

# BLENDING ISLAMIC SOCIAL FINANCE-MICROTAKĀFUL MODEL

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## ABSTRACT

**Purpose** — This research intends to explore and develop a blended Islamic social finance-*microtakāful* business model by integrating Islamic social finance (ISF) instruments into the *microtakāful* framework to enhance its effectiveness and reach. The main objective of integrating these elements is to recommend a sustainable and inclusive financial solution that is in line with the principles of Islamic finance and will address the needs of unserved and underserved segments of the population.

**Design/Methodology/Approach** — This study employed desk research to develop a blended ISF-*microtakāful* model. It involved reviewing literature to assess existing models and best practices, benchmarking their effectiveness, and analysing successful implementation approaches. Insights were used to create a framework integrating Islamic finance tools with *microtakāful*, followed by recommendations for a sustainable and inclusive financial solution.

**Findings** — The study portrays a conceptualised blended ISF-*microtakāful* business model which incorporates ISF instruments into the *microtakāful* model with an illustration of the business case in the context of the pandemic.

**Originality/Value** — Though *microtakāful* has been accepted as a mode for providing *takāful* services to low-income individuals, limited research is available on how it can be blended with traditional ISF instruments such as zakat (obligatory alms), *ṣadaqah* (voluntary charity), and waqf (Islamic endowment). This makes the model proposed in the research novel. The originality of this research lies in its pioneering exploration of the synergies between ISF and *microtakāful*, opening up new avenues for research and practical implementation in the field of *microtakāful*.

**Keywords** — Blended finance, Financial inclusion, Islamic endowment, Islamic social finance (ISF), *Microtakāful*

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## INTRODUCTION

Islamic social finance (ISF) emerged as an alternative mode of financing to achieve financial inclusion in the midst of the pandemic (Hassan & Muneeza, 2022). ISF also received increased attention as a result of Islamic financial institutions' inability to serve all segments of the population to achieve socio-economic objectives (Tamanni *et al.*, 2022). As an alternative mode of Islamic finance, ISF includes the use of benevolent contracts such as zakat (almsgiving), waqf (Islamic endowment), *ṣadaqah* (voluntary charity), and *qard ḥasan* (interest-free, benevolent loans) for societal benefit (Haneef, 2020). *Takāful* (Islamic insurance), besides being utilised in Islamic commercial finance, can also be used in ISF (Hassan & Muneeza, 2022). *Takāful* is a Shari'ah-compliant solution that is provided as a security measure for those uncertainties one may face in life as an individual or when conducting business or holding assets.

Blended finance, on the other hand, is defined as a non-banking financial tool which has the potential to promote circular business by mobilising philanthropic sources to boost investment from the private sector for sustainable development (Ibrahim & Shirazi, 2020). In the context of Islamic finance, blended finance is seen as a way for financial institutions to combine compassion with the intention to make halal (lawful) profits by adhering to responsible business practices (Ibrahim & Shirazi, 2020). It provides an opportunity to use ISF to promote projects or businesses that will advance human well-being while protecting the environment (Khan, 2019).

Literature on the use of blended finance that uses ISF is limited. It mainly focuses on developing frameworks for blended Islamic finance or discussing the topic in general without proposing a specific model. For example, Khan and Badjie (2022) formulated a framework for blended Islamic finance to assist small and medium enterprises (SMEs) to achieve sustainable development goals (SDGs); Prabowo (2024) discussed in general how Islamic blended finance can be used for climate action; and Munir *et al.* (2023) looked at how Islamic blended finance reduced poverty using Pakistan as a case study. Literature on ISF and blended finance specifically focusing on *microtakāful* is also limited. For instance, Qadri *et al.* (2024) explored the potential of refining the cash waqf blended finance model for the development of infrastructure while Hassan *et al.* (2023) researched the potential of waqf-blended finance in crowdfunding in the context of Indonesia. As such, it is evident that there is a gap in the literature in relation to formulating specific products using blended ISF for financial inclusion specifically for SMEs, which is what this research aims to fill in.

The objective of this research is to propose a blended ISF-*microtakāful* business model and explore the commercialisation aspects of the model. This study focuses on achieving financial inclusion using an innovative blended finance mechanism. As such, the research problem for this research revolves around the integration of ISF in *microtakāful* to achieve financial inclusion.

This paper is divided into seven sections. Following the introduction, the second section reviews the literature on ISF, its different instruments and mechanisms, and the significance of blended finance in financial inclusion. The third section discusses the methodology employed in conducting this research. The next section discusses the main findings of the paper. This is followed by a simulation of the proposed model and a discussion of policy implications. The last section concludes the paper.

## LITERATURE REVIEW

### Islamic Social Finance

ISF can be divided into social solidarity instruments such as *ṣadaqah*, waqf and *qard*, and social finance institutions, which are non-profit entities established with the primary purpose of engaging in social finance activities such as waqf entities, Islamic foundations, and various charitable organisations and non-governmental organisations (NGOs) that raise funds through social solidarity instruments (IFSB, 2019). Below are the common ISF instruments (Hassan & Muneeza, 2022; Kunhibava *et al.*, 2024):

- Zakat is an act of worship as it is the third pillar of Islam. It also has a socio-economic impact on the eight categories of zakat recipients who are mentioned in the Qur'ānic verse (9:60). Zakat differs from other types of ISF instruments as it is compulsory to be paid on an annual basis by Muslims who meet the *nisāb* (minimum threshold) requirement. There are two forms of zakat: *zakat al fitr* which is paid during the month of Ramadan and *zakat al māl* which is zakat imposed on wealth. Any amount paid over and above the amount required to be paid as zakat will be considered from the Sharī'ah perspective as *ṣadaqah*.
- *Ṣadaqah* is a voluntary donation made by any Muslim, in kind or cash, to anyone they desire with the intention of getting reward from Allah (SWT). It does not entail any strict requirements as in the case of zakat. This means that the amount which is paid, to whom it is paid, or when to pay can be determined by the payer. Even an act of volunteering can be considered as a form of *ṣadaqah*.
- Waqf is known as recurrent charity. In Arabic, it literally means to stop or withhold. In simple terms, waqf is taking property—either movable or immovable—away from private ownership where the goal is to dedicate its benefits to charitable causes in perpetuity.
- *Qard ḥasan* is a benevolent, voluntary and interest-free loan. The creditor provides the loan to the debtor with a benevolent intention, without expecting any profit out of it. However, since the amount lent is expected to be returned by the debtor, it has been said that instead of *qard ḥasan*, the better term for it is just *qard* (Hassan & Muneeza, 2022).
- Social *takāful* is considered an ISF instrument. *Takāful* involves members pooling money into a common fund to guarantee one another in accordance with Sharī'ah for the coverage of life, health, and general insurance needs. There are a number of models by which one can establish *takāful* and pursue ideals of ISF. For example, in a commercial model the common fund is set up with the members' voluntary contributions, which an agency may manage for a fee that may be charged from the fund. *Takāful* is basically a cooperative system of repayment or reimbursement in the event a calamity befalls any of the contributors, to whom compensation will have to be paid from the common fund. The contributions made by members are considered *ṣadaqah* to the fund for the purpose of helping any member who needs assistance. On the reverse, where the fund records a loss or incurs some liability that is spread among the members according to their pre-agreed share of contribution. When the contribution is paid on behalf of a third party who is unable to pay, it is called social *takāful*. In *microtakāful*, it is the beneficiaries who will pay the contribution, but it is lower than that of commercial insurance.

## Blended Finance

The term blended finance is derived from the term blending, which does not have a universal meaning (Pereira, 2017). As such, there are various definitions of ‘blending’ in the context of development finance, and one of them is mobilising private capital through the strategic use of development finance and philanthropic funds (Pereira, 2017). This indicates that blended finance has the potential mechanism to align interests between the public and private sectors and allocate risks between them based on their respective ability to manage and mitigate those risks. It can even be used to achieve sustainable development (Jena & Saxena, 2023). There are different categories of blended finance, as delineated by CFO Coalition (n.d.):

- *Fund-level blended finance*: It simply refers to the pooling of concessional funding—which is typically public or philanthropic funding—with full-return private capital into a fund for investing in regular equity or bonds issued by companies. One such example is the following case: In 2016, the Asian Development Bank (ADB) and the International Finance Corporation (IFC), both of which are private capital investors, invested USD3 million each in Mountain Hazelnuts, a company in Bhutan that promotes hazelnut production among small growers. Alongside this, the Global Agriculture and Food Security Program (GASFP), a public or philanthropic fund, invested USD6 million for this cause (CFO Coalition, n.d.).

This structure is an example of fund-level blended finance because it combines public (or philanthropic) funds from GASFP with private investments from ADB and IFC. The public funding from GASFP helps to reduce the risk for private investors like ADB and IFC, encouraging them to invest in the project. This blend of funding sources allows Mountain Hazelnuts to achieve both financial goals and social impact—helping farmers in Bhutan while generating returns for the investors.

- *Project-level blended finance*: In project-level blended finance, public or philanthropic investors provide funding or financial backing to important private sector infrastructure projects supporting the SDGs, helping to mobilise private capital. For example, in 2021, Inter-American Development Bank (IDB) Invest approved USD150 million in financing to Atlas Renewable Energy subsidiaries for the design, construction, commissioning, and operation of six bifacial photovoltaic (PV) plants with a total capacity of 359 megawatts located in Pirapora, in the state of Minas Gerais, in Brazil. The financing package consisted of USD80 million loan from IDB Invest and the mobilisation of USD60 million by DNB Bank ASA. In addition, two blended finance loans, one for USD5 million from the Canadian Climate Fund for the Private Sector in the Americas–Phase II, and another one for USD5 million from the Clean Technology Fund were arranged by IDB Invest. It also provided for financial incentives based on attaining the following target: during construction, at least 15 per cent of the technical workforce will be women, and at least 30 per cent of those women will be of African descent (CFO Coalition, n.d.)
- *Company-level blended finance*: Company-level blended finance directly uses catalytic capital from public or philanthropic sources in the capital of a company. In such transactions, public or philanthropic investors offer guarantees or insurance to improve the creditworthiness of companies or give them subsidised concessional loans at below-

market terms. An example could be Sistema.bio, a Mexican for-profit company designing and marketing biodigesters that turn animal waste into clean energy in the form of biogas, with a by-product of biofertiliser. The company has kept a blended capital structure since its founding in 2010 for attracting grants, concessional debt and equity, and private investments in order to achieve international scale (CFO Coalition, n.d.)

- *Outcome-based blended finance*: Under this model, public or philanthropic investors invest in fixed-income instruments. Financial and/or structural features from these instruments would then be linked with predefined sustainability goals or environmental, social, and governance (ESG) objectives. These objectives are measured against predefined key performance indicators (KPIs) on sustainability. Sustainability-linked bonds are becoming more prevalent as companies and investors increasingly link financial instruments to sustainability performance. Outcome-based finance enables development financial institutions (DFIs) to help corporations provide critical SDG solutions while ensuring a greater impact in the areas they invest in. Furthermore, outcome-based blended finance connects private investors to development programmes, allowing them to earn returns if the programme is successful, with payments made by a third-party donor. For example, in 2020, IDB Invest, together with the U.S. International Development Finance Corporation and FinDev Canada, issued a subordinated loan to Banco Davivienda S.A. (Davivienda) for an amount of USD390 million. According to the arrangement, these funds were expected to support new financing to clients of Davivienda for working capital, capital investment, and fixed assets in the SME and women-led SME portfolios affected by COVID-19. It also included a USD20 million tranche of blended finance from the Canadian Climate Fund for the Private Sector in Latin America and the Caribbean. It belonged to the category of funding arranged for environmentally-friendly businesses. Under this tranche, Davivienda was to get a discount in interest rates upon achieving predefined goals and milestones concerning its green portfolio and risks (CFO Coalition, n.d.).

Blended finance is a financial strategy that combines concessional public finance and non-concessional private finance in one deal while leveraging public and private sectors' expertise to meet developmental goals (International Development Finance Club, 2019). This instrumentally deploys development finance in mobilising more finance towards the SDGs in developing countries. Some of the main characteristics of blended finance are:

1. Leverage, whereby development finance and philanthropic funds are deployed in a systemic and strategic way to catalyse private capital at scale;
2. Impact, whereby investments generate measurable social, environmental, or economic results; and
3. Returns, in which private investors achieve market-based, risk-adjusted returns that achieve business aims and fulfill fiduciary duties (International Development Finance Club, 2019).

### **Islamic Blended Finance Using ISF**

There is no precise or comprehensive definition of Islamic blended finance found in the

literature. However, by exploring a number of writings on the topic, it can be derived that Islamic blended finance is structured by integrating the mechanisms of Islamic commercial finance and ISF (Tamanni *et al.*, 2022). The need for Islamic blended finance arose due to the inadequacy of commercial financial institutions to achieve financial inclusion by providing financial solutions required for all segments of the population (Tamanni *et al.*, 2022). In short, it was the failure of market institutions to allocate resources effectively and efficiently to achieve socio-economic justice which led to the development of Islamic blended finance.

In a hadith, the Prophet (SAW) instructed ‘Umar (RA) to manage his date crops profitably. This aspect represents the commercial finance component, where the focus is on generating financial returns through effective business management. The instruction to ensure profitability underscores the importance of economic efficiency and success in commercial ventures. At the same time, the Prophet (SAW) advised ‘Umar (RA) to donate a portion of the harvested dates to society. This reflects the social finance aspect, emphasising the role of charitable contributions and community support. By directing a part of the proceeds towards social welfare, the hadith highlights the significance of balancing personal financial gain with social responsibility.

Under a blended finance framework, this example illustrates the integration of commercial activities with social goals. Modern blended finance similarly combines private sector investments with public or philanthropic funding to achieve broader social and developmental impacts. Thus, the hadith serves as an early example of blending personal economic interests with community benefits, paralleling contemporary blended finance practices that seek to harmonise profit-making with social impact.

To illustrate how this concept has evolved and been applied in contemporary finance, **Table 1** below presents examples of Islamic blended finance products and models developed to address social and economic challenges. These examples demonstrate the application of blended finance principles in various contexts, reflecting the continued relevance and adaptation of the concept from its origins to modern financial practices.

**Table 1: Examples of Islamic Blended Finance Products/Models/Services Developed**

Author	Product/Model/Service	Details
Salman & Htay (2013)	Waqf- <i>takāful</i> model	The proposed waqf-based <i>takāful</i> model combines the concepts of <i>mudārabah</i> and <i>wakālah</i> to create a sustainable and socially responsible insurance framework. In this model, contributions from cash waqf and income generated from waqf assets are allocated into three distinct accounts: the Waqf Fixed Account (WFA) to ensure the perpetuity of waqf funds, the Waqf Risk Fund Account (WRFA) to cover claims, and the Wakalah Fee for <i>takāful</i> operators. <i>Takāful</i> operators receive fees for managing the fund and share in the profits from investments in both WFA and WRFA, but contributors do not receive a direct share of profits; instead, surplus funds are reinvested in WFA to maintain the original waqf contributions. This model blends philanthropic and financial mechanisms to achieve sustainable <i>takāful</i> coverage while preserving waqf assets.

**Table 1: Examples of Islamic Blended Finance Products/Models/Services Developed (Cont.)**

Author	Product/Model/Service	Details
Hasan & Sulaiman (2016)	Islamic Real Estate Investment Trust (I-REITs) for waqf land	The proposed model integrates waqf with Islamic Real Estate Investment Trusts (I-REITs) by allowing investors to purchase units of a waqf I-REIT, which uses the proceeds to acquire Shari'ah-compliant assets. These assets are then leased out, with returns distributed to investors and dividends used to refurbish existing waqf properties. This model blends private investment with philanthropic elements, as investors can allocate their units to waqf temporarily, thereby combining financial returns with social impact. It leverages public sector facilitation by aligning with legal frameworks that permit waqf of financial instruments, creating a hybrid approach that supports both economic and social objectives.
Hamber & Haneef (2017)	Waqf-based social micro venture fund	The Waqf-based Social Micro Venture Fund (WSMVF) integrates philanthropic contributions, public sector facilitation, and private sector investment to support micro-enterprises and social businesses. Funded through waqf contributions and managed with a focus on Shari'ah-compliant investments, this model blends traditional charity with venture capital principles. The blend occurs as the waqf provides capital, the public sector facilitates and promotes the fund, and private investors support its operational needs. This collaborative approach ensures that financial support is both ethically aligned and economically effective, fostering social development and economic sustainability while leveraging diverse funding sources.
Khan & Badjie (2022)	Framework for blended Islamic finance for impactful SMEs	This research introduces a blended Islamic finance framework aimed at supporting impactful SMEs and advancing sustainable development goals (SDGs). It combines the philanthropic, private, and public sector motives into a unified financial structure, designed using the consensus-based impact criteria of 4Zeros (zero-waste, zero-emissions, zero-interest, zero-foreclosures) and service to society. By blending these motivations, the framework offers incentive-compatible financial products where the private sector provides capital, philanthropists cover funding costs, and the public sector facilitates the process. This approach creates a win-win scenario: SMEs receive subsidised financing, reducing their financial burden and risk, while attracting resources that enhance their developmental impact. The model fosters growth and aligns with <i>maqāsid al-Shari'ah</i> and SDGs, with potential applications in areas such as housing, solar energy, health, and education.
Khan <i>et al.</i> (2023)	A framework for waqf-based source of financing for cooperative housing	The Waqf Cooperative Housing Framework employs a blended finance approach by integrating waqf (philanthropic funds) with innovative revenue-generating mechanisms. In this model, unused common areas of condominiums are designated as waqf, generating income through commercial ventures such as health gymnasiums. This income supports the Housing Development Cooperative, which finances affordable housing for low-income groups. The framework combines philanthropic and commercial elements: waqf funds provide the initial capital, while revenue from the common areas and nominal rental payments ensure a sustainable financing cycle. This blend of charitable and commercial strategies effectively addresses affordable housing needs while engaging various stakeholders, including condominium owners, government bodies, and Islamic financial institutions.

**Table 1: Examples of Islamic Blended Finance Products/Models/Services Developed (Cont.)**

Author	Product/Model/Service	Details
Hassan <i>et al.</i> (2023)	Waqf-blended finance using crowdfunding	<p>Two waqf-blended finance models using crowdfunding have been proposed to tackle waqf development challenges:</p> <p><b>Guarantor-Collateral Model:</b> This model blends philanthropic waqf funds with commercial bank financing through crowdfunding platforms. It aims to remove barriers faced by banks in funding waqf projects and increase their confidence. By targeting productive waqf projects with significant social impact, it enhances the mobilisation of commercial finance and ensures effective management and transparency through supervisory institutions.</p> <p><b>Waqf City Model:</b> This model, supported by Indonesia's Financial Services Authority (OJK), positions banks as both waqf managers and financiers. Banks leverage crowdfunding to collect and manage waqf funds, which they use for projects such as affordable housing. This approach improves the credibility and accountability of waqf projects, attracts customer participation, and enhances financial inclusivity and social development through a single integrated system.</p> <p>Both models blend philanthropic and commercial finance by leveraging crowdfunding and bank involvement to maximise impact and returns.</p>
Qadri <i>et al.</i> (2024)	Cash-waqf blended finance model for infrastructure development	<p>The cash-waqf blended finance model integrates cash-waqf funds, state budget contributions, and Islamic social funds for infrastructure development. Cash-waqf funds are used for land acquisition and project development, while state budget funds provide additional financing. Islamic social funds support community needs. A Special Purpose Vehicle (SPV) manages these resources, aligning financial and social objectives effectively.</p>

Source: Authors' own

While existing literature extensively explores the role of ISF in addressing humanitarian crises, there remains a significant gap in practical models that integrate multiple ISF instruments with commercial finance mechanisms. This study addresses this gap by proposing a novel model that blends various ISF tools to enhance financial inclusion and social welfare to an identified unserved and underserved segment of the population which is B40 (comprising the bottom 40 per cent of income earners in Malaysia, who are the lowest-income households facing financial instability and barriers to accessing essential services) and Nano, Micro, Small, and Medium Enterprises (NMSMEs) (encompassing businesses of varying sizes, from small family-run operations to medium-sized enterprises with significant local impact). While existing research extensively explores the role of ISF in addressing various needs, no other study has effectively catered for the provision of income support for the B40 while simultaneously balancing the model with NMSMEs. The proposed model bridges this gap by integrating various ISF tools with traditional finance mechanisms, aiming to enhance financial inclusion and social welfare for these underserved groups.

## METHODOLOGY

To develop a blended ISF-*microtakāful* business model, this study utilised desk research. The process began with a comprehensive literature review, examining academic papers, industry reports, and case studies on ISF and *microtakāful*. By searching relevant databases, the research gathered information on existing models and best practices. The next step involved benchmarking these models to assess their effectiveness and adherence to Islamic finance principles, focusing on their success in reaching underserved populations.

Following the benchmarking, the study analysed best practices from the successful implementation of ISF and *microtakāful*. Insights from this analysis were used to create an integration framework that combines these financial tools to enhance *microtakāful*'s effectiveness. The newly developed blended model aims to provide a sustainable and inclusive financial solution. Recommendations were then formulated to guide the practical application of this model, ensuring that it aligns with Islamic finance principles and addresses the needs of underserved communities.

## FINDINGS

This section exhibits and details the proposed blended ISF-*microtakāful* business model and commercialisation aspects of the model which is the outcome of the conceptualisation of the model.

The convergence of ISF instruments and *microtakāful* presents a promising avenue for the development of NMSMEs and individuals impacted by the pandemic (Kunhibava *et al.*, 2024). Zakat, waqf and *ṣadaqah*, as pillars of Islamic social welfare, can be seamlessly integrated into *microtakāful* models to create a robust safety net. Zakat, representing obligatory alms, can be utilised as a risk pool to underwrite *microtakāful* policies, expanding coverage to underserved segments (Sharif & Bao, 2013). Waqf, as a perpetual endowment, can provide a sustainable funding source for *microtakāful* operations, ensuring long-term viability. Furthermore, *ṣadaqah*, as voluntary charity, can supplement risk pools and contribute to disaster relief efforts (Mikail *et al.*, 2017). This integrated approach is supported by the studies such as Nasir and Hassan (2021) as well as Mohd Zain *et al.* (2024) who advocate for Islamic blended finance to achieve SDGs.

By blending ISF with *microtakāful* and leveraging government support, it is possible to create a comprehensive and sustainable financial ecosystem. This approach not only provides financial protection but also fosters economic empowerment and social upliftment. Studies such as Khan *et al.* (2023) highlighted the potential of such models in achieving multiple development objectives. However, careful consideration must be given to regulatory frameworks, risk management, and governance to ensure the long-term success of these initiatives.

### Proposed Business Model

**Figure 1** is an illustration of the proposed blended ISF-*microtakāful* business model that has been conceptualised through desk research. This innovative proposed business model adopts a blended approach whereby it envelopes the social dimensions through ISF instruments, participation of government and high net worth individuals (HNWIs) into the *microtakāful* model in achieving inclusivity, feasibility as well as sustainability. In structuring this model, the

gaps and challenges considered are to resolve the vulnerability of unserved and underserved communities and the fragility of NMSMEs by providing protection and financing to them.

There are two *takāful* schemes covered: one is *microtakāful* and the other is the social *takāful* scheme. Under the *microtakāful* scheme, the participants would be the B40 group who would be provided with health protection upon their participation in the scheme by paying an affordable amount as *takāful* contributions. Part of this contribution can be subsidised by the government as well. This scheme will be managed based on a *wakālah-takāful* model whereby a pre-determined amount of the *takāful* contributions received will be deducted as a *wakālah* fee. The *takāful* operator would also be able to gain some revenues by managing the Participants' Investment Fund (PIF) based on the concept of *ju'ālah* (performance fees), a means to make the *microtakāful* scheme commercially viable for the *takāful* operator.

Under the social *takāful* scheme, first, the *takāful* operator will appoint a *nāzir* (manager) to manage a special cash waqf fund that is pooled by HNWI specifically for the benefit of NMSMEs. Since the model will be adhering to the cash waqf principles, the *nāzir* will invest the funds received, and the profits gained from such investments will be provided to the *takāful* provider to give social *takāful* to NMSMEs who engage in the food sector and personal protective equipment (PPE) sector which encompasses the production, distribution, and sale of safety equipment. The ultimate objective of selecting these two sectors is to provide B40s with affordable food essentials and PPEs such as masks, gloves, face shields, and protective clothing. The selection of the sectors will depend on the need assessment carried out for the purpose. There are three main conditions that the model will stipulate in the social *takāful* assistance given:

- i. to sell their products to B40s at a discounted price;
- ii. to grant or prioritise new jobs they create to skilled and competent B40 group members; and
- iii. from the profits realised, a certain percentage will be contributed to the cash waqf fund, thus sustaining the social *takāful* model.

As portrayed in **Figure 1**, in the social *takāful* scheme of this model, the *ta'āwunī* (cooperation) concept of *takāful* is adopted. The source of funds for the *takāful* operator in the proposed business model will come from:

- Under the *microtakāful* scheme, through contributions made by the contributors or the participants;
- Under the social *takāful* scheme, through the contributors to the cash waqf fund.

Paperless transactions will be made in this scheme where the contributors who need to obtain medical coverage will be able to do so by visiting the panel clinics/hospitals using their fingerprints as a verification mechanism. It is fully understood that not every B40 member can afford to have a smartphone or even internet; so to facilitate them, the model will ensure that the panel clinics can cater for them in this respect. Alternatively, the initiatives of the government to facilitate B40s in this regard could be leveraged upon, for example through the Jaringan Prihatin programme which aims to address the limited accessibility of smartphones and the internet among B40 households in Malaysia (Bernama, 2021). Under this programme, by providing

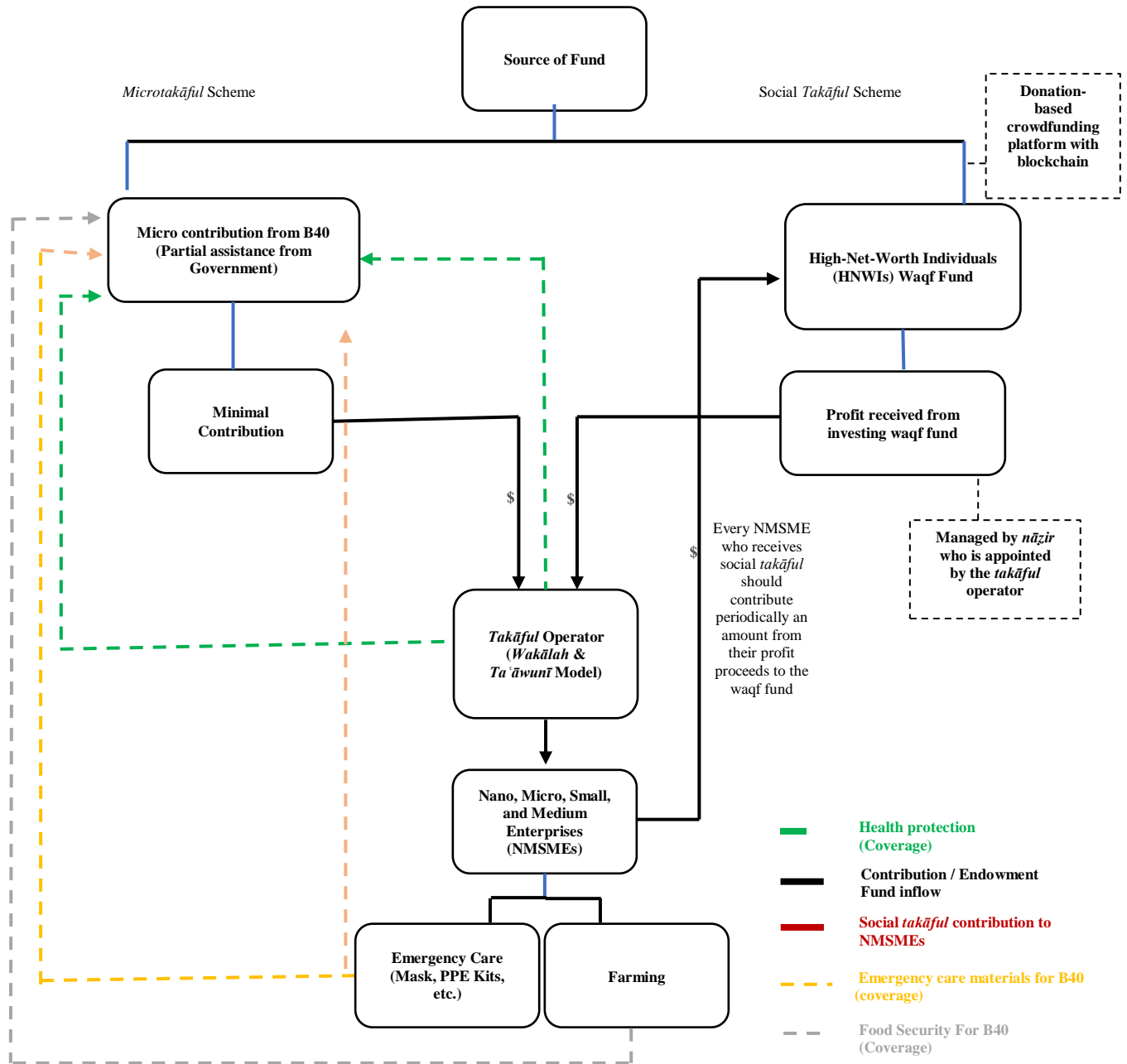
rebates and assistance, eligible recipients can purchase smartphones at a discounted price or receive monthly data plan rebates (Bernama, 2021). This programme recognises the importance of digital inclusion and aims to bridge the digital divide, ensuring that smartphones and internet access are treated as essential needs for all Malaysians.

A dedicated blockchain-based platform will be developed to ensure transparency and efficiency in managing and distributing the funds. Through the desk research, it is found that one of the reasons why cash waqf funds become unattractive to contributors is when they are not transparent. By using blockchain technology, the model will be able to ensure that the trust and confidence of HNWIs and companies who intend to donate to the cash waqf fund can be maintained regarding the work carried out. Further, to ensure that enough contributors to the cash waqf funds are always there to increase the size of the fund, the entity (*takāful* providers) would enter into agreements with waqf authorities, HNWIs and companies who agree to make periodic contributions to the fund. Moreover, it is intended to initiate a waqf round-up campaign by collaborating with e-commercial platforms and shops where consumers could choose to round off their bills and contribute some cents to the waqf fund. In this way, marketing the fund to a large number of consumers in different parts of the world would also be possible.

Thus, the blended ISF-*microtakāful* model integrates ISF and *microtakāful* to address the protection and sustainability needs of underserved communities and small businesses. It features two main schemes: the *microtakāful* scheme for B40 households, providing affordable health protection with potential government subsidies, and the social *takāful* scheme for NMSMEs in the food and PPE sectors. NMSMEs would benefit from affordable protection, expanded market reach, and job creation, while B40 households would gain access to discounted essentials and employment opportunities. The model also leverages blockchain technology for transparency and incorporates government and corporate CSR contributions, ensuring a robust and inclusive approach.

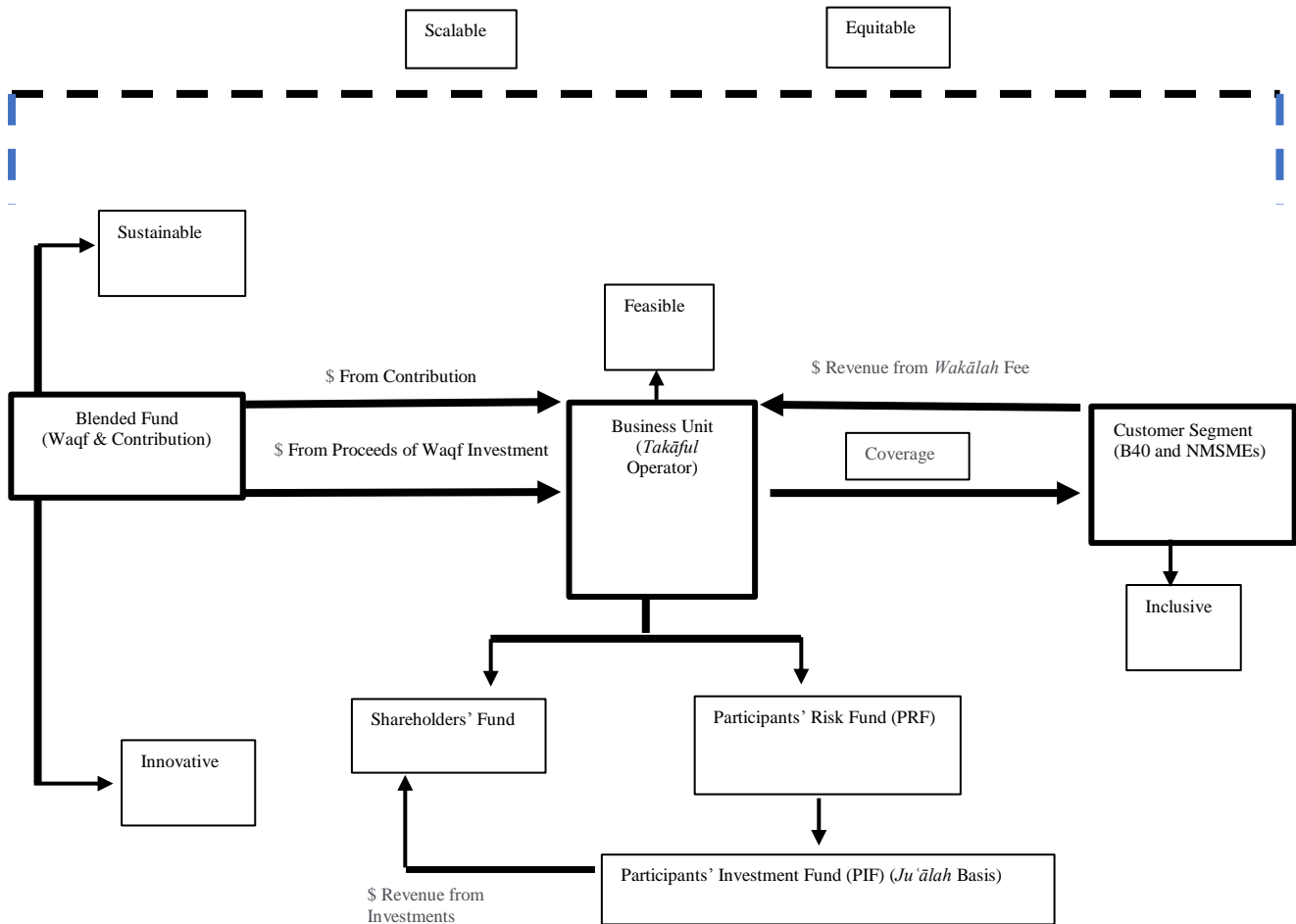
The model's uniqueness lies in its blended approach, combining traditional *takāful* with modern social finance principles, and in its emphasis on digital inclusion. Additionally, the use of blockchain technology enhances transparency and trust, while the circular contribution mechanism and waqf round-up campaigns foster long-term sustainability and community engagement. This comprehensive model not only addresses immediate needs but also promotes ongoing social impact and financial inclusion, creating a sustainable ecosystem for both NMSMEs and underserved communities.

Figure 1: Proposed Business Model



Source: Authors' own

**Figure 1: Commercialisation**



Source: Author's own

**Figure 2** portrays the commercialisation aspects of the proposed model. As for the source of revenue, it would be primarily generated from the *wakālah* fee, and the investment returns received from PIF on a *ju'alah* basis. The social *takāful* scheme generates social revenue by funding NMSMEs, thereby saving jobs and ensuring food security and affordable PPE for the B40 group. The proposed blended ISF-*microtakāful* business model fosters self-sufficiency and financial resilience by providing affordable health protection to the B40 group through *microtakāful*, ensuring access to essential services even for low-income participants. Simultaneously, the social *takāful* scheme supports NMSMEs by using profits from a cash waqf fund to offer protection, while also requiring these enterprises to prioritise job opportunities for the B40, sell products at discounted prices, and reinvest in the community, thus creating a sustainable cycle of economic support and growth. It is also important to note that the large population of the B40 group and the significant number of NMSMEs present a substantial

opportunity to capture a fair market share. Therefore, it is strongly believed that the proposed model has the following characteristics:

- **Innovativeness:** The model is a blended ISF-*microtakāful* model which has never been practised before.
- **Sustainability:** This model is sustainable by leveraging community support through the waqf system. By partnering with State waqf authorities, it ensures a continuous, self-sustaining flow of resources, providing ongoing assistance to those in need while promoting long-term social welfare.
- **Inclusiveness:** The model caters for the unserved (B40 groups) and underserved (NMSMEs).
- **Feasibility:** Any existing or new *takāful* operator can adopt it in a commercially viable manner where financial and social returns can be balanced.
- **Scalability:** This model can be replicated easily without incurring high costs.
- **Equitable:** It is based on the *ta'āwunī* principle of helping each other, which is closer to the *maqāṣid al Sharī'ah* by reducing the wealth gap through shared prosperity and by leveraging on ISF institutions, linking thereby Islamic commercial finance.

**Table 2** provides an overview of the proposed model's revenue sources, social impact, market potential, and unique features.

**Table 2: Overview of the Proposed Model's Revenue Sources, Social Impact, Market Potential, and Unique Features**

Aspect	Description
Source of Revenue	- <i>Wakālah</i> fee: This is the primary source of revenue for the <i>takāful</i> operator. - Investment returns: Generated from the Participants' Investment Fund (PIF) based on <i>ju'ālah</i> .
Financial Impact	- Self-sufficiency and financial resilience: The model aims to create financial independence and resilience among unserved and underserved communities, contributing to a more just and equitable society by narrowing the wealth gap.
Market Potential	- Large target population: The B40 segment and the number of NMSMEs represent a substantial market share, providing significant growth opportunities for the proposed model.
Unique Features	- Innovation: The model introduces a blended ISF- <i>microtakāful</i> approach, a novel concept in the industry. - Sustainability: It incorporates waqf collaboration with State waqf authorities, ensuring long-term sustainability and support. - Inclusivity: The model caters for the unserved (B40 group) and underserved (NMSMEs) market, promoting inclusivity and social welfare. - Feasibility: It offers commercial viability, allowing <i>takāful</i> operators to adopt the model while achieving a balance between financial and social returns. - Scalability: The model can be easily replicated at low cost, facilitating wider implementation and impact. - Equity: Aligned with the <i>ta'āwunī</i> principle, the model aims to reduce the wealth gap through shared prosperity, leveraging ISF institutions and connecting them with Islamic commercial finance.

Source: Authors' own

## SIMULATION OF THE MODEL PROPOSED

It is imperative to understand how the practical application of the model would benefit the individuals who are in the B40 category and the NMSMEs.

For Individuals:

- Before the proposed model: Sarah, a single mother in the B40 income bracket, faces significant financial strain. Her household income is RM2,500 per month, and she struggles to cover essential expenses, including healthcare. Without adequate health insurance, Sarah often delays medical visits due to high costs, risking her health and her family's well-being. Additionally, she spends around RM600 monthly on essential goods, leaving her with little room for savings or for meeting unexpected expenses. Her limited economic opportunities also contribute to her financial instability.
- After the proposed model: Under the new model, Sarah becomes a participant in the *microtakāful* scheme, where she pays an affordable contribution of RM50 per month for health coverage. The government subsidises MYR20 of this amount, reducing her out-of-pocket cost to MYR30. This coverage allows Sarah to access medical care without financial stress. Furthermore, through the social *takāful* scheme, local businesses supported by the model offer discounted prices on essentials. Sarah now spends MYR500 monthly on these goods, saving MYR100 each month. Additionally, Sarah secures a part-time job with an NMSME involved in the model, increasing her income by MYR800 per month. Overall, Sarah's financial situation improves significantly with reduced healthcare costs, savings on essentials, and additional income.

For NMSMEs:

- Before the proposed model: ABC Foods, an NMSME specialising in affordable food products, faces challenges in reaching low-income consumers due to limited market access and financial constraints. Their annual revenue is MYR500,000, but they struggle with high operational costs and difficulty in scaling their business. The company also wants to contribute to community development but lacks a structured way to do so.
- After the proposed model: With the blended model, ABC Foods benefits from increased visibility through the social *takāful* scheme, which facilitates discounted sales to B40 consumers. They partner with the model to offer a 20 per cent discount on their products, attracting more customers from the B40 demographic. As a result, their revenue grows to MYR600,000 annually. Financial support from the cash waqf fund provides ABC Foods with MYR200,000 in additional capital, enabling them to expand operations and improve product quality. Additionally, by participating in the model, ABC Foods contributes MYR50,000 from its profits to the cash waqf fund and creates 20 new jobs, which further strengthens their community engagement. This not only enhances their market position but also fulfills their social responsibility objectives.

The blended ISF-*microtakāful* model transforms financial dynamics for both individuals and NMSMEs. For individuals like Sarah, it offers affordable health coverage, savings on essential goods, and additional income through new job opportunities. Financial simulations show a

reduction in healthcare costs, increased savings, and higher overall income. For NMSMEs like ABC Foods, the model provides greater market access, financial support for growth, and opportunities for community engagement. Their increased revenue, operational expansion, and contributions to social causes illustrate the model's impact. This integrated approach creates a sustainable ecosystem that addresses immediate needs and promotes long-term financial stability and social development for both parties.

## POLICY IMPLICATIONS

The proposed blended ISF-*microtakāful* business model presents a unique opportunity to address the vulnerability of unserved and underserved communities and the fragility of NMSMEs through a combination of ISF instruments. There are several policy implications that can be derived from the findings of this paper, as follows:

- Governments shall enact policies that will facilitate the development and establishment of the *microtakāful* schemes; hence, making insurance accessible to unserved and underserved groups by also letting them have it at affordable prices. This involves developing appropriate regulatory environments that facilitate the creation of *takāful* operators and assist in forming collaborative partnerships between the government, financial institutions, and the *takāful* provider.
- Governments may encourage NMSMEs to participate in social *takāful* schemes by giving tax benefits or other incentives. These business enterprises can be made to undertake the commitment of selling their products at discounted prices to the targeted segments, creating job opportunities for vulnerable sections of the population, and contributing part of their profits to the cash waqf fund, hence practising inclusive economic growth and poverty reduction.
- Governments should make it easier for *takāful* operators, waqf authorities, and HNWIs to cooperate in terms of product structuring and price offerings to ensure the cash waqf fund's self-sufficiency and growth. Some incentives toward periodic contributions and building portals for the collaboration of e-commerce platforms and shops will spread the reach of the waqf fund to a wider area and encourage consumer involvement.
- Policies at the government level should support the introduction of digital solutions and blockchain technology aimed at creating transparency, trust, and efficiency when dealing with *takāful* schemes and cash waqf funds. Paperless transactions can be facilitated by digital platforms that implement fingerprint verification mechanisms underpinning blockchain systems with high regard for data protection and cybersecurity.
- Governments can collaborate with these *takāful* operators by way of financial support or subsidies to offset costs incurred from the subsidisation of such *microtakāful* scheme contributions. There is a great need to facilitate the setting up of a specific blockchain-based platform and providing support for the appointment and training of *nāzirs* in cash waqf fund management.

## CONCLUSION

In conclusion, it is evident that the integration of ISF instruments in *microtakāful* has the potential for enhancing financial inclusion by promoting socio-economic justice while giving

paramount consideration to SDGs. The originality of this research lies in proposing an all-inclusive business model that balances the financial needs of marginalised communities with social unity and moral values. The use of fintech-based solutions enhances the proposed model's efficacy and approachability, to fulfil the growing needs of participants. The self-sustainability and social impact aspects of the model make it a valuable contribution to the field of Islamic finance and social finance.

Future research needs to focus on the practical implementation strategies of the proposed model by analysing its impact on the targeted communities. In this regard, studies can also be conducted to explore the regulatory and policy implications of integrating ISF instruments in *microtakāful* schemes. It is anticipated that the findings of this research will pave the way for the adoption of a transformative approach to harness the potential of ISF for the advancement of societies by promoting socio-economic justice. With further research and implementation, this model has the capacity to create lasting social impact, empower marginalised communities, and contribute to the achievement of global and national development goals.

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## DECLARATION

### Credit Authorship Contribution Statement

- Shinaj Valangattil Shamsudheen: Conceptualisation, methodology, and findings.
- Aishath Muneeza: Implications, introduction, literature review, conclusion, and review of the paper.

### Declaration of Competing Interest

The authors declare that they have no known competing financial interest or personal relationships that could have influenced the research work.

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The authors declare that they understand the Ethical Guidelines and have adhered to all the statements regarding ethics in publishing. They also confirm that this paper is original and has not been published in any other journal nor is under consideration by another publication.

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Not applicable

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