



THE INTEGRATION OF ISLAMIC SOCIAL FINANCE TOWARDS ACCELERATING ECONOMIC DEVELOPMENT IN MALAYSIA

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Abstract: This study constructs a comprehensive framework for an integrated Islamic social finance model in Malaysia, exploring how instruments like *zakāt*, *waqf*, Islamic microfinance, and Islamic crowdfunding (e.g. *ṣadaqah*, *infāq*, and *hibah*) rooted in principles of *Maqāṣid al-Sharī'ah* can accelerate Malaysian economic development and foster a prosperous and inclusive society by aligning with key national blueprints such as the Shared Prosperity Vision 2030, Twelfth Malaysia Plan (12MP), and the MADANI Economy framework. This study adopts a qualitative approach, it undertakes a comprehensive desk-based review of academic and institutional literature to perform a thematic and content analysis, aiming to construct a conceptual framework for an integrated Islamic social finance system in Malaysia and propose its application to accelerate economic development by supporting vulnerable populations. This study reveals that the synergy of Islamic social finance instruments is poised to enhance Malaysia's MADANI Economy framework, fostering a progressive and prosperous nation by aligning with national policies and the Sustainable Development Goals (SDGs), and thereby elevating both economic competitiveness and citizens' quality of life through the collaborative efforts of key public and private stakeholders. In conclusion, this study articulates an integrated Islamic social finance framework, emphasizing the collaborative potential of key Malaysian government and financial institutions to foster a just and prosperous nation by empowering vulnerable communities and aligning economic development with sustainable, inclusive principles, thereby positioning

Malaysia as a global leader in an integrated Islamic social finance framework.

Keywords: Islamic Social Finance, MADANI economy framework, Twelfth Malaysia Plan (12MP), National Economic Policy, Shared Prosperity Vision 2030

INTRODUCTION

The Islamic Economic introduces a unique approach by integrating Islamic social finance instruments of *zakāt*, *waqf*, Islamic microfinance, and Islamic crowdfunding (e.g. *ṣadaqah*, *infāq*, and *hibah*), known as Islamic philanthropic instruments, and community welfare into its economic framework. These Islamic philanthropic instruments which were used in different scenarios to address funding challenges of social services and their potential societal issues within the community (Mahadi, 2022, Zauro *et al.*, 2020) has an important role in achieving sustainable development (Abdullah, 2018; Fauzi *et al.*, 2022; Hudaefi, 2020; Sukmana, 2020). Recent studies of Mahadi (2022) and Umar *et al.*, (2022) pointed out the activities of ISF and its potential to create prosperous societies, increase the production capacities of vulnerable groups and alleviate poverty. In 2020, various initiatives for underserved populations, such as benevolent microfinancing for B40 entrepreneurs, affordable housing programs for *zakāt* recipients, and financial protection for the hardcore poor through donation-funded *takāful* riders, were implemented. The primary objectives of the Islamic Solidarity Fund (ISF) include promoting the socioeconomic development of communities, mitigating poverty, enhancing the quality of education, advancing social justice, and

providing humanitarian aid. Furthermore, the fund is dedicated to fostering the equitable distribution of income and wealth and encouraging technological and social innovations.

Hossain *et al.*, (2025), Mahadi *et al.*, (2023) and Ascarya (2022) found that the government can use ISF to recover from financial crises and save lives by providing social assistance based on *zakāt*, *waqf*, Islamic microfinance, and Islamic crowdfunding (e.g. *ṣadaqah*, *infāq*, and *hibah*). Unlike capitalism, which is driven by profit, and socialism, which relies on state control, the IE emphasizes voluntary and obligatory charitable practices to redistribute wealth. The ultimate goal of the study is to create a robust, scalable, and sustainable Islamic economic ecosystem especially by empowering the integrated Islamic social finance framework that can enhance social welfare, reduce economic disparities, and promote a culture of philanthropy in Malaysia. By leveraging the principles of an IE, the study aims to contribute to the economic development and to ensure that wealth circulates within the community, addressing social welfare and reducing economic disparities, offering a viable alternative to conventional economic systems.

Current economic models like capitalism, socialism, and mixed economies each have their strengths and weaknesses (A Schumpeter, 2021, Jasiecki, 2018, Mattick, 2020), the Islamic social finance industry offers a distinctive and integrated framework that addresses social welfare, ethical practices, and sustainable development, providing a viable alternative that can enhance both economic and social outcomes. While capitalism offers high growth potential but often at the cost of significant inequality, and socialism provides social

welfare but can suffer from inefficiency (Johnson, 2014, Hodgson, 1996), the Islamic Economics particularly as operationalized through its framework of Islamic social finance, posit an alternative model. The Islamic economic paradigm, grounded in the alignment of economic practices with ethical and religious values, transcends mere material provisioning to cultivate the moral and spiritual well-being of individuals. This innovative, holistic approach, particularly through its comprehensive social finance framework, presents a compelling alternative to conventional models by fostering systemic resilience and robust community support, thereby mitigating the impacts of economic crises.

This research aims to construct a robust conceptual framework for integrated Islamic social finance framework in Malaysia by examining the intrinsic value and spiritual significance of Islamic economic principles that aligns with the principles of *Maqāṣid al-Sharī'ah*. Through an in-depth analysis of Islamic social finance e.g. *zakāt*, *waqf*, Islamic microfinance, and Islamic crowdfunding (e.g. *ṣadaqah*, *infāq*, and *hibah*), this study elucidates their potential contributions to the advancement of a progressive and prosperous *Bangsa Malaysia* within the framework of integrated Islamic social finance. The study explores how these practices align with and contribute to the realization of national development blueprints, including the NVP 2020, Shared Prosperity Vision 2030, MADANI Economy framework, Twelfth Malaysia Plan (12MP), Sustainable Development Goal 8 and 11, National Economic Policy, and the 10-10 MySTIE Framework and supports the creation of a sustainable,

inclusive, and resilient economic growth that fosters Islamic economic excellence.

METHODS

The study employs a qualitative approach to construct a robust conceptual framework for integrated Islamic social finance framework in Malaysia to accelerate economic development in Malaysia. The study presents a framework, and socio-economic support tools to improve well-being of underserved, underprivileged and low-income groups i.e. the vulnerable group. This study is underpinned by a comprehensive and extensive literature review of documents and reports from diverse institutional perspectives, thereby furnishing a profound understanding of the development of the integration of Islamic social finance framework.

Data Collection

This study primarily employs a robust desk-based research approach, focusing on an extensive review of existing literature. This involves a comprehensive analysis of documented practices from the Malaysian Government Ministries, i.e. the Ministry of Finance (MOF), Ministry of Entrepreneur And Cooperatives Development (MECD), Ministry of Agriculture and Food Security (MAFS), BNM, Department of Islamic Development Malaysia (JAKIM), Department of Awqaf, Zakat And Hajj (JAWHAR), Islamic and Commercial Banks, Development Financial Institutions (DFIs), Microfinance Institutions (MFIs), and State of Islamic Religious Council (SIRCs). The data for this study will be sourced from a variety of credible academic publications, including peer-reviewed journal articles, research papers,

and editorials, as well as from authoritative professional resources such as institutional websites, official reports, and official documents. This approach, by concentrating on the most recent scholarly outputs, ensures the data accurately reflects the latest advancements and practical insights concerning a holistic and integrated Islamic social finance framework within Malaysia.

This study draws on a combination of printed and online sources, providing a broad spectrum of viewpoints on the concept and interpretation of Islamic social finance. By utilizing library research, the study gathers detailed information on the conceptual frameworks established by scholars and the potential practical application of the proposed framework (shown in Figure 2) by relevant stakeholders.

Data Analysis

This study employs two distinct yet complementary methods i.e. content analysis and thematic analysis. The former is used to examine and interpret data from library research, facilitating a detailed exploration of the underlying meanings, concepts, and interpretations concerning a holistic and integrated Islamic social finance framework within Malaysia.

Thematic analysis is applied to analyse the data collected from the library research. This method helps identify, analyse, and report patterns or themes within the data, providing a structured approach to understanding the diverse perspectives on Islamic social finance. Together, these analytical methods provide a comprehensive understanding of the contemporary interpretations of the integration of Islamic social finance framework within Malaysia to

accelerate its economic development from both academic and practical viewpoints.

RESULT AND DISCUSSION

The growing prominence of Islamic social finance (ISF) as a mechanism for socio-economic development (Dirie, Alam, & Maamor, 2024; Hossain, Mahadi, & Haron, 2024; Mahadi, 2022; Mahadi, Zain, & Ahmad, 2021) has become a significant area of academic inquiry, particularly within Muslim-majority nations. The literature on this subject, especially as it pertains to the Malaysian context, posits that the effective integration of ISF instruments comprising *zakāt*, *waqf*, Islamic microfinance, and Islamic crowdfunding (e.g. *ṣadaqah*, *infāq*, and *hibah*), into the national economic framework can serve as a catalyst for sustainable and inclusive growth in accelerating economic development in Malaysia. Community participation in Islamic social finance serves as a tangible expression of core Islamic teachings, as articulated in Surah An-Nisā:114:

There is no good in most of their secret talks—except those encouraging charity, kindness, or reconciliation between people. And whoever does this seeking Allah’s pleasure, We will grant them a great reward. (An-Nisā:114).

This surah delineates the recompense for virtuous acts, among which is the encouragement of almsgiving. This particular directive serves as a foundational principle of Islamic social finance.

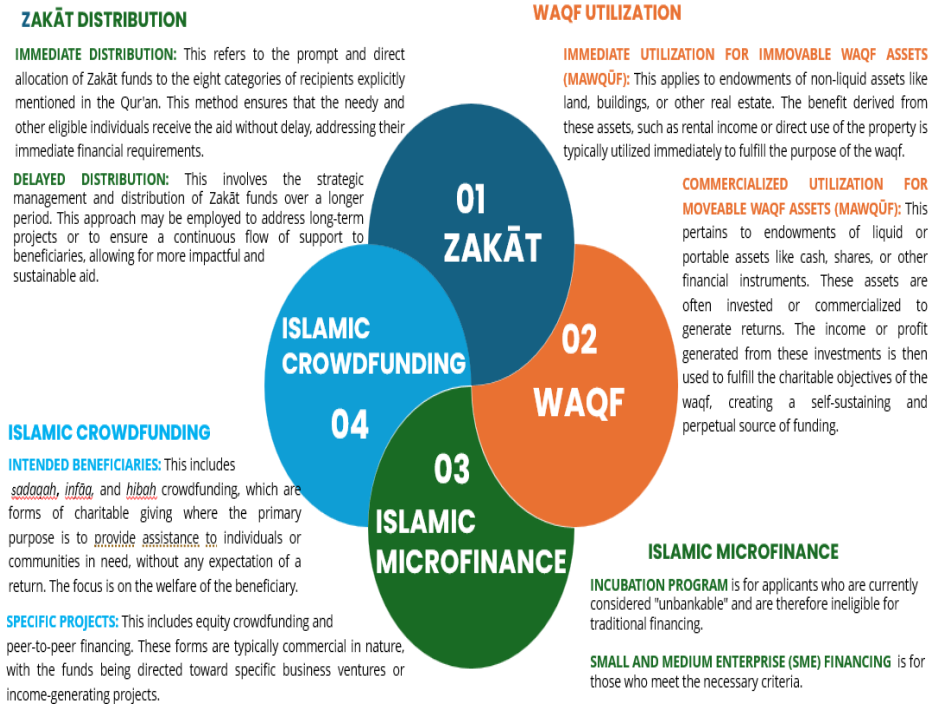
Conceptual Frameworks of Islamic social finance (ISF)

The foundational literature establishes that the Islamic economic model is distinct from both conventional capitalist and

socialist systems. It is an ethically driven framework that emphasizes social justice, equitable wealth distribution, and a real-sector-based economy (Yilmaz, 2024). Islamic economics integrates religious principles with economic practices, emphasizing justice, equity, and social welfare as foundational pillars for a balanced and stable financial system (Kunaifi, Rahman, & Dwiaryanti, 2021), with core principles of prohibition of *riba* (interest), promotion of risk-sharing, and the mandatory nature of social redistribution through *zakat* and *waqf* are inherently designed to reduce poverty and foster economic stability.

A central tenet of this Islamic economic framework is the prohibition of prohibited elements which is complemented by an active promotion of risk-sharing to align financial gains with actual economic activity. The prohibited elements in Islamic banking and finance are primarily derived from the Qur'ān and Sunnah (the teachings and practices of the Prophet Muḥammad S.A.W), e.g. *ribā* (interest), *gharar* (excessive uncertainty), *maysir* (gambling), *ḥarām* products and sectors, exploitation (*ẓulm*) and injustice; and are designed to ensure ethical and fair transactions. Furthermore, the mandatory nature of social redistribution, particularly through ISF instruments, is explicitly designed to mitigate poverty and cultivate long-term economic stability (shown in Figure 1).

Figure 1: Islamic Social Finance Instruments and Its Utilization



Source: Author (2025)

According to Figure 1, Islamic social finance instruments, encompassing *zakāt*, *waqf*, Islamic microfinance, and Islamic crowdfunding, are employed with distinct utilization models. The distribution of *zakāt* funds, for instance, operates on both immediate and deferred principles. This instrument has been shown to be effective in providing a safety net for the *aṣṇāf* (eligible recipients), thereby contributing to poverty reduction at the micro-level (Aznan *et al.*, 2022; Mahadi, 2022). The immediate and prompt disbursement of these funds facilitates the swift and direct allocation of *zakāt* funds to the eight categories of recipients explicitly mentioned in the Qur'ān. This method ensures that the needy and other eligible individuals

receive the aid without delay, addressing their immediate financial requirements. Conversely, deferred zakāt fund distribution involves the strategic management and distribution of *zakāt* funds over a longer period. This approach may be employed to address long-term projects or to ensure a continuous flow of support to beneficiaries, allowing for more profound and enduring impact. *Waqf*, meanwhile, is applied with a differentiation between asset types: immovable assets (*mawqūf*) are used for immediate purposes, while movable assets (*mawqūf*) are subject to commercialized utilization. Furthermore, the burgeoning fields of cash *waqf* and corporate *waqf* are a significant area of scholarly inquiry, with research focusing on their potential to mobilize capital for large-scale development projects, notably in healthcare and education infrastructure.

The structure of Islamic microfinance distribution is twofold, it includes an incubation program for applicants who are currently considered unbankable and are therefore ineligible for traditional financing, and it also provides Small and Medium Enterprise (SME) financing for those who meet the necessary criteria. In Islamic microfinance, a diverse array of financing modalities is employed, encompassing various transactional structures. These include sales-based models like *murābahah*, *salam*, and *istiṣnā'*; partnership-based arrangements such as *mushārah* and *muḍārah*; the leasing framework of *jārah*; and the provision of a benevolent loan, known as *qarḍ ḥasan*. For instance, in Malaysia, we have benevolent microfinancing for B40 entrepreneurs, as seen in initiatives like iTEKAD and BangKIT, refers to a specific type of financial assistance aimed at helping Malaysia's B40 (bottom 40%) income group. In

Malaysia, a consortium of financial institutions, comprising four commercial banks (Maybank, Alliance Bank, AmBank, and Public Bank) and two Islamic banks (Bank Islam and Bank Muamalat), along with three Development Financial Institutions (DFIs) (Bank Rakyat, Bank Simpanan Nasional, and Agrobank) participate in the *Skim Pembiayaan Mikro* (Microfinancing Scheme) to facilitate this economic empowerment.

In Malaysia, the regulatory framework governing microfinance institutions (MFIs) such as Amanah Ikhtiar Malaysia (AIM), Yayasan Usaha Maju (YUM), and Tabung Ekonomi Kumpulan Usaha Niaga (TEKUN Nasional) is a multifaceted system. While Bank Negara Malaysia (BNM), the central bank, serves as the primary regulator for Development Financial Institutions (DFIs) and is instrumental in advancing financial inclusion, the oversight of these particular MFIs is typically vested in their respective stakeholder ministries or original governing bodies. For instance, both YUM and TEKUN operate under the purview of the Ministry of Agriculture and Food Security (MAFS), reflecting a governance model that is aligned with their specific sectoral mandates rather than a singular, consolidated financial regulatory body. Amanah Ikhtiar Malaysia (AIM) is a private trust body under the supervision of the Ministry of Entrepreneur Development and Cooperatives (KUSKOP).

In contrast, Islamic crowdfunding is categorized into two main divisions based on its intended use: intended beneficiaries and specific projects. The former, focused on charitable giving, encompasses *ṣadaqah*, *infāq*, and *hibah* crowdfunding, as well as equity crowdfunding and peer-to-peer financing. These models prioritize the

welfare of individuals and communities in need, operating without any expectation of financial return. In contrast, the latter category, specific projects, includes commercial applications such as equity crowdfunding and peer-to-peer financing. These types of funding are directed toward specific business ventures or income-generating projects.

Maqāṣid al-Sharī'ah

In classical Islamic jurisprudence, particularly within the Shāfi'ī and Mālikī schools of thought, the principle of *maṣlahah*, or the common good, is rooted in the pursuit of benefit and the prevention of harm i.e. it is fundamentally defined as the preservation of the public interest through the protection of the five essential objectives (*al-darūriyyāt al-khams*). These core objectives are typically identified as the preservation of religion (*dīn*), life (*nafs*), intellect (*'aql*), lineage (*nasl*), and property (*māl*). Consequently, any action or principle that upholds these five principles is considered an interest, whereas anything that undermines them is deemed a corruption, the prevention of which is itself an interest (Al-Ghazālī, 1984).

أَمَّا الْمَصْلَحَةُ فَهِيَ عِبَارَةٌ فِي الْأَصْلِ عَنْ جَلْبِ مَنْفَعَةٍ وَدَفْعِ مَضَرَّةٍ، وَلَسْنَا نَعْنِي بِهِ ذَلِكَ، فَإِنَّ جَلْبَ الْمَنْفَعَةِ وَدَفْعَ الْمَضَرَّةِ مَقَاصِدُ الْخَلْقِ، وَصَلَاحُ الْخَلْقِ فِي تَحْصِيلِ مَقَاصِدِهِمْ، لَكِنْ نَعْنِي بِالْمَصْلَحَةِ الْمُحَافَظَةَ عَلَى مَقْصُودِ الشَّارِعِ، وَمَقْصُودِ الشَّارِعِ مِنَ الْخَلْقِ خَمْسَةٌ وَهُوَ أَنْ يُحَافِظَ عَلَيْهِمْ دِينَهُمْ وَنَفْسَهُمْ وَعَقْلَهُمْ وَنَسْلَهُمْ وَمَالَهُمْ، فَكُلُّ مَا يَتَضَمَّنُ حِفْظَ هَذِهِ الْأَصُولِ الْخَمْسَةِ فَهُوَ مَصْلَحَةٌ، وَكُلُّ مَا يَفْوِثُ هَذِهِ الْأَصُولَ فَهُوَ مُفْسِدَةٌ وَدَفْعُهَا مَصْلَحَةٌ.

The contemporary understanding of *maqāṣid* encompasses the fundamental objectives, characteristics, and underlying principles that legislators consistently seek to uphold across a broad spectrum of legal

rulings, transcending specific legal categories to ensure the law's overall coherence and purpose (Ibn 'Āshūr, 2001).

مَقَاصِدُ التَّشْرِيعِ الْعَامَّةُ هِيَ الْمَعَانِي وَالْحُكْمُ الْمَلْحُوظَةُ لِلشَّارِعِ فِي جَمِيعِ أَحْوَالِ التَّشْرِيعِ أَوْ مُعْظَمِهَا؛ بِحَيْثُ لَا تَخْتَصُّ مَلَاحِظَتُهَا بِالْكَوْنِ فِي نَوْعٍ خَاصٍّ مِنْ أَحْكَامِ الشَّرِيعَةِ، فَيَدْخُلُ فِي هَذَا أَوْ صَافُ الشَّرِيعَةِ وَغَايَتُهَا الْعَامَّةُ وَالْمَعَانِي الَّتِي لَا يَخْلُو التَّشْرِيعُ عَنْ مَلَاحِظَتِهَا، وَيَدْخُلُ فِي هَذَا أَيْضًا مَعَانٍ مِنَ الْحُكْمِ لَيْسَتْ مَلْحُوظَةً فِي سَائِرِ أَنْوَاعِ الْأَحْكَامِ، وَلَكِنَّهَا مَلْحُوظَةٌ فِي أَنْوَاعٍ كَثِيرَةٍ مِنْهَا.

Hence, the very objective of the *Shari'ah* is to promote the well-being of the people.

In Al-Qaṣaṣ:77, “*But seek, through that which Allah has given you, the home of the Hereafter; and [yet], do not forget your share of the world. And do good as Allah has done good to you. And desire not corruption in the land. Indeed, Allah does not like corrupters.*”

In Al-Anbiyā': 105, “*Surely, following the 'heavenly' Record, We decreed in the Scriptures: “My righteous servants shall inherit the land.*”

In summary, both verses provide a robust framework for a holistic, sustainable, and ethical economic system. Al- Qaṣaṣ:77 provides the microeconomic and behavioural principles for individual and corporate actions, while Al-Anbiyā':105 provides the macro-level principle of ethical stewardship for the entire economic system. They underscore the interconnectedness of morality, ethics, and economic prosperity, a perspective that is increasingly relevant in an age of rising inequality, environmental crises, and financial instability.

Therefore, the Figure 1 will become the base model to be presented in Figure 2; a remarkable initiative designed to empower and uplift the less fortunate members of our community. Malaysia's economic growth moderated to 3.7 percent in 2023 (2022: 8.7 percent), lower than the government's target of 4-5 percent (World Bank, 2024). Report by the Department of Statistics Malaysia (2024) and the BNM (2024), the unemployment rate was sustained at its pre-pandemic level of 3.3% in 1Q 2024 (4Q 2023: 3.3%). Employment rose to 16.4 million persons in 1Q 2024 (4Q 2023: 16.35 million persons) amid continued demand for labour. With this statistic, an effectively deployed IE can significantly reduce poverty and economic disparities by ensuring a more equitable distribution of wealth among Malaysian population and reduce the unemployment rate. An optimized implementation of the IE model with the integration of Islamic social finance principles into government support programs and policies, has the potential to contribute to a reduction in unemployment rates, aligning with Malaysia's national development objectives. The study will generate concrete policy recommendations for governments and regulatory bodies to implement the integrated Islamic social finance framework to accelerate economics development in Malaysia. This framework can further strengthen the financial resilience of Malaysian marginalised populations through ISF instruments that fund long-term social, educational, and religious projects ensuring continuous community benefit without depleting resources.

By incorporating Islamic values and instruments, policymakers can create an enabling environment that addresses the specific needs of vulnerable groups, fosters their participation in the economy, and

ensures their long-term sustainability (Dawood *et al.*, 2020). The study posits that the community-centric and philanthropic underpinnings of Islamic social finance instruments can serve as a critical safety net during economic downturns, enhancing both individual and societal resilience. Consequently, this initiative can foster sustainable and ethical economic growth. This study proposes an integrated Islamic social finance framework for achieving long-term economic development. This study advances our understanding of Islamic social finance by integrating Islamic economic principles and proposing a practical framework (shown in Figure 2) for their application within the contemporary MADANI economy paradigm which integrates ethical, moral, and religious dimensions into economic theory which aligns with *Maqāṣid al-Sharī'ah*. The proposed framework is positive to achieve the seven indicators in the MADANI Economy i.e. Malaysia being in the top 30 of the world's largest economies; top 12 in the Global Competitiveness Index; labour income constitutes 45 per cent of total income; women participation in the labour force reaches 60 per cent; top 25 in Human Development Index; top 25 in Corruption Perception Index; and fiscal sustainability with a fiscal deficit of three per cent or lower.

Integrated Model of Islamic Social Finance and Its Relevance to Malaysian Market

The global landscape of finance is undergoing a significant transformation, with a growing emphasis on ethical, sustainable, and socially-driven models. While conventional finance grapples with systemic issues of inequality and market instability, Islamic finance, guided by the principles of *Maqāṣid al-Sharī'ah* presents a compelling

alternative. At the heart of this paradigm is Islamic Social Finance (ISF), a domain comprising instruments such as *zakāt*, *waqf*, Islamic microfinance, and Islamic crowdfunding (e.g. *ṣadaqah*, *infāq*, and *hibah*), that are inherently designed to promote social welfare, economic justice, and sustainable development. Historically, these instruments have operated *in silos*, often failing to reach their full socio-economic potential due to fragmented governance and a lack of a cohesive, integrated framework (Dirie, Alam, & Maamor, 2024; Thaidi, Ab Rahman & Salleh, 2023).

This study addresses this critical gap by proposing and delineating a comprehensive, integrated model of Islamic social finance and its relevance to Malaysian market in realizing the true *raison d'être* of Islamic economics. The central argument is that the synergistic combination of these instruments, rather than their isolated application, can create a more robust and impactful ecosystem capable of addressing complex contemporary challenges, including poverty alleviation, income inequality, and economic resilience.

As a global leader in Islamic finance (Alshater *et. al.*, 2021), Malaysia has already established a mature and sophisticated ecosystem, complete with a dual banking system and a progressive regulatory framework. Despite this, challenges persist in the effective mobilisation and management of social funds, including issues related to public awareness, fund distribution, and regulatory gaps. By focusing on Malaysia, this study aims to demonstrate how an integrated ISF model can leverage the country's existing institutional strengths and technological advancements to unlock greater social impact e.g. how this proposed model can serve as a catalyst for

transforming the lives of beneficiaries (*aṣnāf*) from mere recipients to active economic participants, thereby contributing to Malaysia's broader national development goals. Through a critical analysis of both theoretical frameworks and practical applications, this study seeks to provide a roadmap for policymakers and practitioners to foster a more inclusive and effective Islamic social finance as a potent mechanism for poverty alleviation, wealth redistribution, and community empowerment.

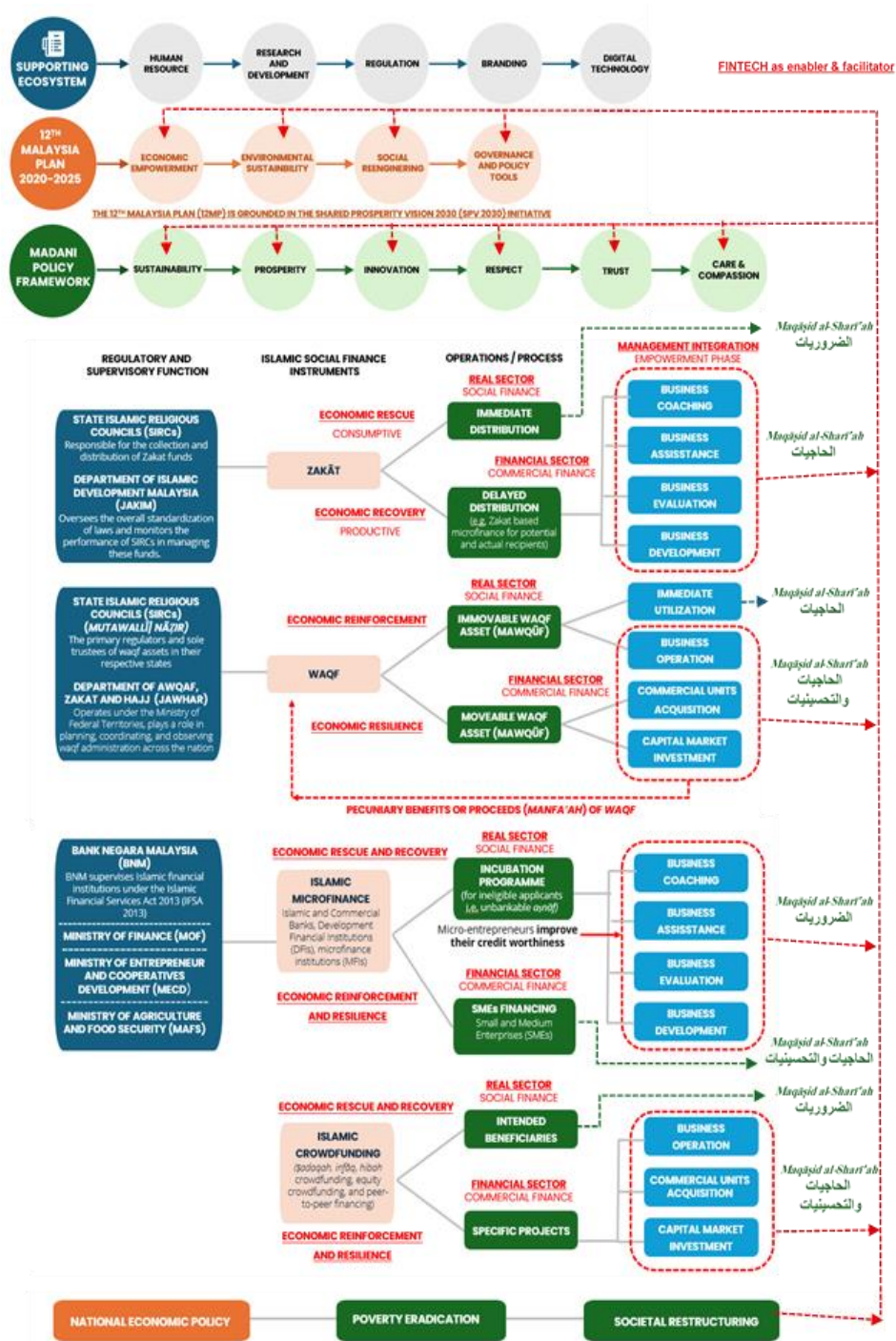
The principles of justice (*'adl*), fairness, and shared prosperity inherent in ISF are fundamentally resonant with the 12MP's vision of creating a more holistic, equitable society and innovative approach. By institutionalizing an integrated framework for *zakāt*, *waqf*, Islamic microfinance, and Islamic crowdfunding (e.g. *ṣadaqah*, *infāq*, and *hibah*), Malaysia can channel philanthropic capital more efficiently towards high-impact projects in education, healthcare, micro-entrepreneurship, and green initiatives, thereby serving as a strategic enabler for the national development agenda. This will be followed by the proposition of a comprehensive, integrated model, complete with a governance framework and implementation strategies designed to maximize social impact and contribute meaningfully to Malaysia's long-term sustainability and prosperity as aligned with National Economic Policy.

Figure 2 below builds upon the foundational work of Mahadi *et al.*, (2021), Aznan *et al.*, (2022), and Widiastuti *et al.*, (2022). This proposed integrated ISF model directly aligns with the core objectives of the Twelfth Malaysia Plan (12MP) (2021-2025), which is anchored on the themes of “A Prosperous, Inclusive, Sustainable Malaysia”. The

12MP explicitly aims to strengthen social security, reduce socioeconomic disparities, and accelerate the transition towards a low-carbon, circular economy. The launch of the Twelfth Malaysia Plan (12MP) (2021-2025) and the Shared Prosperity Vision (SPV) 2030 underscores a strategic shift towards addressing deep-seated socioeconomic disparities, strengthening social cohesion, and promoting sustainable development. These policies, which aim to reset the economy and ensure development for all, present a unique opportunity for an integrated approach to finance that moves beyond mere commercial objectives to serve higher societal goals. This study constructs a thorough 4 ER (Economic Rescue, Economic Recovery, Economic Reinforcement, and Economic Resilience) impact measurement model by integrating the Islamic social finance instruments with the collaboration of various Malaysian Government Ministry/Agency i.e. the Ministry of Finance (MOF), Ministry of Entrepreneur And Cooperatives Development (MECD), Ministry of Agriculture and Food Security (MAFS), BNM, Department of Islamic Development Malaysia (JAKIM), Department of Awqaf, Zakat And Hajj (JAWHAR), Islamic and Commercial Banks, Development Financial Institutions (DFIs), Microfinance Institutions (MFIs), and State of Islamic Religious Council (SIRCs), leading to a more inclusive and balanced society. ISF instruments function as complementary pillars to the Islamic banking system, channeling funds from surplus units to socio-economically disadvantaged segments of society, thereby addressing market failures and promoting inclusive growth, offering potential alternatives or complements to existing economic systems.

Looking ahead, Figure 2 points to several critical areas for future research and policy action. There is a consensus on the need for technological integration (e.g., fintech and blockchain) to enhance the transparency and efficiency of ISF collections and distributions. Furthermore, this study advocate for a holistic ecosystem approach, where government, private corporations, and non-governmental organizations collaborate to create synergistic partnerships that maximize the impact of ISF.

Figure 2: Integrated Islamic Social Finance Framework Towards Accelerating Economic Development in Malaysia



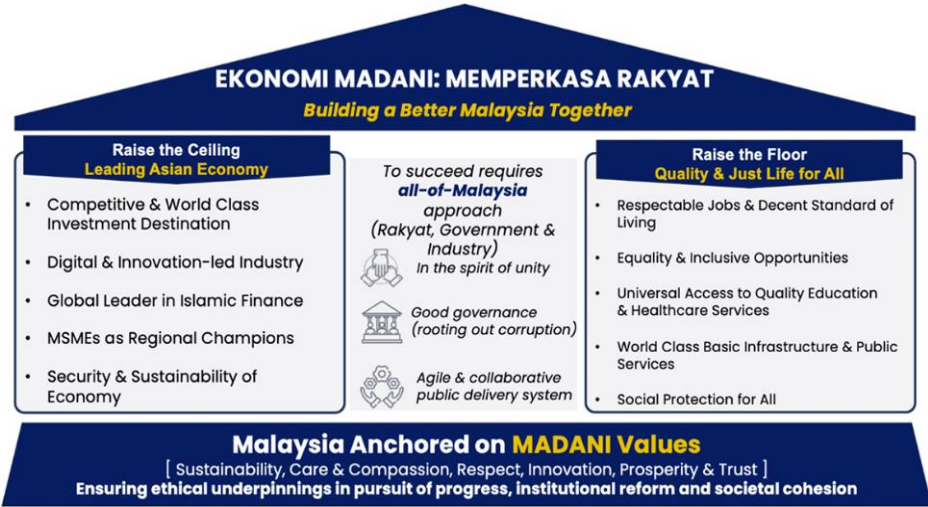
Source: Author (2025).

RESULTS

The Integration of Islamic Social Finance Framework and Its Relevance to National Aspiration/Agenda

This study delves into the integration of Islamic social finance instruments such as *zakāt*, *waqf*, Islamic microfinance, and Islamic crowdfunding (including *ṣadaqah*, *infāq*, and *hibah*) within the framework of the MADANI Economy. It aligns with the Twelfth Malaysia Plan (12MP), which seeks to achieve shared prosperity through economic empowerment, environmental sustainability, and social re-engineering, building upon the foundational principles of the National Economic Policy (NEP). By leveraging the 10-10 Malaysian Science, Technology, Innovation and Economy (MySTIE) Framework, specifically the Business and Financial Services driver, this research aims to contribute to socio-economic transformation by fostering knowledge-intensive and innovation-driven growth within key economic sectors. The study's alignment with the Shared Prosperity Vision 2030, particularly Key Economic Growth Area 1: Islamic Finance Hub 2.0, and its adherence to Sustainable Development Goal 8: Decent Work and Sustainable Development Goal 11: Sustainable Cities and Communities, underscore its potential to drive sustainable development. Ultimately, this project endeavours to enhance the knowledge-based economy and innovation ecosystem to propel key economic sectors toward greater competitiveness, thereby directly aligning with Malaysia's national aspirations and agenda.

Figure 3: The Ekonomi MADANI framework



Source: Press Release, Pre-Budget Statement 2025

The Budget 2025, operating within the framework of Ekonomi MADANI, is structured around three core pillars. The first, “Raise the Ceiling,” is a strategic endeavour to restructure the national economy, with the explicit objective of elevating Malaysia's competitiveness and establishing it as a leading economic force in Asia. The second pillar, “Raise the Floor,” is dedicated to enhancing the quality of life for all citizens. It seeks to ensure universal access to equal opportunities, a decent standard of living, and robust social protection systems. Critically, this pillar is profoundly enhanced by the strategic integration of Islamic social finance mechanisms, which serve as a powerful instrument for redistributing wealth, fostering community resilience, and ensuring that economic progress is both inclusive and ethically grounded, which is much related with the Figure 2. The final pillar, “Good Governance and Public Sector Reform,” is foundational to the success of the first two. This initiative focuses on strengthening

governmental transparency, efficiency, and accountability, thereby creating a stable and effective administrative environment to facilitate economic and social progress (Ministry of Finance, 2025).

Three policy documents were released to provide further policy support to bring Ekonomi MADANI's vision to reality: the National Energy Transition Roadmap (NETR), the New Industrial Master Plan 2030 (NIMP), and the 12th Malaysia Plan Mid-Term Review (12MP MTR). The MADANI framework is built on six core values i.e. Sustainability, Care and Compassion, Respect, Innovation, Prosperity, and Trust. These principles are integrated to drive Malaysia's structural reforms by fostering social cohesion within its multicultural society, promoting effective governance, and enhancing public service delivery. The core tenets of this framework fundamentally underpin the dual pillars of Ekonomi MADANI: elevating the nation's economic potential and improving the quality of life for all citizens. The first pillar, "Raise the Ceiling," is a strategic imperative to restructure the economy and enhance national competitiveness, with the explicit goal of establishing Malaysia as a preeminent economic leader in the Asian region. Concurrently, the second pillar, "Raise the Floor," is dedicated to elevating the quality of life for all Malaysians, ensuring equitable opportunities, a dignified standard of living, and comprehensive social protection. The integration of Islamic social finance encompassing instruments like *zakāt*, *waqf*, Islamic microfinance, and Islamic crowdfunding (e.g. *ṣadaqah*, *infāq*, and *hibah*), serves as a crucial, complementary mechanism within this framework, providing a robust, value-based foundation to mobilize capital and resources toward achieving the social objectives of "Raise the Floor" while also

contributing to the broader economic resilience and sustainable development of the nation.

4.2 The Integration of Islamic Social Finance Framework and Its Relevance to Sectoral/Industrial Strategies/Policies

This study necessitates a deep understanding of the National Vision Policy (NVP) 2020 core principles and objectives to ensure that the proposed framework for integrating Islamic social finance specifically *zakāt*, *waqf*, Islamic microfinance, and Islamic crowdfunding (e.g., *ṣadaqah*, *infāq*, and *hibah*) with the sectoral and industrial strategies and policies of key Malaysian government ministries and financial institutions, contributes to these national goals. The aim is to foster a progressive and prosperous *Bangsa Malaysia* that lives in harmony and engages in full and fair partnership, with key stakeholders including the Ministry of Finance (MOF), Ministry of Entrepreneur and Cooperatives Development (MECD), Ministry of Agriculture and Food Security (MAFS), Bank Negara Malaysia (BNM), the Department of Islamic Development Malaysia (JAKIM), the Department of Awqaf, Zakat, and Hajj (JAWHAR), Islamic and commercial banks, Development Financial Institutions (DFIs), Microfinance Institutions (MFIs), and State Islamic Religious Councils (SIRCs).

CONCLUSION

The proposed integrated Islamic social finance framework possesses the potential for broad application across various Malaysian Government Ministry/Agency i.e. the Ministry of Finance (MOF), Ministry of Entrepreneur And Cooperatives Development (MECD),

Ministry of Agriculture and Food Security (MAFS), BNM, Department of Islamic Development Malaysia (JAKIM), Department of Awqaf, Zakat And Hajj (JAWHAR), Islamic and Commercial Banks, Development Financial Institutions (DFIs), Microfinance Institutions (MFIs), and State of Islamic Religious Council (SIRCs). The collaboration of these stakeholders brings together a diverse range of expertise, including finance, religion, and economic development. By working together, they can create a comprehensive and effective Islamic social finance framework that can contribute to Malaysia inclusive and sustainable economic growth and development.

The study affords the government agencies responsible for underserved, underprivileged and low-income groups i.e. the vulnerable group or marginalized populations development. The anticipated insights will guide government agencies and financial institutions in designing targeted interventions to promote Islamic economic excellence through the Integrated Islamic Social Finance framework. The study further investigates the role of Islamic social financing as an alternative financial tool to empower these vulnerable groups and foster inclusive, sustainable economic growth which aligns with the MADANI Economy framework as outlined in the Twelfth Malaysia Plan (12MP), the National Economic Policy, the Shared Prosperity Vision 2030, and Sustainable Development Goal 8 (Decent Work and Economic Growth) and 11 (Sustainable Cities and Communities). This study articulates the components of the integrated ISF model and analyze its potential to enhance socioeconomic inclusivity, promote sustainable growth, and contribute to a more just and prosperous Malaysia.

The ultimate goal of this study is to position Malaysia as a global leader in an integrated Islamic social finance framework, where social equity and commercial viability are pursued in tandem to achieve sustained and inclusive economic development. This requires not only a policy shift but also a fundamental re-orientation of institutional goals towards a more altruistic, community-centric vision.

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