



MALDIVES ISLAMIC SOCIAL FINANCE INITIATIVE (MISFI): LAUNCHING A NEW ERA OF ISLAMIC SOCIAL FINANCE IN THE MALDIVES



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MISFI: LAUNCHING A NEW ERA OF ISLAMIC SOCIAL FINANCE IN THE MALDIVES

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LIST OF ABBREVIATION

ABBREVIATION	FULL DESCRIPTIONS
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BNM	Bank Negara Malaysia
CGS	Credit Guarantee Scheme
CoP	Community of Practice
CSR	Corporate Social Responsibility
ESG	Environmental, Social, and Governance
EV	Electric Vehicles
GSSIPS	Green, Social, and Sustainable Impact Products and Services
IFI	Islamic Financial Institution
MGTC	Malaysian Green Technology and Climate Change Corporation
MIRA	Maldives Inland Revenue Authority
MISFI	Maldives Islamic Social Finance Initiative
MMA	Maldives Monetary Authority
MSME	Micro, Small and Medium Enterprise
NCD	Non-communicable Diseases
NDA	National Drug Agency
NEET	Not in Employment, Education or Training
NETR	New Energy Transition Roadmap
NFI	National Financial Inclusion
NGO	Non-governmental Organisation
NIMP	New Industrial Master Plan
NPL	Non-performing Loans
PWD	Persons With Disabilities
SDFC	SME Development Finance Corporation
SDGs	Sustainable Development Goals
SME	Small and Medium-sized Enterprise
TBL	Triple Bottom Line
ToC	Theory of Change
VBI	Value-Based Intermediation
WHO	World Health Organization

FOREWORD

The principles of *adl* (justice) and *ihsan* (excellence in kindness and doing good) are foundational to Islamic finance. These core values not only guide individual conduct but also serve as essential pillars for the ethical framework and structure of the Islamic financial system. As the financial landscape evolves rapidly, it becomes increasingly imperative that financial institutions adhere to these principles, particularly within the context of social finance. Financial systems must go beyond serving the economic interests of individuals and institutions and instead function as instruments for fostering broader societal well-being, promoting social equity, enhancing economic inclusion, and ensuring long-term sustainability. Maldives, with its unique blend of a 100 percent Muslim population and a rapidly evolving Islamic finance sector has the key ingredients to achieve this combination of social and economic considerations.

The Maldives Islamic Social Finance Initiative (MISFI) represents a transformative step towards realizing this vision. By integrating social finance within the formal financial system of the Maldives, MISFI addresses critical socio-economic challenges while staying true to the ideals of *adl* and *ihsan*. The initiative brings together a diverse array of Islamic philanthropic instruments and Islamic crowdfunding, to establish a sustainable model that promotes social impact for the benefit of society at large.

At its core, MISFI aspires to be a catalyst for positive change. It aims to meet immediate community needs while simultaneously laying the foundation for long-term socio-economic resilience. Through innovative Shariah-compliant financial products, transparent governance frameworks, and a focus on both immediate charitable aid and sustainable development, MISFI is positioned to set a new benchmark and be a model of how Islamic finance can be harnessed for the collective good. It holds the potential not only to address key national development challenges but also to contribute to a broader movement towards more inclusive, responsible, and ethically grounded financial systems.

It is my sincere hope that this report serves as a valuable resource for policymakers, financial institutions, and researchers, providing practical insights into the transformative potential of Islamic social finance to create meaningful and lasting change.

I would like to express my gratitude to Universiti Islam Selangor (UIS) for their invaluable collaboration with the Maldives Monetary Authority (MMA) on this vital research. I also wish to commend the research team from UIS for their diligent efforts in conducting the research despite challenges. Additionally, I extend my thanks to the MMA staff who provided critical support throughout the research process and contributed to the successful completion of this report. Finally, I would like to acknowledge the stakeholders, especially Maldives Islamic Bank and BML Islamic, who kindly participated in this endeavor, and I greatly appreciate their contributions to the successful realization of this important research.

Ahmed Munawar
Governor of Maldives Monetary Authority

EXECUTIVE SUMMARY

This report aims to contribute valuable insights to the growing field of Islamic social finance, offering practical guidance for policymakers, financial institutions, and researchers interested in leveraging this powerful tool for social good. The Maldives Islamic Social Finance Initiative (MISFI) represents a transformative step towards embedding Islamic social finance within the country's formal financial system to address pressing socio-economic challenges. This initiative is inspired by successful models such as Bank Islam Malaysia's Sadaqa House and seeks to harness Islamic philanthropic instruments, including Zakat, Sadaqah, Waqf, and Islamic crowdfunding, to achieve financial inclusion, social equity, and sustainable development in the Maldives.

MISFI is structured to operate within the existing Islamic banking framework, ensuring Shariah compliance, transparency, and governance. It introduces an institutional mechanism through which funds from individuals, corporates, and diaspora communities can be mobilised and channelled towards high-impact projects that align with Maqasid al-Shariah and national development goals.

The report outlines the operational model of MISFI, detailing its sources of funds, fund management processes, and core areas of distribution: Charitable Aid, Social Empowerment, and Development Contributions. Each category is designed to address both immediate needs and long-term community resilience. The initiative also emphasizes the use of modern digital tools and impact reporting frameworks to enhance trust and efficiency.

A key milestone in MISFI's implementation is the pilot project, which serves to test and refine its operational mechanisms. The pilot introduces innovative Shariah-compliant financial products such as deposit-linked charity accounts, crowdfunding platforms, community credit exchange programs, and charitable fund management. It engages multiple stakeholders including Islamic financial institutions, NGOs, government bodies, and community organisations to ensure successful execution.

By documenting the MISFI model, its governance system, pilot implementation, and pipeline of potential projects, this report provides a comprehensive roadmap for institutionalising Islamic social finance in the Maldives. If scaled successfully, MISFI could serve as a national platform for ethical finance, reduce fiscal pressure on the government, and position the Maldives as a pioneer of inclusive, value-based Islamic finance in the region.

Recognising the need for long-term sustainability, the report also positions Value-Based Intermediation (VBI) as a natural next step in the evolution of Islamic social finance in the Maldives. VBI, a framework introduced and promoted by Bank Negara Malaysia, advocates for financial institutions to operate not only with a profit motive but also to deliver positive and measurable impacts on the economy, community, and environment. By promoting ethical conduct, governance excellence, and risk-sharing models, VBI complements the objectives of MISFI and enhances its ability to achieve systemic transformation.

CHAPTER 1 BACKGROUND

1.1 INTRODUCTION

The global financial system has evolved significantly in recent decades, with Islamic finance emerging as an ethical alternative to conventional financial systems. Rooted in the principles of Shariah, Islamic finance emphasizes fairness, equity, and socio-economic justice, offering a framework that aligns with the moral and ethical values of Muslims. Within this broader framework, Islamic social finance has gained increasing recognition as a powerful tool for addressing socio-economic challenges, promoting financial inclusion, and fostering sustainable development. This chapter introduces the concept of social finance and its integration into the Maldivian Islamic banking system. The initiative aims to harness the potential of social finance for the collective benefit of society.

1.2 SOCIAL FINANCE: A CATALYST FOR FINANCIAL INCLUSION AND SOCIAL WELL-BEING

In the Islamic financial system, social finance comprises various Shariah-compliant instruments and mechanisms designed to address socio-economic inequalities and promote the well-being of communities. Key components of Islamic social finance include Zakat, Sadaqah, Waqf, and Qard al-Hasan. These tools are deeply embedded in Islamic teachings and have proven to be effective in redistributing wealth, alleviating poverty, and providing financial services to underserved communities.

Incorporating social finance within the Maldivian Islamic banking system, particularly through the concept of Sadaqah, offers a unique and transformative opportunity to address key challenges related to financial inclusion and social well-being. Sadaqah, a voluntary form of charity that encourages individuals to give freely and regularly to those in need, plays a vital role in redistributing wealth and promoting social justice. In a nation like the Maldives, which consists of scattered islands and remote communities, many of which face limited access to healthcare, education, and basic infrastructure, Sadaqah can significantly reduce socio-economic disparities. The need for charitable intervention is particularly pressing in rural and economically marginalized areas, where people often lack access to formal financial services, creating a cycle of poverty. By encouraging voluntary donations from individuals, Sadaqah helps fill this gap, not only by providing immediate relief but also by funding long-term initiatives like microfinance projects, which offer small loans to entrepreneurs and small-scale business owners. This empowers individuals in underserved communities to establish businesses, become economically self-sufficient, and improve their livelihoods, fostering sustainable economic growth and resilience.

Establishing a social financing scheme imbued with the essence of Sadaqah, in the Maldives could be a game-changer for vulnerable groups, small businesses, women entrepreneurs and the elderly, taking inspiration from successful models in Malaysia and Pakistan. In Malaysia, Bank Islam's Sadaqa House provides a structured way for people to donate, directing funds among others towards healthcare, education, and microfinance to uplift the underprivileged. Meanwhile, in Pakistan, organizations like the Akhuwat Foundation use Sadaqah and interest-free loans to offer financial support to those in need. Bringing a similar initiative to the Maldives could facilitate policy makers in creating a sustainable and ethical financial safety net, empowering individuals and businesses while staying true to Islamic principles.

Moreover, the use of modern technology can amplify the effectiveness and reach of Sadaqah in the Maldives. With the rapid rise of mobile technology and internet penetration, digital platforms can be leveraged to make the process of donating more accessible, efficient, and transparent. Mobile apps, online banking solutions, and digital wallets could enable people across the country to easily contribute to Sadaqah funds, whether on a regular basis or as one-time donations. Blockchain technology could further enhance this process by ensuring transparency in the allocation and use of funds, allowing donors to track how their contributions are being spent in real time, thus fostering trust and accountability. By integrating Sadaqah with formal financial systems, it can provide a structured, transparent, and efficient way for people to give and ensure that funds are directed to projects such as healthcare services, education programs, clean water initiatives, and housing for the poor.

In addition to its role in financial inclusion, Sadaqah also strengthens social cohesion and solidarity in the Maldives, where community ties are deep and integral to the way people live. Local giving has traditionally been a key part of Maldivian culture, and by formalizing this practice through initiatives like social finance, it is possible to create a sustainable, organized system that channels donations towards projects that benefit society as a whole. These structures can serve as intermediaries, ensuring that the funds are properly allocated to those who need them most and that the community remains engaged in collective efforts for social welfare. Furthermore, such platforms could provide a way to focus donations on specific needs, such as providing education for underprivileged children, improving healthcare in remote islands, or responding to natural disasters. As the Maldives faces climate change challenges, including rising sea levels and environmental degradation, Sadaqah funds could also be directed towards sustainable development projects aimed at building resilience and supporting climate adaptation efforts.

1.3 ISLAMIC FINANCE IN THE MALDIVES

Islamic finance in the Maldives has been steadily growing, with Islamic banking emerging as a significant component of the country's financial sector. The introduction of Islamic banking in the Maldives began in 2011, with the establishment of the first fully-fledged Islamic bank, the Maldives Islamic Bank, marking a pivotal moment in the country's financial landscape. Since then, the sector has expanded, with Bank of Maldives, the largest bank in the country, offering Islamic banking services alongside their traditional offerings, catering to the demand for Shariah-compliant financial products. The Maldives Monetary Authority (MMA) plays a key role in regulating and supervising Islamic financial institutions, ensuring that they adhere to both the regulatory framework and Islamic principles.

1.4 ISLAMIC FINANCE IN THE NATIONAL FINANCIAL INCLUSION STRATEGY

Financial inclusion in the Maldives is defined as providing convenient access to quality, affordable, and sustainable financial products and services in an equitable manner, supported by robust consumer protection, financial education, and literacy. In recent years, the Maldives has made notable progress in enhancing financial inclusion through technological innovation, government policies, and collaboration between financial institutions and regulators. All atolls now have bank branches, while a network of 188 Automated Teller Machines, 1,744 Electronic Money Agents and 226 Cash Agents

cover nearly every island. The expansion of the national telecommunications network and the rise of mobile banking and payment services have made it easier for people, especially those on remote islands, to access financial services without needing to visit bank branches. Despite these advancements, challenges remain, particularly due to the country's geographic characteristics. The dispersed nature of the islands creates logistical difficulties, and the high costs of establishing branches in small, remote areas have left some populations, especially in Outer Male', with limited access to financial services. Additionally, low financial literacy, particularly among low-income households and residents of remote areas, hampers effective use of financial tools and access to affordable credit. Furthermore, despite no legislative or policy barrier, gender inequality remains a persistent challenge in achieving financial inclusion in the Maldives. The National Financial Inclusion (NFI) survey suggests that women are more likely to be unbanked, with 14% lacking bank accounts compared to only 5% for men.

Acknowledging the crucial role of financial inclusion in advancing the financial sector and achieving sustainable economic growth, the MMA, financial institutions, and government agencies have launched various initiatives over the years to promote financial inclusion. However, these efforts have often been fragmented and lacked adequate coordination. The absence of shared financial inclusion objectives has limited the effectiveness of these initiatives, highlighting the need for a unified national strategy to enhance financial inclusion across the Maldives.

As the central bank, the MMA has recognized the development of the National Financial Inclusion Strategy as a key strategic goal. To assess the level of financial inclusion in the country, a NFI demand-side survey was conducted in 2022. The strategy was created through close collaboration with relevant government agencies, financial sector regulators, financial service providers, and other key public and private sector stakeholders, ensuring a unified approach to achieving the national financial inclusion objectives.

While the results of the demand-side survey showed considerably low numbers of voluntarily excluded people from the formal financial system due to religious reasons, given the increasing systemic importance of Islamic finance in the country, Islamic finance was chosen as a key pillar of the National Financial Inclusion Strategy to address diverse financial needs while promoting sustainability and innovation.

The connection between Islamic finance and financial inclusion is deeply rooted in the ethical and philosophical principles that underpin Islamic financial systems. At its core, Islamic finance promotes values like fairness, justice, risk-sharing, and the prohibition of exploitative practices, all aimed at fostering social equity and community welfare. This framework aligns naturally with addressing the financial needs of underserved populations, combining profit-driven transactions with a strong commitment to societal well-being, which positions Islamic finance as a powerful tool for driving inclusive and sustainable economic development.

A key component of this approach is Zakat, a mandatory charitable contribution that requires Muslims to allocate a portion of their wealth to support those in need, thus uplifting disadvantaged communities and reinforcing the broader social responsibility integral to the Islamic economic system. Additionally, Sadaqah and Waqf provide further channels for mobilizing resources to support financial inclusion and social welfare efforts.

Islamic financial mechanisms, such as risk-sharing and profit-and-loss-sharing models, offer alternatives to traditional interest-based lending, which can be burdensome for vulnerable groups. In contrast, Islamic finance emphasizes equitable risk distribution, promoting collaborative financial relationships that enable individuals to engage in economic activities without the burden of unsustainable debt.

Despite the increasing acceptance of Islamic finance, challenges such as limited awareness and a limited range of financial products persist. Bridging these gaps through customized Islamic financial education, awareness and a broader variety of products, including social finance linked products could greatly enhance the sector's impact on financial inclusion. Moreover, collaboration among key stakeholders, including government agencies, financial institutions, non-governmental organizations, and community groups is crucial for driving progress.

1.5 A PIONEERING INITIATIVE BY THE MALDIVES MONETARY AUTHORITY

The introduction of social finance, voluntary charity in particular, within the Maldivian Islamic banking system would mark a historic milestone, led by the MMA. As the key regulatory body for the country's financial sector, the MMA has recognized the significant potential of social finance to address pressing social and economic challenges while adhering to the principles of Shariah. By integrating Sadaqah into the banking framework, the MMA aims to create a structured and regulated environment that promotes transparency, accountability, and efficiency in charitable giving.

This initiative underscores the MMA's commitment to harness Islamic finance for the betterment of society. Embedding Sadaqah within the formal banking system ensures that charitable contributions are scalable, sustainable, and impactful, reaching those who need them most. Furthermore, the involvement of regulated financial institutions adds credibility and trustworthiness to Sadaqah initiatives, ensuring that funds are managed with integrity and in full compliance with Islamic values.

The regulatory oversight provided by the MMA is essential in fostering trust among donors and recipients. It ensures that funds are allocated properly, minimizing the risk of mismanagement or misuse. This level of accountability is crucial in the context of Sadaqah, where the ethical and religious dimensions of financial transactions are of utmost importance, assuring all stakeholders that the funds are used effectively and responsibly in line with the principles of charity in Islam.

1.6 CONCLUSION

The integration of social finance into the Maldivian Islamic banking system represents a transformative step towards achieving financial inclusion and improving social well-being. This pioneering initiative by the MMA underscores the country's commitment to utilizing Islamic finance as a tool for social development. By embedding Islamic social finance within a regulated banking framework, the Maldives ensures that these initiatives are managed efficiently and effectively, fostering greater trust and confidence within the community.

The integration of social finance into the Maldivian banking system represents a transformative step in advancing both financial inclusion and social well-being. Spearheaded by the MMA, this initiative reflects the country's commitment to utilizing Islamic finance as a catalyst for sustainable development and addressing socio-economic challenges. By incorporating key components of Islamic social finance, particularly Sadaqah, into the formal banking system, the Maldives aims to create a transparent, efficient, and accountable framework that fosters charitable giving while ensuring funds are directed towards initiatives that improve the lives of underserved communities.

The MMA's pioneering initiative to embed Sadaqah within the banking system emphasizes its commitment to creating a sustainable, socially responsible financial ecosystem. By formalizing charitable contributions and integrating them into regulated financial institutions, the Maldives is ensuring that these resources can be mobilized more effectively to address the pressing needs of its people, from healthcare and education to climate change adaptation. The regulatory oversight of the MMA will provide the necessary transparency and accountability, enhancing trust in the system and ensuring funds are utilized ethically and responsibly.

This chapter has provided a comprehensive overview of the potential for Islamic social finance to drive meaningful change in the Maldives. It has explored the significance of social finance in fostering financial inclusion, addressing socio-economic disparities, and contributing to sustainable development. As the Maldives continues to innovate within the Islamic finance sector, this initiative sets a precedent for other nations to consider the role of social finance in addressing broader societal challenges. The following chapters will delve deeper into the practical implementation of this initiative, explore potential challenges, and highlight the broader implications.



CHAPTER 2

MALDIVES ISLAMIC SOCIAL FINANCE INITIATIVE (MISFI)

2.1 INTRODUCTION

Islamic social finance encompasses a set of financial practices and instruments grounded in Shariah principles, notably Zakat, Waqf, and Sadaqah which aim to address social welfare needs and promote equitable development. These mechanisms have long served as tools for poverty alleviation and community support in Muslim societies, and they are increasingly recognised for their relevance to Sustainable Development Goals (SDGs). Harnessing Islamic social finance can bridge funding gaps for social programmes and enhance financial inclusion by directing resources to underserved populations in a transparent and ethical manner.

In this context, the Maldives Islamic Social Finance Initiative (MISFI) is introduced as an initiative to systematically mobilise and channel Islamic social finance resources towards the Maldives' socio-economic development objectives. MISFI is designed as a structured, transparent, and Shariah-compliant initiative operating within the country's existing Islamic banking framework. In essence, MISFI represents an effort to integrate traditional Islamic philanthropic practices into the formal financial sector, thereby enhancing their scale, accountability, and alignment with national priorities.

2.2 OVERVIEW OF THE MALDIVES ISLAMIC SOCIAL FINANCE INITIATIVE (MISFI)

MISFI is a national-level initiative to mobilise and utilise funds from Islamic social finance instruments, including Zakat, Waqf, Sadaqah and Islamic crowdfunding in a structured, transparent, and Shariah-compliant manner within the Maldives' Islamic banking framework. It aims to address socio-economic challenges in the Maldives by providing a mechanism through which individuals, corporations, and institutions can channel their donations towards impactful social and developmental causes.

MISFI is based on the ethical and spiritual principles of Islamic economics, especially the concepts of *adl* (justice) and *ihsan* (benevolence), which are to ensure equitable distribution and advocate the moral obligation to help others through acts of kindness and financial support. It represents an institutional effort to harness the full potential of Islamic social finance funds by integrating them into formal financial channels and national development objectives. The initiative does not involve profit-generating or commercial components, focusing solely on voluntary contributions to uplift the underserved and vulnerable populations of the Maldives.

By operating under a licensed Islamic financial institution and within the existing legal framework of the Maldives, MISFI is able to ensure good governance, regulatory compliance, and gain public trust. It aims to become a reliable and professional intermediary between donors and social causes, translating charitable intent into meaningful and sustainable impact.

2.3 THE OPERATIONAL MODEL OF MISFI

MISFI is built to integrate various forms of Islamic social finance funds into a robust governed system that ensures effective fund flow from contributors to beneficiaries within the formal Islamic banking framework. It provides a platform through which Zakat, Waqf, Sadaqah, and crowdfunding contributions to be channelled towards charitable, social, and developmental needs, leveraging Islamic financial institutions as custodians and coordinators. Figure 1 shows how the MISFI is structured.

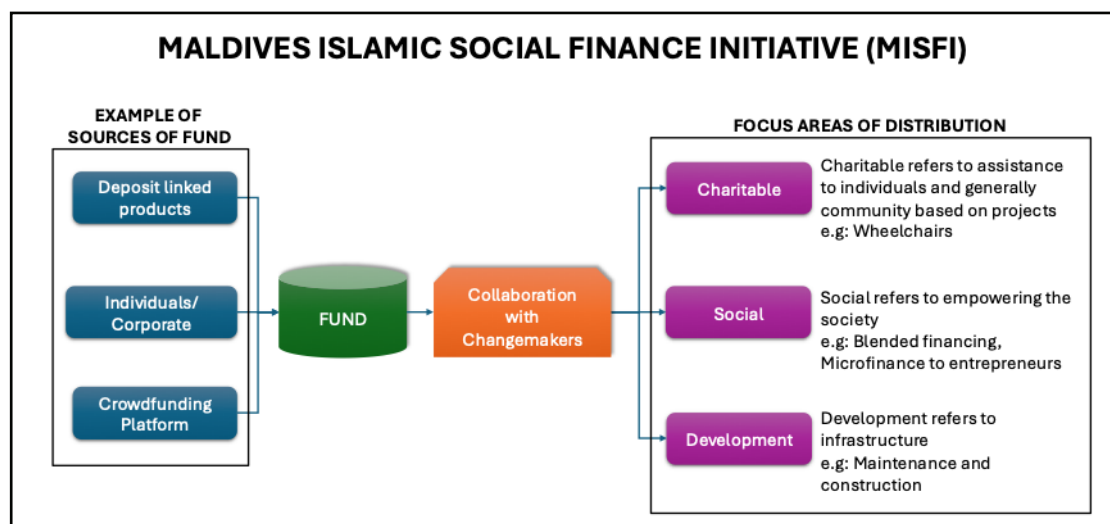


Figure 1: The Model of the Maldives Islamic Social Finance Initiative (MISFI)

Based on the figure above, the MISFI model can be categorised into three core components:

1. Sources of Funds

MISFI collects the Islamic social finance funds through voluntary contributions from various donors. The structure identifies three main channels for incoming funds:

- **Deposit-Linked Products**

Islamic financial institutions can create banking products (e.g., savings or current accounts) that offer clients the option to donate a portion of their balance or interest-free returns voluntarily. These features allow clients to give Sadaqah effortlessly as part of their regular financial activity.

- **Individual and Corporate Donors**

Individuals, including citizens, expatriates, and members of the Maldivian diaspora, can contribute to MISFI. Similarly, corporate entities can donate part of their Corporate Social Responsibility (CSR) funds or Zakat funds into MISFI to be managed more transparently and efficiently for high-impact charitable projects.

- **Crowdfunding Platforms**

MISFI may launch online campaigns to raise funds for specific causes or sectors, expanding its reach beyond traditional donors and tapping into the philanthropic potential of the digital space. This also allows the public to track where their contributions go, increasing transparency and engagement.

2. Fund Management

The MISFI fund management combines professional financial stewardship with community-level impact delivery. The fund management is composed of two integrated layers:

- **Fund Management**

All MISFI funds are handled by banks operating under the Islamic banking framework in the Maldives. These institutions act as custodians, responsible for collecting funds as well as allocating and disbursing funds according to Shariah requirements. The banks involved will provide reports on the impact of the contributions and project progress.

- **Fund Distribution**

Banks can collaborate with changemakers as implementing partners, where the distribution process is carried out by the partners, for example, government agencies, non-governmental organisations (NGOs), registered charitable organisations, and community-based or faith-based institutions. Any distribution projects can be proposed either by changemakers or internally by the bank. The proposals have to be evaluated properly to ensure eligibility, compliance, and alignment with the type of fund. The approved projects are assigned to changemakers with clear terms of implementation and reporting.

3. Focus Areas of Distribution

MISFI aims to channel Zakat, Waqf, Sadaqah, and Islamic crowdfunding contributions into three selected focus areas of distribution that directly serve the public, uplift the vulnerable, and align with the objectives of Shariah (Maqasid al-Shariah). These areas are structured to reflect both immediate community needs and long-term social development goals. The three focus areas of distribution are as follows:

- **Charitable Aid**

This category addresses urgent and essential needs, particularly for those experiencing poverty, disability, crises or any other critical issues. It focuses on projects that give direct, short-term support to alleviate hardship. Examples of projects under this category include :

- Provision of medical aids such as wheelchairs, crutches, or prosthetics to persons with disabilities.
- Basic needs support, such as food baskets for low-income families, hygiene kits, or school uniforms.
- Temporary shelter or essential items for individuals affected by fire, flooding, or displacement.
- Transportation aid for students or patients on remote islands.

- **Social Empowerment**

Social empowerment focuses on uplifting communities through knowledge, services, and skill-building initiatives. These projects promote resilience and reduce long-term dependence on aid by enabling people to support themselves or their communities. Examples of projects under this category include :

- Provide microfinance to any interested entrepreneurs.
- Education support programmes, such as the provision of school bags, digital learning devices, and textbooks.
- Awareness campaigns on health, mental wellness, environmental stewardship, or women's safety.
- Vocational training or basic life skills workshops for youth and women (non-commercialised).

- **Development Contributions**

Developmental initiatives contribute to public infrastructure and long-term communal well-being, especially in rural or underserved areas. Examples of projects under this category include :

- Rehabilitation of community centres, prayer halls, or multipurpose shelters used for education or emergency response.
- Installation of solar-powered lights in remote villages with limited electricity.

- Provision of clean water access, including water tanks, wells, or filtration systems.
- Construction or maintenance of public restrooms, walkways, or waiting areas on islands.

2.4 THE GOVERNANCE STRUCTURE OF THE MALDIVES ISLAMIC SOCIAL FINANCE INITIATIVE (MISFI)

A central component of MISFI is the establishment of a dedicated team within the participating Islamic financial institutions. This team plays a critical role in ensuring that the initiative operates smoothly, ethically, and in full compliance with Islamic principles and regulatory requirements.

The robust governance structure is designed to maintain a high level of trust and transparency while enabling the efficient management and distribution of various Islamic social finance instruments. The dedicated MISFI team within the bank is responsible for three core functions:

1. Managing the Funds

The team is responsible for the day-to-day financial operations of MISFI, ensuring that all contributions are managed efficiently and distributed effectively. Some of the key tasks include :

- Receiving and recording donations from various sources (individuals, corporates, crowdfunding platforms).
- Managing funds according to their type (Zakat, Waqf, Sadaqah, crowdfunding) and ensuring each is allocated according to its unique legal and Shariah requirements.
- Coordinating distributions to approved projects.
- Documenting all financial transactions for audit and reporting purposes.

This function ensures that MISFI funds are not only collected ethically but also used efficiently and transparently to deliver maximum social benefit.

2. Ensuring Compliance

Compliance is essential to protect the integrity of the initiative and uphold the expectations of both donors and regulators. The dedicated team ensures that all MISFI activities comply with Shariah principles, internal bank policies, and Maldives' financial regulations. The compliance-related responsibilities include:

- Ensuring legal compliance with MMA and relevant Maldivian financial laws, particularly regarding fund custodianship, tax matters, and partnerships with changemakers.
- Liaising with the bank's Shariah Advisory Committee to ensure every transaction and project aligns with Islamic jurisprudence.
- Implementing internal control procedures to prevent mismanagement, fraud, or deviation from approved uses of funds.
- Reviewing project proposals to ensure eligibility, especially in the case of Zakat (where asnaf conditions apply) and Waqf (which must preserve the principal).

This function guarantees that all funds are used with ethical discipline and are fully accountable to Shariah, legal, and donor expectations.

3. Monitoring the Impacts

Beyond managing and disbursing funds, the MISFI team must ensure that every supported initiative achieves impactful and meaningful outcomes. Some of the impact monitoring tasks include:

- Tracking project implementation, including timelines, outputs, and budget utilisation.
- Collecting reports from changemakers detailing how the funds were used and what was achieved.
- Conducting site visits or remote check-ins to verify project progress and, beneficiary reach.
- Maintaining an impact database, including success stories, challenges and lessons learnt.
- Preparing periodic impact summaries for internal review, Shariah boards, and donor updates.

By ensuring clear visibility of project outcomes, the MISFI team ensures that the initiative not only meets its objectives but also continues to evolve based on feedback and performance data.

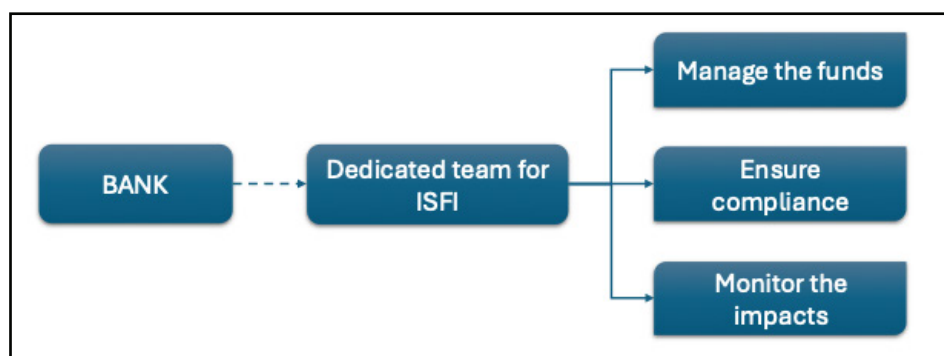


Figure 2: General Governance Structure for MISFI

2.5 LEGAL FRAMEWORK OF THE MALDIVES ISLAMIC SOCIAL FINANCE INITIATIVE (MISFI)

When considering the appropriate legal entity for MISFI, the Maldivian legal context imposes certain constraints that determine the possible structures. Notably, Maldives does not have a legal framework for establishing philanthropic foundations or trusts. Furthermore, the MMA's legal guidance makes it clear that NGOs and partnerships are also not viable options for hosting MISFI's activities if those activities involve regulated financial services. Under Maldivian financial law, any entity providing financial services under the purview of the MMA must be incorporated as a company. This requirement is uniformly applied in the Maldivian financial sector, and even a foreign bank wishing to operate locally must establish a locally incorporated company (subsidiary). The rationale behind this policy is to ensure that all financial service providers have a clear legal personality, governance structure, and accountability under the Companies Act and financial regulations of Maldives.

Given these constraints, the feasible legal forms for MISFI narrow down to incorporation as a company, should it be established as an entity separate from existing financial institutions. If MISFI were to stand as an independent organisation (instead of being an internal unit of a bank), it would need to be registered as a company in the Maldives to conduct any finance-related operations legally. This could take the form of a special-purpose company dedicated to Islamic social finance. Such a company would then be subject to the same regulatory and governance standards as other financial companies, and it would require licensing or approval from MMA depending on its activities (for example, if it collects funds from the public or disburses financing). The emphasis on the corporate form ensures that MISFI, in whatever structure it adopts, has the legal capacity to enter contracts, own assets, and be regulated appropriately.

From a regulatory standpoint, MISFI can be structured to fit within the existing financial regulatory framework rather than as an entirely new type of institution. The MMA's legal guidance indicates that if MISFI operates under an already licensed Islamic financial institution, it would not trigger any additional capital requirements under Maldivian law. In practical terms, it means MISFI could function as a special programme or unit inside a licensed bank or Islamic finance company, leveraging the host institution's existing licence and capital base. By being managed within an established financial service provider, MISFI's activities would be covered by provider's regulatory capital and oversight, avoiding the need for MISFI to raise its own regulatory capital separately.

This approach ensures that MISFI is recognised by regulators as part of an existing compliant entity, simplifying regulatory compliance. The host institution would be responsible for ensuring MISFI's operations adhere to all applicable banking regulations and Shariah governance standards, integrating MISFI into its own compliance framework. Importantly, no new licensing category or special regulatory exemption is needed for MISFI as long as it remains under a licensed institution and thereby falls within the scope of the current regulatory structure.

2.6 TAXATION FRAMEWORK FOR THE MALDIVES ISLAMIC SOCIAL FINANCE INITIATIVE (MISFI)

Under the Maldivian Income Tax Act (Law No. 25/2019), qualifying charitable organisations are granted exemption from income tax. In particular, Section 12(d) of the Act provides that any income derived by a “charitable organisation” approved by the Commissioner General of Taxation is treated as exempt income for tax purposes. This means that duly approved charitable entities are not subject to income tax and are relieved from the tax filing or payment obligations under the Act. To be eligible for this favourable status, an entity must satisfy the Act’s definition of a charitable organisation. The law defines a charitable organisation (per Section 79(b)) as a body, association, or public institution established for specified public-benefit purposes (such as the promotion of Islam, relief of poverty, medical or educational relief, or similar objects of public utility) and not run for the profit of any private individual. In practice, this means the organisation should be a not-for-profit association registered under the Associations Act or an institution created by an Act of Parliament. Only such organisations can obtain formal approval from the tax authority (MIRA) and can become fully exempt from income tax on their revenues in accordance with Section 12(d).

Maldives’ tax framework also encourages private philanthropy by providing income tax deductions to donors (both corporate and individual taxpayers) who contribute to approved charities. Section 21(a) of the Income Tax Act mentions that a donation in money made by a taxpayer to either a government institution or an approved charitable organisation may be deducted from the donor’s taxable income for the year in which the donation is made. In effect, donations to eligible charitable causes reduce the donor’s taxable income, serving as a fiscal incentive for charitable giving. This deduction benefit, however, is subject to a statutory limit. According to Section 21(b) of the Act, the maximum amount of charitable donations that a donor can deduct in a given tax year is capped at 5% of the donor’s taxable income (after accounting for all other allowable deductions). Furthermore, the tax law confines this deduction to cash donations only; contributions made in kind (such as goods or services) are not deductible under Section 21.

The income tax framework has direct implications for the proposed MISFI initiative. If MISFI is operated as an internal program within a bank or financial institution (rather than as a standalone entity), it would not qualify as a charitable organisation under the law. MISFI in that form lacks a separate legal identity as a non-profit association and thus would fail to meet the definition of a “body or association” established under the Associations Act. Thus, operating MISFI within a financial institution would leave it outside the scope of Sections 12(d) and 21(a), meaning that normal corporate tax rules would apply to MISFI’s income and no special deduction would be available to its donors.

For MISFI to attain the tax advantages of a charity, the only alternative would be to pursue a special exemption through government channels. The Income Tax Act (Section 12-1) empowers the President of Maldives, under specific circumstances, to exempt the income of certain projects or ventures from income tax at his discretion (Ministry of Finance and Planning, 2024). In practice, obtaining such an exemption requires a special application to the Ministry of Finance, supported by documentation to justify the request. Such a government-granted exemption, if approved, should make MISFI’s income tax-exempt and potentially allow donor contributions to be treated as deductible. This alternative is an exceptional measure and would require high-level approval outside the standard charitable registration process.

2.7 CONCLUSION

In conclusion, this chapter has laid out a comprehensive model for MISFI and affirmed the initiative's readiness to move from concept to reality. The convergence of a sound operational plan, supportive regulatory environment, and committed governance framework indicates that MISFI is well-prepared for its pilot implementation. With the MMA's guidance and in partnership with key stakeholders, including Islamic financial institutions as operational partners and changemakers (such as NGOs, community organisations, and government agencies) as on-the-ground implementers, MISFI can be seen as a credible national initiative. This readiness paves the way for the pilot phase, wherein MISFI can demonstrate its value by successfully channelling Islamic social finance funds to priority social projects. Such a pilot project will not only provide valuable lessons for scaling up the initiative but also marks a significant step towards harnessing Islamic social finance for the Maldives' development and financial inclusion goals.

CHAPTER 3

PILOT PROJECT UNDER MALDIVES ISLAMIC SOCIAL FINANCE INITIATIVE (MISFI)

3.1 INTRODUCTION

Building upon the foundational framework and principles introduced in Chapter 2, this chapter presents the pilot project launched under MISFI, a critical step towards operationalising the vision of integrating Islamic social finance into the country's formal financial and development ecosystem. The pilot project serves as a testbed to assess the viability, efficiency, and impact of structured Islamic social finance mechanisms in addressing real socio-economic challenges within the Maldivian context. A pilot study refers to a preliminary, small-scale investigation conducted to evaluate and refine the research design, data collection tools, participant recruitment methods, and other methodological components before undertaking a full-scale study.

The chapter outlines the objectives of the pilot project, which include improving access to essential services, promoting financial inclusion, and demonstrating how Shariah-compliant instruments such as Zakat and Waqf can be effectively institutionalised. It also identifies the key stakeholders, including government agencies, Islamic financial institutions, civil society organisations, and beneficiaries, all working collaboratively to ensure the pilot's success.

The timeline of the pilot is detailed to provide clarity on its phased implementation, from initiation to impact reporting. Furthermore, the chapter elaborates on the governance structure, which is designed to ensure transparency, accountability, and Shariah compliance. This includes the establishment of dedicated teams within banks to manage funds, conduct impact monitoring, and provide annual reporting to all stakeholders. Additionally, the chapter introduces the specific initiative being trialled under the pilot project and the mechanisms for reporting, including structured feedback loops and formal impact assessments. Finally, it outlines the anticipated outcomes.

This chapter thus provides a comprehensive overview of the pilot initiative, laying the groundwork for evaluating the efficacy of Islamic social finance in contributing to inclusive and sustainable development in the Maldives.

3.2 OBJECTIVES OF THE PILOT PROJECT

The pilot project under MISFI is designed to test the feasibility of mobilizing financial resources for social impact projects using Islamic social finance tools. By leveraging Zakat, Waqf, Sadaqah, and Islamic crowdfunding, the project aims to create a sustainable funding model for initiatives that address poverty alleviation, healthcare, education, and community development. For example, an Islamic bank participating in the pilot may introduce a deposit-linked charity account product where customers voluntarily allocate a portion of their profits towards financing low-income housing or healthcare subsidies for underprivileged families. This type of deposit-linked charity accounts is found in other jurisdictions as well. For instance, in Malaysia AFFIN Barakah Charity Account-i gives the opportunity to help the needy with ease and convenience to the account holder.

Currently, the SME Development Finance Corporation (SDFC) which was established in 2019, is the only institution in the Maldives that offers microfinance products and services. While its range of offerings is still limited, SDFC provides targeted Islamic microfinance under its Islamic window, "Thijarah". According to the World Bank Group (2024), SDFC accounts for approximately 60% of MSME lending in the country, supporting both established businesses and startups. Over the past four years, SDFC has disbursed loans to 1,038 customers (73%) of whom are microenterprises typically excluded from conventional financing. Of these, 65% are existing businesses, while the rest are startups.

SDFC also prioritizes underserved groups, including women, youth, and persons with disabilities, who collectively represent 45% of its portfolio. Although no specific loan products are designed exclusively for women entrepreneurs, they are treated as a priority group and benefit from preferential credit scoring and lower interest rates. In addition, SDFC provides limited capacity-building support aimed at enhancing the financial literacy and business acumen of MSMEs. However, while it targets underserved sectors, SDFC also offers subsidized loans to bankable MSMEs. This dual approach can create competitive pressure for commercial banks and restrict opportunities for private financing.

The World Bank Group (2024) has cautioned that creating another state-owned MSME bank is unlikely to address these longstanding challenges. The shortcomings of previous interventions, such as the now-defunct Credit Guarantee Scheme (CGS), and the ongoing operational constraints of SDFC highlight the unsustainability of such models in the absence of broader financial sector reforms. A new institution would likely encounter similar challenges, including high levels of non-performing loans (NPLs) and financial inefficiencies. Moreover, permitting such banks to take deposits could introduce systemic risks by transferring liabilities to depositors and weakening the overall resilience of the financial system. Additionally, offering subsidised credit directly to borrowers may distort market incentives, crowd out private sector engagement, and open the door to mismanagement or corruption.

In light of these concerns, the World Bank Group (2024) advocates for a more sustainable alternative within existing Islamic financial institutions, which can be leveraged through targeted social finance products under MISFI. By building on established Shariah-compliant frameworks, MISFI can ethically channel interest-free funds to underserved communities, while promoting financial inclusion, fostering institutional partnerships, and aligning with both national development priorities and the SDGs.

To evaluate the effectiveness of Shariah-compliant financial products in advancing social development objectives under MISFI, the pilot project will undertake comprehensive impact assessments of the various instruments deployed. These assessments will monitor fund utilization, measure the outcomes for beneficiaries, and determine the extent to which the initiatives contribute to the achievement of the SDGs.

MISFI also seeks to strengthen collaboration between financial institutions, NGOs, and government agencies in advancing Islamic social finance. By fostering public-private partnerships, the project will encourage financial institutions to work closely with charitable foundations and social enterprises to develop innovative financing solutions. For example, an Islamic bank partnering with a national healthcare NGO could set up a Waqf (endowment fund) to provide sustainable financing for free medical treatment in underprivileged communities, ensuring long-term healthcare access without dependency on external donations.

To ensure accountability and long-term success, the pilot project will establish a transparent governance framework for monitoring the impact and sustainability of MISFI initiatives. Regular financial reporting, third-party audits, and beneficiary feedback mechanisms will be implemented to track fund disbursement, assess effectiveness, and ensure compliance with Shariah guidelines. An example of this in practice is the requirement for quarterly reports from banks detailing how MISFI funds are allocated, the number of beneficiaries, and how financial products have contributed to improving social welfare.

By structuring this pilot project around measurable impact, financial inclusion, and stakeholder collaboration, MISFI aims to set a strong foundation for scaling up Islamic social finance in the Maldives. If successful, the participating Islamic banks will adopt MISFI as a full-fledged initiative, integrating it into their core financial offerings to ensure that socially responsible finance becomes a mainstream practice in the country. Following are the objectives for the pilot projects:

1. Testing Feasibility and Practicality

A pilot project provides an opportunity to evaluate whether MISFI's proposed financial mechanisms, such as deposit-linked charity products, crowdfunding platforms, and Waqf-based social finance are viable in the Maldives' banking sector. It helps to identify potential operational, regulatory, and financial challenges that banks and financial institutions may face in integrating Islamic social finance products. For instance, the pilot will assess whether customers are willing to allocate a portion of their deposits to charity and how effectively crowdfunding platforms can mobilize funds for social impact projects.

2. Measuring Social and Financial Impact

The pilot project enables financial institutions to track and measure the impact of MISFI interventions on financial inclusion and social development. It allows for the collection of real-time data on fund distribution, beneficiary outcomes, and compliance with Shariah principles. This impact assessment ensures that funds are being utilized effectively and that the initiative is achieving its goal of empowering marginalised communities. For example, if the pilot includes Qard al-Hasan (interest-free loans) for small entrepreneurs, the results will indicate whether the loans improved business growth and financial stability among beneficiaries.

3. Identifying and Addressing Challenges

A key advantage of running a pilot is the ability to identify obstacles before expanding the initiative nationwide. The project will reveal any regulatory gaps, operational inefficiencies, or market resistance that could hinder the full-scale adoption of MISFI. For instance, if financial institutions struggle with managing charitable funds in compliance with banking regulations, the pilot phase allows for adjustments to ensure a smoother transition.

4. Enhancing Stakeholder Collaboration

The pilot serves as a platform for collaboration between Islamic banks, regulatory authorities (such as MMA), NGOs, and government agencies. It allows stakeholders to work together in developing governance structures, establishing monitoring mechanisms, and refining financial products based on collective insights. This collaborative approach ensures that MISFI aligns with national financial policies and social development goals.

5. Building Public and Institutional Confidence

Launching MISFI as a pilot helps in gaining the trust of financial institutions, depositors, and investors. By demonstrating successful case studies, it encourages broader participation and reduces scepticism about the sustainability of Islamic social finance in the Maldives. If banks see that MISFI products attract new customers and enhance social impact, they will be more inclined to fully integrate these offerings into their financial services.

6. Providing a Roadmap for Full-Scale Implementation

Finally, the pilot project acts as a strategic roadmap for integrating MISFI as a permanent feature in Islamic banks. The findings from the pilot will inform the development of a standardized framework for Islamic social finance, ensuring that the initiative can be scaled across different banks and financial institutions with clear guidelines, governance mechanisms, and operational procedures.

By implementing MISFI as a pilot project first, stakeholders can refine the model, demonstrate its benefits, and ensure a smooth transition into a full-fledged initiative. If the pilot proves successful, participating banks will formally adopt MISFI as part of their core financial offerings, embedding Islamic social finance into the mainstream financial system of the Maldives.

3.3 STAKEHOLDERS INVOLVED IN THE PILOT PROJECT

The pilot project will engage the following key stakeholders:

- Maldives Monetary Authority (MMA) – Regulatory oversight and policy direction.
- Islamic Financial Institutions (IFIs) – Banks and financial entities implementing MISFI-based financial solutions.
- Non-Governmental Organizations (NGOs) – Collaborating in beneficiary identification and impact assessment.
- Government Agencies – Providing support, oversight, and ensuring alignment with national development goals.
- Academia and Research Institutions – Conducting studies and providing recommendations on best practices.
- Community Beneficiaries – Target groups including low-income individuals, micro-businesses, and underserved communities.

3.4. TIMELINE OF THE PILOT PROJECT

The pilot project will be implemented over a period of 12 to 18 months, with the following key phases:

- Phase 1 (0-3 months): Planning and stakeholder engagement, project structuring, and fund mobilization.
- Phase 2 (4-9 months): Implementation of selected initiatives, beneficiary selection, and fund disbursement.
- Phase 3 (10-15 months): Monitoring, impact assessment, and data collection.
- Phase 4 (16-18 months): Evaluation, reporting, and recommendations for scaling up MISFI initiatives.

3.5. GOVERNANCE STRUCTURE

A structured governance framework will be established to ensure transparency, accountability, and compliance:

- **Dedicated Teams in Banks:** Each participating bank will have a specialized team managing MISFI-related funds and projects.
- **Compliance Monitoring:** Internal compliance units will ensure adherence to Shariah principles and regulatory guidelines.
- **Impact Reporting and Oversight:**
 - Annual impact reports assessing fund utilization and social outcomes.
 - Periodic evaluations to track project sustainability and effectiveness.
- **Shariah Committee Approval:** All MISFI financial products and initiatives must be reviewed and approved by the respective Shariah committees.
- **MMA Oversight:** The regulator will conduct periodic reviews to assess adherence to MISFI objectives.

3.6. PROPOSED INITIATIVES UNDER THE PILOT PROJECT

The following initiatives will be implemented under the pilot project:

3.6.1 **Deposit-Linked Charity Account Products** – Customers allocate a portion of their deposits for social causes.

How It Works with MISFI:

- Islamic banks will structure special deposit accounts where customers voluntarily allocate a portion of their returns for MISFI projects.
- Funds collected will be transferred to MISFI's social finance programs, ensuring that resources are used effectively for high-impact initiatives.
- Customers receive regular updates and impact reports from MISFI on how their contributions are making a difference.
- The initiative can include dedicated Waqf-linked deposit accounts, where a portion of the returns is perpetually reinvested for sustainable funding.

Implementation in Maldives:

- **Banking integration:** Islamic banks partner with MISFI to provide an opt-in feature for depositors to allocate funds automatically.
- **Shariah oversight:** Ensuring compliance with MMA and Shariah Committee.
- **Transparency & accountability:** MISFI publishes periodic impact reports showcasing funded projects.

3.6.2 **Crowdfunding Platforms** – Raising funds from the public for MISFI- backed initiatives.

How It Works with MISFI:

- Islamic banks develop a Shariah-compliant crowdfunding platform, with MISFI as the main fund manager.
- Individuals and businesses contribute to MISFI-backed projects via online and mobile platforms.
- Contributions can be structured under Sadaqah, Waqf, or Qard al-Hasan.
- Donors can track their contributions through a transparent digital dashboard managed by MISFI.

Implementation in Maldives:

- Digital accessibility: Integration into existing Islamic banking apps for seamless contributions.
- Partnerships: MISFI collaborates with NGOs, Zakat institutions, and community leaders to identify priority projects.
- Marketing & awareness: Islamic banks promote MISFI crowdfunding via CSR campaigns and bank-sponsored initiatives.

3.6.3 Charitable Fund Management – Establishing dedicated social finance funds for impact-driven projects.

How It Works with MISFI:

- Islamic banks establish specialized MISFI funds, with MISFI as the manager of the funds.
- Funds are pooled from various sources, including Zakat, Waqf, corporate CSR donations, and deposit-linked contributions.
- MISFI directs these funds to targeted social finance programs such as:
 - Microfinance for SMEs (especially fishermen, farmers, and women entrepreneurs).
 - Affordable housing & healthcare initiatives.
 - Islamic education and scholarships for underprivileged students.
- A Shariah-compliant investment model (e.g., Istisna-based Sukuk for affordable housing) can ensure sustainability.

Implementation in Maldives:

- Regulatory collaboration: MISFI works with MMA, Islamic banks, and relevant ministries for governance.
- Fund transparency: Annual audited reports and impact assessments to ensure ethical fund distribution.

Sustainable growth: MISFI reinvests part of the funds into low-risk Islamic investments to generate continuous funding.

3.6.4 Community Credit Exchange Programs – Rewarding social contributions with financial benefits.

How It Works with MISFI:

- Customers earn social credits for engaging in MISFI-sponsored community activities (e.g., environmental cleanups, charity volunteering, and financial literacy programs).
- These credits can be redeemed at Islamic banks for:
 - Lower transaction fees.
 - Discounted rates on Islamic financing (e.g., home financing, microfinance, etc.).
 - Exclusive rewards (e.g., priority banking services, event invitations, etc.).
- A digital reward system managed by MISFI tracks and manages these credits.

Implementation in Maldives:

- Integration with Islamic banks' mobile apps for easy tracking of social credits.
- Collaboration with local mosques and NGOs to verify participation in social initiatives.
- Incentives for businesses to accept MISFI credits as discounts or loyalty points.

3.7 COLLABORATION WITH MALDIVES ZAKAT HOUSE

Maldives Zakat House was established by the President of the country on 18 December 2023. As Maldives Zakat House is responsible for managing and distributing zakat, it is advisable for IFIs to initiate discussions with Maldives Zakat House to explore potential collaboration. Such a partnership could enhance the impact of MISFI by leveraging zakat funds for structured and sustainable financial inclusion programs.

One possible area of collaboration is through the allocation of zakat funds by Maldives Zakat House to IFIs under formal agreements, enabling these institutions to channel zakat resources into targeted social finance programs. This would allow for more efficient utilization of Zakat funds in initiatives such as microfinance, SME financing, and community development projects. Additionally, IFIs could be appointed as Zakat collectors (wakil Zakat), where they collect zakat on behalf of Maldives Zakat House. A portion of the collected Zakat could then be allocated to Islamic social finance initiatives, ensuring optimal distribution and impact.

A notable example of such an initiative is the Zakat Wakalah Model in Malaysia, where Islamic banks are appointed as Zakat collection agents by state Zakat authorities. Under this arrangement, banks collect Zakat from customers and are allowed to retain a portion of the funds for direct distribution to eligible recipients through various social finance programs. This model has proven to be highly effective in improving zakat disbursement efficiency and financial inclusion, as it enables IFIs to identify beneficiaries more effectively and provide sustainable financial solutions.

Adopting a similar Zakat Wakalah framework in the Maldives could significantly enhance the efficiency and reach of Zakat distribution while integrating it with Islamic social finance initiatives. Through such collaboration, Zakat funds can be strategically deployed to support impactful projects, thereby fostering a more sustainable and ethical financial ecosystem that aligns with Shariah principles.

3.8 REPORTING OF THE PILOT PROJECT

Regular reporting will be a crucial component to maintain transparency and assess the pilot project's impact:

3.8.1 Quarterly Progress Reports

Financial institutions will submit reports detailing fund disbursement, program effectiveness, and compliance with Shariah guidelines.

Minimum Content Requirements:

1. Cover Page:

- Report title: Quarterly Progress Report – MISFI Pilot Project
- Reporting period (e.g., Q1 2024: January – March)
- Submitting institution
- Date of submission

2. Executive Summary:

- Key achievements and highlights for the quarter
- Summary of fund disbursement and utilization
- Major challenges encountered

3. Financial Overview:

- Total funds raised during the quarter
- Breakdown of fund allocation across initiatives:
 - Deposit-Linked Charity Products
 - Crowdfunding Platforms
 - Charitable Fund Management
 - Community Credit Exchange Programs
- Fund disbursement status (utilized vs. pending)

4. Program Implementation & Impact:

- Number of active beneficiaries and projects funded
- Social impact indicators (e.g., poverty alleviation, financial inclusion)
- Key partnerships and collaborations

5. Shariah Compliance & Governance:

- Compliance status and any issues raised/resolved
- Internal and external audit findings (if applicable)
- Updates from the Shariah advisory board

6. Challenges & Risk Mitigation:

- Key challenges faced in implementation
- Proposed mitigation strategies

7. Recommendations & Next Steps:

- Suggested improvements for the next quarter
- Future funding or resource allocation plans

8. Appendices (if any):

- Supporting data tables, charts, additional documentation

3.8.2 Annual Impact Reports

Comprehensive documentation of the project's social outcomes, beneficiary data, and lessons learned.

Minimum Content Requirements:

1. Cover Page:

- Report title: Annual Impact Report – MISFI Pilot Project
- Year of reporting (e.g., 2025)
- Submitting institution
- Date of submission

2. Executive Summary:

- Overview of the project's yearly performance
- Key milestones and achievements
- Summary of impact metrics

3. Financial Performance & Fund Utilization:

- Total funds raised vs. funds disbursed
- Breakdown of fund distribution across initiatives
- Financial sustainability and cost-benefit analysis

4. Social Impact Assessment:

- Number of beneficiaries reached
- Key measurable outcomes (e.g., job creation, improved education access, community development)
- Case studies & success stories

5. Compliance & Governance:

- Shariah compliance review and audit results
- Stakeholder feedback (e.g., government, regulators, financial institutions)
- Key risks identified and how they were addressed

6. Lessons Learned & Areas for Improvement:

- Key challenges faced and how they were managed
- Suggested modifications to program design

7. Future Roadmap & Scaling Strategy:

- Recommendations for expansion
- Proposed strategies for sustainability and long-term impact

8. Appendices (if any):

- Additional data, charts, testimonials, legal documents

3.8.3 Final Pilot Project Report

A conclusive report submitted to MMA, analyzing the project's feasibility and recommendations for full-scale implementation.

Minimum Content Requirements:

1. Cover Page:

- Report title: Final Pilot Project Report – MISFI Initiative
- Duration of the pilot project (e.g., January 2025 – December 2026)
- Submitting institution
- Date of submission

2. Executive Summary:

- Overall summary of the project
- Key findings and outcomes
- Final recommendations

3. Project Objectives & Methodology:

- Initial goals and objectives
- Implementation approach and strategies

4. Financial Performance & Sustainability:

- Summary of funds raised and allocated
- Detailed financial performance analysis
- Sustainability plan and funding sources for scaling up

5. Social & Economic Impact:

- Key impact indicators (e.g., improved financial inclusion, enhanced charitable giving, community development)
- Case studies & beneficiary testimonials
- Comparative analysis of expectations vs. actual outcomes

6. Compliance & Regulatory Assessment:
 - Shariah compliance review and regulatory feedback
 - Governance structure effectiveness
 - Challenges and regulatory recommendations
7. Feasibility Analysis for Full-Scale Implementation:
 - Strengths, weaknesses, opportunities, threats (SWOT analysis)
 - Infrastructure and resources needed for expansion
 - Potential barriers and risk assessment
8. Final Recommendations:
 - Policy and regulatory recommendations
 - Proposed structure for full-scale rollout
 - Key partnerships and stakeholders required
9. Appendices (if any):
 - Supporting documents, audit reports, regulatory approvals

3.9 EXPECTED OUTCOMES FROM THE PILOT PROJECT

The pilot project is designed to demonstrate the effectiveness of MISFI in providing sustainable financial solutions for social impact. By introducing innovative financial products and mechanisms that align with Shariah principles, the project aims to showcase how Islamic finance can be leveraged to address social challenges, promote responsible financial behavior, and support economic empowerment. This will help validate the feasibility of MISFI as a structured approach to financing social causes while maintaining financial sustainability.

A key objective of the pilot project is to foster greater financial inclusion, particularly for marginalized and underserved communities. Many individuals and small businesses in the Maldives lack access to ethical financing options that cater to their specific needs. By incorporating MISFI products such as deposit-linked charity funds, crowdfunding platforms, and community credit exchange programs, the initiative will enable more people to access financial services while simultaneously contributing to social impact.

To ensure transparency, accountability, and long-term success, the project will establish a structured governance and reporting framework for MISFI initiatives. This framework will include quarterly progress reports, annual impact reports, and a final pilot project report, allowing stakeholders to assess fund disbursement, program effectiveness, and compliance with Shariah guidelines. By embedding strong governance mechanisms, the project will serve as a model for Islamic banks looking to implement similar initiatives in the future.

Additionally, the pilot project will generate valuable insights into the scalability of MISFI across broader sectors and regions. By analysing financial performance, social impact, and operational challenges, participating financial institutions will be able to refine their strategies and develop sustainable models for expansion. The findings from this pilot will provide evidence-based recommendations for full-scale implementation and potential replication in other markets.

Finally, the project seeks to enhance stakeholder collaboration in Islamic social finance and impact investing. By bringing together regulators, financial institutions, charitable organizations, and investors, the initiative will create a strong ecosystem for Islamic social finance. This collaborative approach will ensure that MISFI is not just a standalone effort but an integral part of the national financial system, driving both social and economic development.

By executing this pilot project, MISFI aims to lay the groundwork for the long-term integration of Islamic social finance into mainstream banking systems. The project will not only demonstrate the practicality of MISFI but also reinforce its potential to ensure financial sustainability, promote ethical financial practices, and contribute to socio-economic well-being. Ultimately, this initiative will position MISFI as a cornerstone of Islamic finance in the Maldives, fostering a more inclusive and impact-driven financial landscape.

Further, the pilot project aims to demonstrate the effectiveness of MISFI in providing sustainable financial solutions for social impact. To understand the broader implications of this initiative, it is essential to frame it within the Theory of Change (ToC) model. The ToC outlines how the pilot project's inputs and activities will lead to short-term outputs, mid-term outcomes, and ultimately contribute to the establishment of a full-fledged MISFI permanently within participating banks.

The first stage of the pilot project involves key inputs, including regulatory support from the MMA, active participation from Islamic banks, and the mobilization of funds through Deposit-Linked Charity Products, Crowdfunding Platforms, Charitable Fund Management, and Community Credit Exchange Programs. A structured governance and reporting framework will be established to ensure Shariah compliance, financial accountability, and measurable impact. Additionally, collaboration among banks, regulators, non-profit organizations, and impact investors will provide the necessary ecosystem for effective implementation.

As part of the activities under the pilot project, participating banks will operationalize MISFI products, ensuring the seamless integration of social finance solutions. These activities will include fundraising, financial inclusion programs, fund disbursement to impact-driven projects, and continuous monitoring and evaluation. The banks will also engage in regular reporting to ensure transparency and measure the effectiveness of the initiative. Capacity-building efforts will be undertaken to educate stakeholders on the principles and benefits of Islamic social finance.

The successful execution of these activities will lead to short-term outputs, such as the formal introduction of Islamic social finance products and services in the banking sector, active customer participation, and measurable disbursements to social impact projects. Additionally, quarterly and annual reporting will provide valuable insights into financial performance, social outcomes, and areas for improvement. Increased engagement with the public will enhance awareness and adoption of MISFI products.

Over time, these outputs will generate mid-term outcomes, including greater financial inclusion for marginalized communities, improved governance mechanisms within banks, and stronger partnerships between financial institutions and social impact organizations. Financial inclusion is broadly recognized as a key catalyst for sustainable

economic growth, promoting equal opportunities and enhancing the economic resilience of individuals and communities alike. The MISFI pilot project will help address the lack of accurate and reliable data on financial access and usage in the Maldives by generating insights through its implementation and impact assessment processes. The project will also provide clear evidence of the feasibility and scalability of MISFI, setting the stage for long-term implementation.

The long-term goal of the pilot project is to facilitate the institutionalisation of a full-fledged MISFI within participating banks. This will result in the permanent integration of MISFI products into the financial system, ensuring sustained social impact and economic inclusion. The initiative will establish a dedicated governance and reporting framework, strengthening the role of Islamic social finance in the Maldives' banking sector. Furthermore, the pilot project will serve as a scalable model that can be expanded to other financial institutions, sectors, and regions.

By executing this pilot project, participating banks will build a robust foundation for Islamic social finance, ensuring its long-term sustainability and alignment with ethical financial practices. The project will not only enhance social impact within the Maldives but also position the country as a leader in Islamic social finance and impact investing. Through this initiative, MISFI will transition from a pilot phase to a mainstream financial practice, making ethical and inclusive finance, an integral part of the national banking system.

3.10 CONCLUSION

The pilot project under MISFI serves as a foundational step towards embedding Islamic social finance within the formal financial and development architecture of the Maldives, while also helping to address prevailing misconceptions and improve the currently limited or skeptical perception of Islamic finance. By outlining a clear set of objectives, engaging diverse stakeholders, and establishing a robust governance structure, the initiative creates a blueprint for structured and ethical management of Zakat, Waqf, and other Islamic philanthropic instruments. The pilot's emphasis on compliance, transparency, and measurable impact is vital in ensuring both public trust and alignment with national development priorities.

A critical element of the pilot project is its commitment to impact assessment through annual reporting and systematic monitoring. These mechanisms allow for evidence-based evaluations, informing decision-making processes and enabling the identification of best practices and areas for improvement. Additionally, the initiative proposes innovative, context-sensitive projects that not only meet immediate social needs but also aim to empower communities and promote sustainable financial inclusion. The involvement of banks as fund custodians and facilitators further strengthens the operational integrity of the project.

As the pilot unfolds, the lessons learned will be instrumental in shaping the future direction of MISFI. The next chapter will build on these insights by outlining the short-term and long-term plans for scaling the initiative, institutionalising governance models, and aligning Islamic social finance more closely with broader socio-economic goals. This transition from a targeted pilot to a nationwide strategic framework reflects MISFI's vision of creating a resilient, inclusive, and Shariah-aligned financial ecosystem in the Maldives.



CHAPTER 4

PIPELINE OF POTENTIAL PROJECTS UNDER THE MALDIVES ISLAMIC SOCIAL FINANCE INITIATIVE (MISFI) FRAMEWORK IN MALDIVES

4.1 INTRODUCTION

The Maldives, with its unique socio-economic challenges, stands at a critical juncture where targeted social financing can significantly uplift vulnerable communities and promote economic growth and stability. With high rates of disability, an expanding informal sector, a large youth population, and increasing cases of substance abuse and non-communicable diseases (NCDs), investment in projects that address these critical issues are essential. These investments are not only important for safeguarding human dignity and welfare but also help reduce long-term fiscal burdens by creating more resilient, self-sufficient communities.

The establishment of the MISFI will serve as a dedicated mechanism to channel resources into these impactful projects, ensuring sustainable, inclusive development while alleviating fiscal pressures on the government. Additionally, this initiative will play a vital role in advancing the Maldives' progress towards achieving the SDGs.

In this chapter we will focus on describing the potential projects that can be supported through MISFI. The projects are based on the most pressing socio-economic issues currently faced by the Maldives. We have categorized the possible projects under the following: Charitable, Social and Developmental Projects.

Charitable projects provide immediate relief and support to individuals in need, often addressing urgent issues such as medical assistance, assistive devices, and basic financial support. These projects are crucial in settings where gaps in public services leave vulnerable populations without timely access to necessary resources. In the Maldives, where public support systems are strained due to geographical and logistical challenges, charitable interventions can bridge these critical gaps.

Meanwhile, social projects aim to build social capital and enhance quality of life by promoting inclusivity, skill development, and economic empowerment. These programs foster community-based solutions, particularly for marginalized groups such as women, persons with disabilities (PWDs), and youth, who are disproportionately impacted by systemic barriers.

Developmental projects are medium to long-term initiatives that address systemic and infrastructural gaps to create sustainable socio-economic advancement. Such investments are essential for reducing inequalities, improving educational and employment outcomes, and enhancing accessibility for PWDs and treatment for victims of substance abuse.

4.2 CHARITABLE PROJECTS: IMMEDIATE SUPPORT FOR VULNERABLE COMMUNITIES

The proposed charitable projects target pressing gaps in healthcare and support for PWDs and low-income families. In the Maldives, nearly one in every ten individuals live with a form of disability as per the Census 2022 conducted by the Maldives Bureau of Statistics. The findings also showed that among the various types of disabilities identified,

mobility-related disabilities emerged as the most prevalent, affecting 3.2% of the Maldivian population aged five years and above. Additionally, 3.9% of individuals in this age group were reported to be living with sensory impairments. Hence, supplying assistive devices such as wheelchairs and hearing aids can address the needs of people living with mobility and sensory limitations which can dramatically improve their independence and quality of life.

Another area with healthcare-related gaps that our study identified via stakeholder interviews was the lack of comprehensive financial aid for individuals with NCDs. While treatment options within the Maldives for people with NCDs are limited, equitable healthcare is also hindered due to the disbursed nature of the country geography. Many patients from the atolls need to travel to Male' or abroad for treatment which incurs significant out-of-pocket costs. This issue is particularly critical considering that NCDs account for 85% of all deaths in the country, where 38% account for cardiovascular diseases and 18% account for cancer. Although Aasandha, the national health insurance scheme does provide financial assistance to the affected person, it does not cover the cost of accompanying caregivers. To address this gap, MISFI proposes sponsoring travel and caregiver-related costs for individuals with NCDs. This will promote equitable access to healthcare regardless of income or location.

The findings from the stakeholder interviews also underscored the need for stronger preventive measures in addressing the rise in NCDs in the Maldives. As such, support for projects aimed at building awareness and increasing access to early testing programs for NCDs are critical to reduce long-term treatment and mortality rates, which is another long-term objective of MISFI.

Another key long-term project proposed under this initiative is the provision of fees for children with communication-related difficulties, particularly those on the autism spectrum. Currently, the costs associated with speech, behavioral and occupational therapy are significantly high placing a heavy financial strain on affected families. Furthermore, the limited availability of therapists relative to the number of children requiring treatment further exacerbates the situation. With an estimated 23% of children with disabilities experiencing communication-related challenges, addressing this gap is both urgent and essential. Hence, MISFI aims to subsidize therapy and sponsor the training and deployment of therapists to improve the availability of treatment. This initiative will improve early developmental and educational outcomes and promote social inclusivity for affected children and their families.

The issue of substance abuse is another prevalent socio-economic challenge the country faces. This is evidenced by the number of drug cases logged which recorded an increase of 21% in 2023, compared to the year before. Although, a prevalence study was last conducted in the first National Drug Use Survey 2011-2012, the study had already revealed a concerning figure of approximately 7000 drug users nationwide. Hence, the rising number of drug cases suggests that substance abuse continues to affect a substantial portion of the population, highlighting the need for preventive and rehabilitative intervention.

In the “Situational Analysis of Drugs in the Maldives 2021” conducted by the National Drug Agency (NDA) and the World Health Organization (WHO), lack of trained professionals providing rehabilitative services and long-waiting periods to receive treatment were identified as key challenges to effective rehabilitation. The study revealed that the average number of days taken to complete an indicative assessment was 90 days while another 300 days on average are taken to commence treatment. During this time, over one-third of the participants of the study relapsed and continued drug use. Hence, by proposing to sponsor qualified therapists to support victims of substance abuse, MISFI aims to address this critical gap to reduce relapse rates and improve treatment outcomes. In cases where specialized treatment is unavailable in the Maldives, the initiative also proposes to support access to treatment abroad to ensure comprehensive and effective care.

4.3 SOCIAL PROJECTS: ENHANCING ECONOMIC INCLUSION AND COMMUNITY RESILIENCE

Social projects are critical for empowering vulnerable groups and supporting economic participation. Like many other countries, gender disparities in the Maldives remain pronounced and requires intervention. According to Census 2022, the women labour participation rate in the Maldives stands at 48.4%, much lower than the 79.5% for men. Furthermore, despite more women attaining tertiary level qualifications, they continue to earn 34% less than their male counterparts.

It is also noteworthy that while men dominate both formal and informal employment sectors, 78% of the females in informal work settings are Maldivian. As per Census 2022, women in the informal sector primarily engage in manufacturing activities. MISFI aims to empower women in such settings by providing capital goods such as deep freezers to female artisanal fish processors, sewing machines for women in informal employment and cookery tools like baking items and ovens for home-based food entrepreneurs. It also includes the provision of electronic devices like laptops to enable remote work and access to online buying and selling platforms to enhance their economic participation and income stability.

As for the medium to long-term social projects, MISFI aims to expand access to skill development programs for vulnerable groups including PWDs, women, orphans and youth. According to Census 2022, women with disabilities are often confined to home-based work such as food production among others. Hence, increasing their access to vocational training and skill building programs align with their employment patterns while promoting financial independence. Similarly, the need to support youth employment is pressing; one in every three unemployed individuals is a young person. To address this, MISFI also plans to provide career guidance and counselling services for youth by sponsoring trained freelancers, while also offering training for these freelancers to ensure they can deliver quality and tailored support. Hence, these targeted programs are essential to help integrate young people into the workforce.

With the objective of promoting economic growth and enhancing human capital, MISFI aims to provide targeted financial support through targeted loan schemes to SMEs and students. Given that SMEs currently face significant barriers in accessing finance; for start-ups and business expansions, MISFI seeks to close this gap via such loan schemes to foster innovation, encourage entrepreneurship and create jobs. Meanwhile, the high number of youth not in employment, education or training (NEET) with a rate of 23%, underscores the need for increasing educational and training opportunities targeted for young people, which MISFI aims to do via student loan schemes and vocational training programs.

4.4 DEVELOPMENTAL PROJECTS: BUILDING INCLUSIVE INFRASTRUCTURE AND LONG-TERM CAPACITY

Developmental projects under MISFI must account for the geographic spread of the population and the systemic needs of vulnerable groups. To address the mobility-related challenges faced by 3.2% of the overall population, MISFI proposes to finance infrastructure improvements to enhance the accessibility of buildings. This initiative aims to promote independence and improve access to essential services such as education, employment and healthcare for individuals with disabilities.

MISFI also promotes the establishment of empowerment hubs and educational infrastructure for PWDs which will be transformative in addressing the social isolation and employment challenges faced by this group. Currently, only 34% of PWDs are employed, primarily in the manufacturing sector (19%). These hubs would serve as training and resource centres offering skill development programs and support services aimed at increasing social and economic participation.

As mentioned earlier, the empowerment and economic participation of women are important priorities of MISFI. As per Census 2022, 51% of the children live in female-headed households and 21% live with single mothers. Female-headed households bear the dual responsibilities of caregiving and earning income which creates significant challenges for women. To address this, MISFI aims to finance the establishment of affordable childcare centres, providing women with the support they need to participate in the workforce while simultaneously enhancing child development outcomes.

The study by NDA in 2021 highlighted the lack of treatment facilities available for victims of substance abuse. The findings from the focus group discussions revealed that the existing treatment facilities are very run-down and dilapidated. Hence, to support the recovery of the victims and reduce relapse rates, MISFI proposes to finance the establishment of properly equipped and staffed facilities.

4.5 FISCAL IMPACT

In the Maldives, the government primarily bears the brunt of supporting vulnerable populations in the form of welfare payments. The government approximately spent MVR1.3 billion on welfare related expenses in 2024, which reflects over two-fold increase compared to 2021. Furthermore, government spending on student loans approximate MVR700 million in 2024, which accounted for 1.4% of the total national budget.

MISFI aims to finance essential initiatives through a more efficient and sustainable approach. By covering costs not included under Aasandha, particularly for individuals in need, the charitable interventions of MISFI are expected to reduce the financial burden on the government. Similarly, direct support for therapy and treatment services will help ease the government's expenditure on such essential services.

In the medium to long-term, social and developmental projects under MISFI; particularly those focused on skill development and employment opportunities for vulnerable groups, are expected to reduce reliance on government allowances by fostering economic self-sufficiency.

Investments in preventive healthcare measures, including early detection and awareness programs for non-communicable diseases (NCDs), will contribute to improved health outcomes and a reduction in public health spending, over time. Additionally, the student loan scheme supported by MISFI will expand access to higher education while gradually alleviating the fiscal pressure on government-sponsored scholarship programs.

4.6 CONCLUSION

MISFI provides a transformative opportunity to address the country's most pressing socio-economic challenges through a well-structured, inclusive and sustainable framework. By focusing on charitable, social and developmental projects, MISFI not only aims to support immediate relief for the most vulnerable but also paves way for long-term empowerment and systemic reform. The initiative directly contributes to the country's progress towards the SDGs while reducing long-term fiscal pressure on the government through strategic investments in healthcare, education, skill development and economic participation. Through MISFI, the Maldives can utilize the principles of Islamic social finance to build a more equitable society, where every individual regardless of their background or ability, has the opportunity to lead a dignified and productive life, thereby shaping a more inclusive and prosperous future for the country.



CHAPTER 5

SOCIAL IMPACT TO SYSTEMIC TRANSFORMATION: POSITIONING VALUE-BASED INTERMEDIATION AS THE FUTURE OF ISLAMIC FINANCE IN THE MALDIVES

5.1 INTRODUCTION

MMA has reached a significant milestone by integrating Islamic social finance into the Islamic banking framework, thereby unlocking new avenues for growth. Notably, Islamic social finance plays a crucial role in advancing financial inclusion by offering ethical, accessible, and socially responsible services, particularly to underserved populations. It fosters economic equity and supports socio-economic justice by facilitating the sharing of resources and encouraging active participation in economic activities. Islamic social finance holds immense potential in addressing financial distress and poverty, and is instrumental in reducing inequalities within nations.

According to the Maldives Financial Review (2022), poverty in the Maldives is unevenly distributed, with higher poverty rates in the Atolls outside of Male'. Welfare distribution in the country is similarly imbalanced, with a relatively high level of inequality. The National Income and Expenditure Survey (2019), conducted by the National Bureau of Statistics, reported that income inequality in Male' is notably high, with only one percent of the total income being received by the poorest 20% of the population.

The introduction of Islamic social finance in the Maldives presents a promising opportunity to address issues of poverty and inequality. It can complement government efforts by alleviating the financial burden on the state to subsidize the poor. Given the current economic climate and rising inflation, alternatives such as Islamic social finance are essential to resolve socio-economic challenges. It is believed that the implementation of Islamic social finance will not only reduce inequality and poverty, but also contribute to the nation's economic growth. For instance, providing microfinance assistance through Islamic social finance can empower the poor to start small businesses, helping them achieve financial stability and self-sufficiency.

5.2 FINANCIAL INCLUSION AS A FOUNDATION FOR VALUE-BASED INTERMEDIATION

Foundation of Islamic Social Finance in the Islamic Banking Framework in Maldives will open opportunity for MMA to explore on Value-Based Intermediation (VBI), which is implemented in Malaysia. Both Financial Inclusion and VBI aim to enhance a country's financial landscape. However, while Financial Inclusion primarily focuses on ensuring broad access to financial services, VBI, specifically within Islamic Finance, emphasizes creating positive and sustainable impacts through practices and offerings that align with Shariah principles. The main goal of financial inclusion is to empower individuals and businesses, promote economic growth, and reduce poverty and inequality, meanwhile the goal of VBI is to create a financial system that is not only sustainable financially, but also socially and environmentally responsible.

In most of the countries, the common debate whether the financial sector is sufficiently serving the needs of the real economy, VBI is believed to be able to realise the full potential of Islamic Finance. The evidence from the global crisis, underlines the need for the financial sector to restore its balance with the real economy. The next level of growth for Islamic Finance Industry in Maldives should give equal weight to both economic

value creation and upholding ethical values. VBI is the answer where the approach is holistic for the Islamic Financial Institution to deliver the intended outcomes of Shariah that generate positive and sustainable impact to the economy, community and environment. The adoption of VBI is expected to further strengthen the element of self-discipline within Islamic Banks in Maldives.

Globally, value-based concepts being demonstrated in the banking sector, where value-based practices have emerged to restore the role of finance in acting for the greater good. There are six principles in value-based banking; namely triple bottom line approach (people, planet and prosperity), real economy, client centred, long-term resiliency, transparency and culture. The primary distinction between value-based banking and Value-Based Intermediation is, VBI promotes holistic observation of Shariah, beyond Shariah compliance; ensuring Islamic banking offerings and practices not only comply with the Shariah requirements, but also achieve the intended outcome of Shariah that focus on improving people's well-being through preservation of wealth, faith, lives, posterity and intellect. In the context of Islamic financial business, preservation of wealth goes beyond its literal meaning, since it includes encouragement to generate, accumulate and distribute wealth in a just and fair manner.

In the Malaysian context, there are four basic premises on which VBI are based:

1. **Best conduct-** IFIs are expected to practice best conduct in the provision of products and services, in their processes and in their interactions with stakeholders.
2. **Good self-governance-** to indoctrinate inclusive self-governance through engaging stakeholders in important decision-making process.
3. **Entrepreneurial mindset-** more participation of IFIs in enabling entrepreneurial activities through financing, designing products to support entrepreneurs, as well as providing advice, market structure and business networks.
4. **Community empowerment-** IFIs should create financial solutions that have socio-economic impact on the community, such as Waqf, while simultaneously creating value for the IFIs.

There are two-pronged approach in facilitating VBI adoption by industry players in Malaysia; namely:

1. **Creating an enabling environment through regulatory guidance**

- **VBI implementation guide:** provides example of practical banking practices that illustrates the underpinning thrusts of VBI and deliberates broader implementation issues.
- **Corporate Value-Intent (CVI):** provides a structured mechanism to formulate the strategic intent in delivering Shariah propositions and monitor execution of implementation strategies that aim to deliver the commitments.
- **VBI Investment and Financing Assessment Framework (VBIAF):** provides guidance on establishment of a robust VBI risk management system which encompasses governance, risk identification, risk measurement and monitoring and reporting.

- **VBI Scorecard:** provides a structured management tool that guides self-assessment on effectiveness and achievement of implementation strategies as well as overall institution's performance in delivering Shariah propositions.

These guidance by the regulatory are to facilitate the design process and make extensive use of best practices evidenced globally.

2. Enhancing quality of transparency to trigger intended stakeholders' activism

It is essential to encourage the disclosure of the most relevant information to key stakeholders, including financial consumers, investors, governments, and NGOs, with the goal of fostering market discipline. This, in turn, motivates Islamic Banking Institutions to strengthen their focus on delivering Shariah-compliant offerings. At this stage, the transparency expectations for VBI center on demonstrating commitment, outlining implementation strategies, and providing thorough performance reports, which will ultimately include the impact of financial intermediation.

Figure 3 illustrates the overall framework of Value-Based Intermediation in Malaysia.

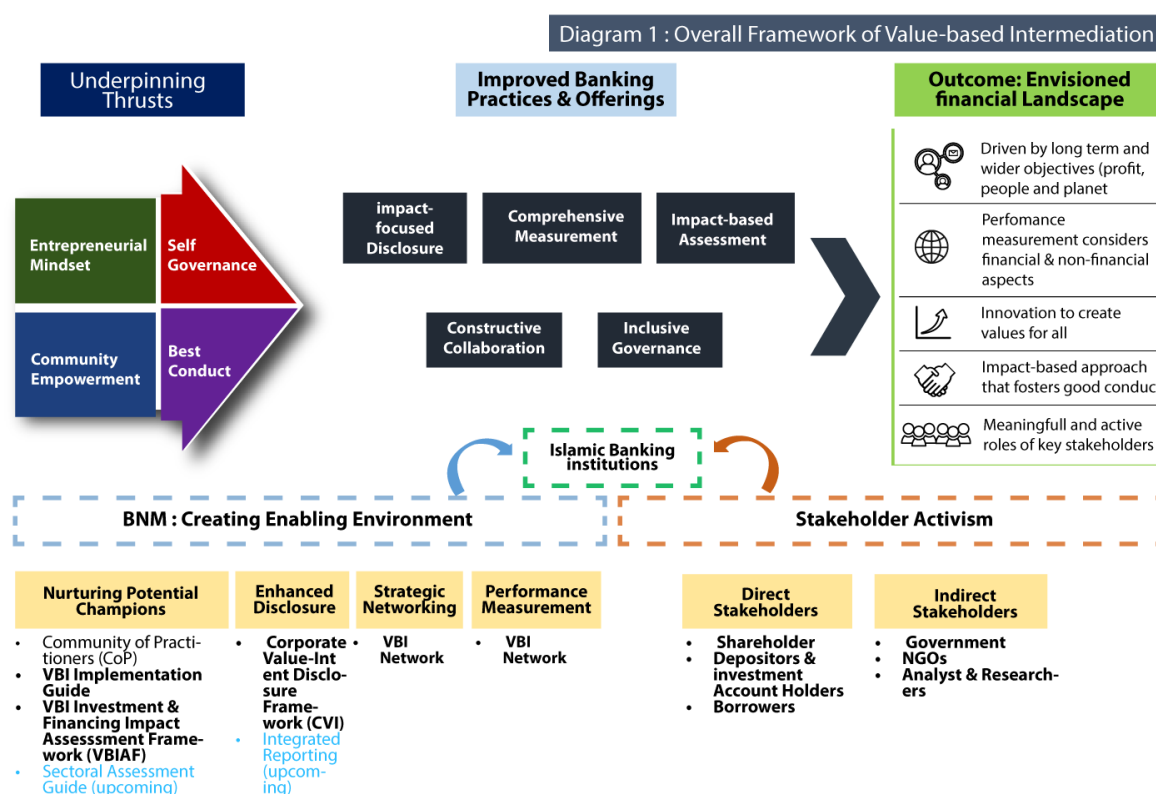


Figure 3: Overall Framework of Value-Based Intermediation.

The adoption of VBI will enable the Islamic Banking industry to offer products and services that are not only Shariah-compliant, but also aligned with the intended outcomes of Shariah. These outcomes resonate closely with the SDGs, as VBI emphasizes the enhancement of the well-being of individuals and communities.

By embracing VBI, Islamic finance gains a distinct competitive advantage, positioning itself as a leading force for positive change. This strategic shift will propel the Islamic financial industry to new heights of sustainable growth, with a clear and compelling value proposition at its core.

5.3 THE SYNERGY BETWEEN VALUE-BASED INTERMEDIATION AND SUSTAINABLE DEVELOPMENT GOALS (SDGs)

The VBI framework in Malaysia is designed in alignment with the principles of value-based banking and presents a compelling model for adoption by Islamic banking institutions in the Maldives. VBI introduces a new paradigm for Islamic Financial Institutions, enabling them to offer services that are not only more impactful, but also more beneficial to the broader community. It helps achieve the Shariah objectives comprehensively, while simultaneously supporting the global SDGs.

Islamic finance can leverage the VBI framework to enhance its role in social finance, thereby contributing to the greater good. The core outcomes of VBI, as encapsulated in the triple bottom line framework; people, planet, and profit/prosperity align seamlessly with the sustainable development agenda set forth by the SDGs.

The first five SDGs—namely, No Poverty (1), Zero Hunger (2), Good Health and Well-being (3), Quality Education (4), and Gender Equality (5) are directly in harmony with the Maqasid of protecting life, intellect, and wealth. Meanwhile, the next six SDGs; Clean Water and Sanitation (6), Affordable and Clean Energy (7), Responsible Consumption and Production (12), Climate Action (13), Life Below Water (14), and Life on Land (15) are closely linked to planetary and environmental considerations, further supporting the Maqasid of protecting life, lineage, and wealth.

The remaining four SDGs—Decent Work and Economic Growth (8), Industry, Innovation, and Infrastructure (9), Reduced Inequalities (10), and Sustainable Cities and Communities (11) primarily focus on safeguarding wealth.

Social finance is envisioned to play an increasingly significant role within the VBI framework. By integrating VBI and social finance into the financial ecosystem, Islamic Financial Institutions are poised to take on a more innovative and impactful role in fostering the long-term sustainable development of both the economy and society.

5.4 VALUE-BASED INTERMEDIATION AS A CATALYST FOR SOCIO-ECONOMIC JUSTICE AND INCLUSION

Islamic banking system always faces criticism for merely replicating conventional banking models where focusing profit maximization is the ultimate objective without fully understanding its role as a vehicle for societal impact. These criticisms stand in contrast to the fundamental principles of Islamic finance which emphasize creating positive societal change. This gap has led to the introduction of VBI, an initiative aimed at ensuring that IFIs maintain their commitment to societal well-being through redistributive instruments and ethical financial practices.

It is undeniable that VBI plays a crucial role in integrating social and environmental goals with financial objectives. VBI helps to harness the power of Islamic social finance by encouraging Islamic Financial Institutions to shift from a purely profit-driven approach to one that prioritizes social justice and sustainable development. This approach complements government funding and addresses pressing social challenges, including poverty, inequality and financial exclusion.

It is undeniable that VBI plays an essential role in shaping the future of Islamic Social Finance, providing a framework for creating a just and equitable financial system that supports social justice and economic inclusion. Majority of the scholars agree that Islamic Social finance plays a vital role in advancing sectors such as health, education, religion and poverty alleviation. It helps reduce the financial burden on governments by addressing social issues directly; while also contributing to economic development. Islamic social finance offers a unique opportunity for transformative financial inclusion, overcoming the barriers often associated with conventional financial systems. It aligns with the principles of an inclusive financial system, considering long-term impacts and uniting stakeholders to achieve collective goals. VBI, through its emphasis on ethical investment and impact-driven finance, foster a holistic approach to social and economic inclusion. By integrating Islamic social finance tools with VBI, financial resources can be mobilized to address social needs while generating positive financial returns.

The potential of Islamic social finance is immense, particularly through powerful instruments like Zakat, Waqf, and Islamic microfinance, which have the ability to uplift disadvantaged and marginalized communities. However, for this potential to be fully realized, it is essential to foster greater professionalism, transparency, and trust within Islamic social finance institutions. With sound governance and the strategic implementation of VBI, these tools can be effectively leveraged to drive long-term economic justice and inclusive prosperity for all.

By broadening the horizons of Islamic social finance to encompass not only traditional instruments but also innovations in the capital markets, socially responsible investments, and transformative crowdfunding, the sector can play a pivotal role in advancing global sustainable development goals. Initiatives such as the Akhuwat microfinance scheme in Pakistan and the BAZNAS-UNDP collaboration in Indonesia serve as compelling examples, illustrating how VBI can act as a powerful catalyst for the growth of Islamic social finance, driving inclusive and sustainable development.

VBI is pivotal in defining the future of Islamic social finance, offering a robust framework for building a fair and inclusive financial system that champions both social justice and economic equality. By harmonizing the principles of Islamic finance with social and environmental sustainability, VBI unlocks the full potential of Islamic finance, enabling it to make a meaningful impact on society and contribute to global prosperity.

5.5 VALUE-BASED INTERMEDIATION IN PRACTICE: INSIGHTS FROM MALAYSIA'S ISLAMIC FINANCE SECTOR

5.5.1 iTEKAD- Bank Negara Malaysia (BNM)

iTEKAD is an umbrella programme that has been established by Bank Negara Malaysia, with the aim of assisting low-income microentrepreneurs to strengthen their financial management and business acumen towards generating sustainable income. Each iTEKAD programme combines the provision of business assets funded by social finance instruments (e.g. donations, social impact investment, Zakat and Cash Waqf) with microfinance, supplemented with structured financial and business training. With these blended components, iTEKAD enables microentrepreneurs to gain access to funding to start and sustain their businesses. The structured training provides participants with upskilling and mentoring, which helps to improve their business acumen and generate higher income sustainably.

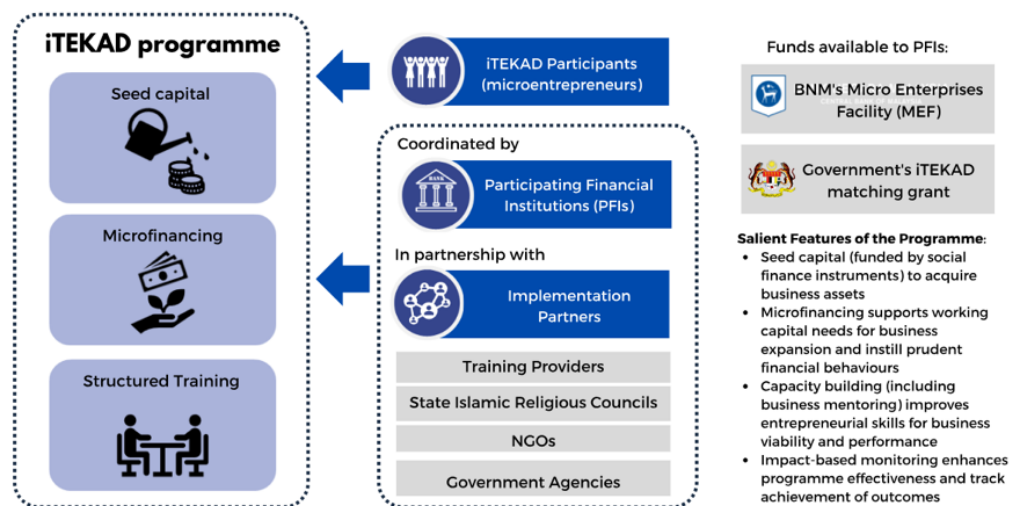


Figure 4: iTEKAD Programme Framework

To date, iTEKAD has 11 participating financial institutions nationwide. The participating financial institutions are Bank Islam Malaysia Berhad, CIMB Islamic Bank Berhad, Bank Muamalat Malaysia Berhad, Bank Kerjasama Rakyat Malaysia Berhad, Agrobank, Bank Simpanan Nasional, RHB Islamic Bank Berhad, AmBank Islamic Berhad, SME Bank, Public Islamic Bank and Maybank Islamic Berhad.

5.5.2 Sadaqa House-Bank Islam Malaysia Berhad

Sadaqa House is a globally recognized leader in social finance, mobilizing philanthropic resources from Sadaqah (voluntary charity), Waqf (endowment), and Zakat (tithe) to create meaningful and lasting impacts. Through its efforts, it strives to improve the lives of Malaysia's unbanked and underserved communities, fostering an inclusive Islamic economic ecosystem that drives positive change. Sadaqa House has played a pivotal role in bringing Bank Islam's vision for VBI to life, making a meaningful impact on the lives of over 17,500 beneficiaries across Malaysia.

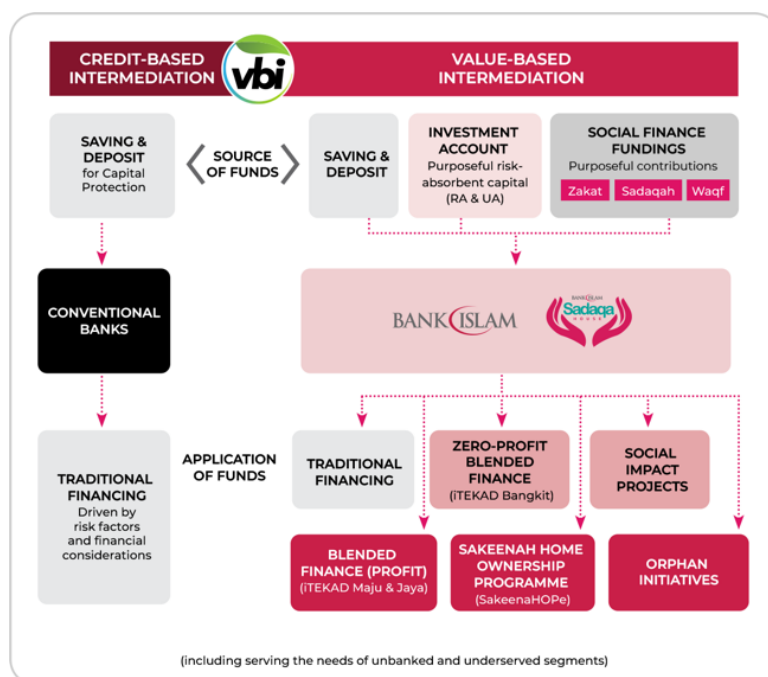


Figure 5: Reimagined the Intermediation Role of an Islamic Advance VBI

The VBI model enables the delivery of blended finance, provides funding escalators, and supports the financing of high-impact projects aimed at empowering the unbanked and underserved communities. Sadaqa House is dedicated to creating a sustainable and positive global impact through meticulous governance and professional fund management.

5.5.3 AMBank Islamic Berhad

AmBank Islamic has created financing solutions tailored to foster entrepreneurship, specifically designed for SMEs and startups. Additionally, initiatives such as AmBank BizRACE have enabled the bank to collaborate with industry experts, offering SMEs a valuable platform to both learn and network. In pursuit of this goal, AmBank Islamic has formed partnerships with esteemed organizations like Bosch Rexroth Malaysia and the Malaysian Green Technology and Climate Change Corporation (MGTC) to deliver capacity-building programs for SMEs. In terms of community empowerment, one notable initiative linked to its VBI strategy is the bank's involvement in the Housing Credit Guarantee Scheme, which provides affordable housing options to customers. Furthermore, AmBank Islamic upholds the principles of VBI by integrating customer ESG (Environmental, Social, and Governance) practices into their risk assessment process and actively measuring greenhouse gas emissions.

5.5.4 Bank Kerjasama Rakyat Malaysia (Bank Rakyat)

In 2020, Bank Rakyat launched initiatives such as RAKYATpreneur and Bank Rakyat UNIpreneur, designed to support asnaf and small businesses with significant growth potential. These programmes help entrepreneurs advance through the business value chain by offering seed funding, coaching, and ongoing monitoring through social impact assessments, all aligned with the VBI framework. To date, these initiatives have nurtured over 2,500 entrepreneurs across various industries. Both RAKYATpreneur and Bank Rakyat UNIpreneur are integral to the BNM iTEKAD programme, which aims to empower the vulnerable community by fostering entrepreneurship and promoting financial independence.

In 2023, the bank introduced the Digital Desa programme, furthering its commitment to enhancing financial inclusion and economic empowerment in rural areas. Digital Desa seeks to boost participation from underserved communities, encouraging a shift towards a cashless society by promoting e-banking and e-payment solutions through the bank's digital platforms. The programme has already benefited over 3,500 rural community members, offering activities such as pocket talks, account onboarding, and the Cashless School initiative to enhance digital literacy.

Moreover, Bank Rakyat supports its customers' transitions to sustainable practices through green financing in both the retail and business sectors. For retail customers, the bank provides financing for electric vehicles (EVs), hybrid cars, green homes, and solar panel installations. For businesses, it offers green and transition financing through products like BRPLUS-i, alongside facilities from BNM, including the Low Carbon Transition Facility and the High Tech and Green Facility.

5.5.5 Bank Muamalat Malaysia Berhad

Bank Muamalat has pioneered the iTEKAD programme, introducing Mudarabah (profit-sharing/equity-based) financing alongside qard (interest-free loans). Although it is the smallest bank among its peers, Bank Muamalat has distinguished itself by securing the highest number of recipients for the programme, reaching a total of 2,823 individuals, and has even earned halal certification for some of these recipients. In delivering these initiatives, the bank prioritizes social impact over profit, particularly with Mudarabah, where it shares any losses incurred. In addition to these efforts, Bank Muamalat has led several notable social initiatives, including being the first to introduce Cash Waqf collection and launching a state-of-the-art dental bus in collaboration with Waqf Selangor, further demonstrating its commitment to community welfare.

5.5.6 CIMB Islamic Bank Berhad

In alignment with the principles of VBI, CIMB Group mobilized RM32.4 billion in sustainable finance in 2023 through its Green, Social, and Sustainable Impact Products and Services (GSSIPS). Of this, RM8.7 billion was allocated as financing to low-income individuals across the ASEAN region. The bank ensures that clear outcome parameters are integrated into a comprehensive reporting framework for all its corporate responsibility initiatives. In 2021, CIMB Group committed RM150 million to CSR initiatives over a five-year period. Additionally, in 2023, CIMB Islamic Bank contributed RM15 million in corporate Zakat to religious authorities across Malaysia.

CIMB is also an active participant in Malaysia's Smart Manufacturing Taskforce, which aims to transform 3,000 manufacturing companies, empowering SMEs to ascend the value chain in line with the New Energy Transition Roadmap (NETR) and the New Industrial Master Plan (NIMP). This initiative strengthens Malaysia's position in the global supply chain. Furthermore, CIMB Islamic Bank supports SMEs with sector-driven agendas, including its flagship value-based financing product, SME Biz Ready. This suite of solutions focuses on digitalization, technology, and sustainability, offering financing alongside capacity-building and access to solution providers. The bank is targeting the financing of 1,000 companies in high-value manufacturing sectors, such as Electrical & Electronics, Pharmaceuticals & Medical Devices, Automotive, Aerospace, Machinery & Equipment, and Chemicals.

CIMB Islamic Bank also facilitates Islamic investment and funding in sustainability-related ventures, particularly those focused on climate change adaptation and mitigation efforts in Johor. In collaboration with the Johor Sustainability Centre, as part of the Johor-Singapore Special Economic Zone, CIMB Islamic Bank contributes to national efforts aimed at driving positive outcomes for the real economy. In addition, the bank champions green causes through its Islamic flagship savings account, Ecosave-i, which donates 0.2% of account balances from its corporate responsibility funds to support environmental initiatives, such as decarbonization, conservation, and biodiversity. To date, CIMB Islamic Bank has committed over RM8.24 million to these causes, underscoring its dedication to delivering both financial returns for its customers and positive environmental outcomes.

5.5.7 HSBC Amanah Malaysia Berhad

HSBC Amanah has made remarkable strides in promoting VBI across its operations. One of its standout initiatives was the issuance of the world's first benchmark sustainable sukuk by a financial institution in 2018, which was aligned with the United Nations SDGs for the use of proceeds. The RM500 million raised from this sukuk was directed towards financing businesses and projects that adhered to the HSBC SDG Bond Framework.

In 2020, HSBC Amanah launched Project Cocoon, a transformative 24-month programme designed to embed sustainability into the bank's operations through the lens of the Triple Bottom Line (TBL); Planet, People, and Prosperity, in alignment with the VBI framework set out by BNM. The project aimed to align 51% of the bank's financing and advances with TBL principles. By 2022, the bank achieved 49% alignment, just 2% short of its goal. Following the completion of Project Cocoon, HSBC Amanah unveiled its TBL Framework, a pioneering approach that enabled the bank to classify its financing activities and assess their impact according to TBL principles.

5.5.8 OCBC AL-Amin Bank Berhad

In 2019, OCBC Group made a pioneering move by becoming the first bank in Southeast Asia to halt financing for coal-fired power plants and cease project financing for upstream oil and gas projects that received development approval after 2021. Building on its commitment to sustainability, the bank launched the OCBC SME Sustainable Finance Framework in 2022, aimed at enhancing the sustainability performance of its SME customers.

To further support impact-driven transparency, OCBC introduced a climate disclosure policy in 2023, designed to guide the development of climate-related disclosures. The bank also enforces sector-specific responsible financing policies across industries such as agriculture and forestry, mining and metals, energy, chemicals, infrastructure, and waste management. These policies set clear requirements and expectations for clients in sectors with significant environmental and social risks.

Additionally, OCBC became the first bank in Malaysia to offer green Islamic foreign currency and bank-to-bank term financing facilities, demonstrating its leadership in sustainable finance within the region.

5.5.9 Public Islamic Bank Berhad

Public Islamic Bank became a VBI Community of Practice (CoP) member in 2020, and one of its first initiatives was the introduction of a green car financing offering that same year. Leveraging the large scale of its hire purchase business and supporting the national green agenda, the bank's green car financing provides favorable rates for energy-efficient vehicles. To determine which vehicles qualify as energy-efficient, the bank collaborates with leading car manufacturers and the Malaysian Green Technology and Climate Change Corporation (MGTC), which assists in calculating the carbon emissions saved through this financing initiative. To date, the bank has financed approximately RM11 billion worth of energy-efficient vehicles.

By adjusting its existing products to align with VBI principles, Public Islamic Bank has successfully promoted environmental sustainability while meeting its customers' needs. In addition to this, the bank launched a rooftop solar financing program aimed at existing customers who already have their properties financed by the bank. Through this program, customers are offered 100% financing for rooftop solar installations. By cross-securing the solar financing with their existing property financing, customers can enjoy immediate financial benefits, with lower instalment payments for solar panel financing compared to the savings on their reduced energy bills. This approach allows the bank to drive environmental sustainability while providing tangible financial advantages to its customers, fully aligning with VBI objectives.

5.6 CONCLUSION

In conclusion, the integration of Islamic social finance with VBI presents a transformative solution to the Maldives' pressing socio-economic challenges, particularly in combating poverty and inequality. The principles of VBI align perfectly with the nation's need for ethical, inclusive, and sustainable financial solutions, offering a framework that fosters not only economic growth but also social justice and environmental responsibility. By adopting VBI, Islamic financial institutions in the Maldives can expand their role in promoting financial inclusion, empowering marginalized communities, and driving positive societal change. Moreover, by embracing VBI, the Maldives has the opportunity to develop a financial system that goes beyond mere profit generation to one that supports long-term social well-being and sustainable development. Through the adoption of the VBI framework, the Maldives can not only align with global best practices but also take the lead in demonstrating how Islamic finance can be a powerful catalyst for social change and economic inclusion. Ultimately, the strategic integration of VBI within Islamic banking in the Maldives promises a more equitable, sustainable, and prosperous future for all its citizens.



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LIST OF INTERVIEWS

- Ministry of Islamic Affairs
- Ministry of Social and Family Development
- Ministry of Finance and Planning
- Maldives Inland Revenue Authority
- National Social Protection Agency
- Legal Department of the Maldives Monetary Authority
- Maldives Zakat House
- Bank Islam Malaysia Berhad (BIMB)
- Maldives Islamic Bank (MIB)
- Bank of Maldives Islamic
- Ayady Takaful
- Amana Takaful
- Cancer Society of Maldives

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Governor Munawar's distinguished career includes serving as the Minister of Finance and Treasury from 2016 to 2018 and as the State Minister of the Ministry of Finance and Treasury from 2014 to 2016. Furthermore, he was the Dean of the Kulliyyah of Economics and Management Studies (KEM) at the Islamic University of Maldives from 2021 to 2023. His earlier tenure at the MMA, spanning from 1999 to 2014, involved various roles that significantly contributed to his expertise in the field.

Governor Munawar holds a Master of Economics with a major in Monetary Economics from Macquarie University. He also holds a Bachelor of Economics (Hons) with a major in Finance from the International Islamic University Malaysia (IIUM).



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MALDIVES ISLAMIC SOCIAL FINANCE INITIATIVE (MISFI): LAUNCHING A NEW ERA OF ISLAMIC SOCIAL FINANCE IN THE MALDIVES

The Maldives Islamic Social Finance Initiative (MISFI) marks a significant step towards integrating Islamic social finance within the nation's formal financial system, advancing financial inclusion, social equity, and sustainable development. Deriving inspiration from successful initiatives such as Bank Islam Malaysia's Sadaqa House, MISFI raises funds through diverse Islamic social finance tools and Shariah-compliant crowdfunding. Its transparent framework connects individuals, corporations, and diaspora communities to impactful projects that support Maqasid al-Shariah and the National Financial Inclusion Strategy. Through its pilot project, MISFI introduces innovative financial products, harnesses digital technology, and fosters multi-stakeholder collaboration to build resilient communities. Offering a structured model, strong governance, and a clear roadmap, MISFI positions the Maldives to lead in promoting inclusive and ethical Islamic finance. This report provides critical insights and practical guidance, making it an essential read for policymakers, financial institutions, researchers, and practitioners committed to driving real-world impact and systemic change through Islamic social finance.