen as practices for achieving Allah's blessings and help.

## CONCLUSION

The United Nations Development Programme (UNDP) recognises Islamic microfinance as an innovative and effective instrument for transformational changes. In Malaysia, there have been relentless efforts and attempts made to enhance the growth and sustainability of microfinance outreach. Recently, while the world witnessed the emergence of an unprecedented global crisis caused by COVID-19, devastating lives and livelihoods, Islamic microfinance initiatives have become more important than ever. As such, BIMB has launched a novel and unique microfinance initiative in Malaysia known as BangKIT Microfinance, which is backed by *sadaqah* as an innovative tool. This paper examines this innovative product that is projected to set a future trend in the ISF industry and gain more momentum within the Islamic microfinance arena. This study thus aims to review the BangKIT Microfinance programme offered by BIMB, which started at the end of 2020.

As this programme is explicitly intended to provide affordable microfinancing to underbanked segments of the society, one of the main policy recommendations is that the programme should be reviewed in terms of the way the financing is distributed. A thorough screening process needs to be done to ensure the long term sustainability of the funding operation. BIMB may also consider increasing the size of funding based on the nature of the business being carried out by the customer. This study also proposes such a unique *sadaqah*-based product to other ISMFIs to promote the provision of credits to individuals and businesses that lack access to fundamental financial products and services. This research could be a springboard for future research by empirically exploring the effectiveness of these initiatives.

Some limitations are also acknowledged in this study. The researchers reviewed the BangKIT Microfinance offered by BIMB at the time that its execution had just begun. More analysis on the effectiveness of this programme in alleviating poverty and improving the socioeconomic wellbeing of the customers should be addressed in the future.

Given that BIMB is a business entity, this product represents a remarkable initiative on its part and a 'ray of light' for the underprivileged customers. As stated in Qur'ān (2:245): 'Who will lend to Allah a good loan which Allah will multiply many times over? It is Allah alone who decreases and increases wealth. And to Him you will all be returned'. It is expected that this kind of unique loan and *sadaqah*-based product should be developed by other IFIs as Allah has promised that those who carry this act will be given multifold sustenance. Hence, this study offers some implications to related stakeholders, namely the government, IFIs, donors and beneficiaries. One major implication is the need for the government to develop policies that could inspire Islamic banks in Malaysia to take the same action to provide a *sadaqah*-based product to enable underprivileged customers to obtain financial resources. Donors, on the other hand, who play a significant role as the main contributor to the fund, are instrumental in ensuring the continuity and sustainability of the product. Therefore, more donors are sought to contribute to the fund. In addition, with technological development, the penetration of Islamic microfinance could be improved, and this is further hoped to enhance financial inclusion among the community.

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No potential conflict of interest was reported by the authors.

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