Islamic Microfinance and Sustainable Development Goals (SDGs): Evidence from Bangladesh, Malaysia and Turkey

Norma Md Saad[1*], Adamu Ahmed Wudil[2], Md Nazim Uddin[3], Yusof Bin Ismail[4]

[1,2,4]Kulliyyah of Economics and Management Sciences, International Islamic University Malaysia

[3]Department of Business Administration, Ankara University, Turkey

DOI: https://dx.doi.org/10.47772/IJRISS.2025.915EC001

Received: 26 December 2024; Accepted: 30 December 2024; Published: 27 January 2025

ABSTRACT

This study examined the impact of Islamic microfinance though its Islamic, social, and ethical goals, adoption of profit and loss sharing (PLS) modes (Musharakah, Mudarabah), non-PLS modes (Murabahah, Ijarah) and charity-based financing modes (Zakat, Sadaqah, Qard al-Hasan) on Sustainable Development Goals (SDGs). In addition, it examined the impact on household income, enterprise development as well as program and practice. This study utilized a quantitative research design to evaluate the impact of Islamic microfinance on achieving SDGs in Bangladesh, Malaysia, and Turkey. Responses were obtained from 367 participants, comprising of beneficiaries of Islamic micro-finances in the three selected countries, using a structured questionnaire developed and administered through Google Forms. The findings reveal that profit-and-loss-sharing (PLS) mode of Islamic microfinancing promote SDGs while other modes such as non-PLS and charity-based financing show limited contributions due to operational inefficiencies and short-term focus. Household, enterprise development as well as program practice impacts highlight the need for scalable and systemic interventions, as their current implementations do not consistently translate into broader SDGs achievements. Based on the findings of the study, the study recommended that Policymakers should encourage the adoption of PLS contracts, supported by regulatory frameworks that mitigate moral hazard and adverse selection problems in Islamic microfinancing.

Keywords: Islamic Microfinance, SDGs, Bangladesh, Malaysia and Turkey.

INTRODUCTION

Islamic microfinance has emerged as a transformative financial tool, contributing primarily toward the realization of the SDGs. In conformity with *Shariah* principles of equity, social justice, and ethical investment, Islamic microfinance addresses key socio-economic challenges, especially in countries like Bangladesh, Malaysia, and Turkey (Abdalla et al., 2024; Muhammad et al., 2023; Bhuiyan & Hassan, 2013). These countries provide sufficient evidence of a strong relationship between sustainable development and the Islamic financial system, which effectively contributes to reducing unemployment, destitution, financial exclusion, enhancing the quality of life and potential to bring about sustainable development (Redzuan et a., 2023; Abdalla et al., 2024; Uddin, 2020).

In the Bangladesh context, Islamic microfinance has proven to be very effective in reducing vulnerability and poverty as well as improved socioeconomic status after accessing credit (Bhuiyan et al., 2011). With its innovative financing mechanisms, it has empowered marginalized people, strengthened food security, enhanced GDP growth and overall sustainable development, for example, Bhuiyan & Hassan (2013) revealed that Islami Bank microcredit respondents have a better record for using credit for income generating for reducing vulnerability as well as improved livelihood status compared to Grameen Bank respondents. Similarly, in Malaysia, the integration of Islamic microfinance with instruments such as Sustainable and Responsible Investment (SRI) *Sukuk* has a high potential to link financial sustainability with social objectives, promoting inclusive economic growth and quality of life through socially related projects including the educational and green energy sector (Muhammad et al., 2023; Zain & Sori, 2020; Khouildi & Kassim, 2019).

Turkey, with its robust Islamic finance infrastructure, showcases how Islamic microfinance contributes to wealth redistribution and economic empowerment through the IKSAR *Qard al-Hasan* Program as an increase of 35% was experienced in the monthly household income after receiving the *Qard al-Hasan* loan compared to before and an increase in the monthly expenditures of 23 out of 30 households after receiving the *Qard al-Hasan* (Ülev et a., 2022).

Moreover, the principles of *Maqasid Al-Shariah* (Objective of Shariah) namely, *hifz ad-din* (protecting religion), *hifz an-nafs* (protecting the soul), *hifz al-aql* (protecting the mind), *hifz an-nasl* (protecting offspring), and *hifz al-mal* (protecting property) are closely related with the SDGs in enhancing subjective well-being, wealth, housing and sanitation which result in wealth distribution and social welfare aligning with first Sustainable Development Goal (SDG 1) of poverty alleviation (Aziz et al., 2024; Yusuf et al., 2024; Khairunnisa et al., 2019). These improvements showcase the unique role Islamic microfinance plays in improving quality of life and contribute to promoting the preservation of *Maqasid Al-Shariah* (Khairunnisa et al., 2019). However, challenges such as high transaction costs and collateral requirements persist, making Islamic microfinance faced the risk associated with asymmetric information between borrowers and lenders, necessitating innovative lending mechanisms such as group loans, joint liability, monitoring, and individual collateralized loans (Wulandari & Prijadi, 2021; Ali & Rahman, 2013).

This study examined the intersection of Islamic microfinance and the SDGs in Bangladesh, Malaysia, and Turkey as these countries shows a greater potential of leveraging Islamic microfinance to achieve SDGs by promoting financial inclusion, reducing poverty, and supporting sustainable economic growth. Furthermore, the study provide insight into Islamic microfinance successes, challenges, and opportunities for scaling its impact in these countries. Understanding the mechanism and the outcome of Islamic microfinance in these contexts contributes to the larger discourse on leveraging Islamic microfinance to achieve SDGs. The remainder of this paper is organized as follows: Section 2 reviews the literature, Section 3 provides the methodology used in the study. Section 4 presents the results and discussions on the findings, and finally, Section 5 concludes and provides recommendations.

LITERATURE REVIEW

Islamic microfinance is one of the potential instruments to advance SDGs in countries with considerable Muslim populations such as Bangladesh, Malaysia, and Turkey. The countries have demonstrated that Islamic microfinance is impactful in poverty eradication and in fostering economic growth, besides reducing inequalities to attained SDGs (Mukhlisin et al., 2020; Rashid et al., 2018; Usman & Tasmin, 2016). Islamic microfinance institutions (IMFIs) have a broader scope to attain SDGs through their various investment modes such as profit and loss sharing financing, non-profit & loss sharing financing, Islamic social enterprise based financing and charity based financing which have a positive effect to the real sector of the sustainable economy that will lead towards achieving SDGs (Rashid et al., 2018). These institutions are growing market niche with potentials to develop human capabilities towards empowerment, knowledge and skills, self-reliance and social cohesion (Usman & Tasmin, 2016). Furthermore, Gündoğdu (2018) argued that of the 17 Sustainable Development Goals (SDGs) of the United Nations, the first 11 relate directly to Islamic economics and finance. He further posits that Islamic finance can address the first 11 SDGs by harnessing modern resource mobilization products. Also, Wahyudi and Leny (2024) explored the role of Islamic financial instruments in facilitating investments that not only prioritize financial returns but also social and environmental outcomes. The results showed that *Musyarakah* financing has a significant influence on the growth of Islamic investment, thus contributing to poverty alleviation (SDG 1) and increasing financial inclusion (SDG 8).

Yusuf et al. (2024) and Aziz et al. (2024) examined the compatibility between Islamic finance, SDGs and *Maqasid Shariah*. They highlighted the considerable capacity of Islamic finance to offer an ethical and *Shariah-compliant* framework for attaining the Sustainable Development Goals and the implementation of *Maqasid Sharia*h principles in sustainable development programmes provides a more comprehensive and inclusive approach. In addition, Khairunnisa et al., (2019) argued that Islamic microfinance makes a positive contribution to promoting the preservation of *Maqasid Al-Shariah*. With the alignment of Islamic microfinance to *Maqasid Sharia*h, Hassan and Saleem (2017) investigated the relationship between Islamic microfinance and the socio-economic welfare of women and Islamic microfinance packages function in Bangladesh. The result shows that growth in women's revenue (growth in revenue of micro-enterprises owned by women beneficiaries) and resources played an important role in improving women's financial freedom and sense of self-possession. They further emphasis on the redirection of Islamic microfinance to spread in the developmental activities which will drive to contribute towards the well-being of the recipients in the long run.

Moreover, Khairunnisa and Rusydiana (2024) reviewed the scientific literature on Islamic microfinance in Scopus indexed journals and found that Islamic microfinance is essential in financial relations and sustainable development because it aligns with Islamic principles and encourages inclusive economic growth. In the same vein, Ahmad and Ahmad (2021) reviewed the evidence of the impact of Islamic microfinance on poverty alleviation and identifies the determinants that can influence microfinance borrowers to realize the SDGs 2030 through a literature review. The study used a literature survey of more than 40 articles related to microfinance and found that IMFIs were used as the main alternative tool to alleviate poverty as the program and implementation of Islamic microfinance are always based on *Maslahah* for the community. Mohamed and Fauziyyaha (2020) reviewed and discusses the impact of Islamic microfinance and its conventional counterpart on their borrowers as well as identifying the determinants that could influence microfinance borrowers. The study demonstrates Islamic microfinance as an effective tool for eradicating poverty, improved the livelihood, well-being and economic development of the poor people.

Ali and Rahman (2013) discussed the types of transaction cost incurred by microfinance institutions in providing Islamic micro financing facilities to combat poverty and suggests an efficient transaction cost framework to be applied in Islamic microfinance program namely *Mudarabah*, *Musyarakah* and *Bai Salam* to reduce poverty and to bring about development by enabling the poor to enhance their earnings and enrich their social welfare. Furthermore, the study highlights that, generating a sustainable source of loanable funds is crucial for the success of microfinance loan programs (MFLP). A sustainable source of loanable funds could be obtained if the institutions manage to recollect their amount invested that would cover the cost incurred in disbursing the loan. Therefore, transaction cost and repayment rate of the Islamic Microfinance are considered as critical factors that determined the survival of these institutions.

Table 1: Comparative Strengths and Weaknesses of the Financing Modes

Study	**Financing Mode(s)**	**Key Strengths**	**Key Weaknesses**
Wahyudi and Leny (2024)	PLS (Musharakah, Mudarabah)	Contribute to poverty eradication (SDG 1) and increasing financial inclusion (SDG 8)	Complexity in implementation; requires high trust between parties
Ali and Rahman (2013)	Non-PLS (Murabahah, Ijarah)	Reduce poverty and bring about development by enabling the poor to enhance their earnings and enrich their social welfare	Lack of risk-sharing limits scalability due to unsustainable fund source and high transaction costs
Ali (2014)	Charity-based	Assist the poor who require financing and ultimately could be effective for poverty reduction.	Unsustainable without integration into income-generating programs
Rashid et al. (2018)	Multiple	Islamic microfinance has both direct and indirect impacts on ensuring economic development, environmental sustainability, and social inclusion	Lack of adequacy of data
Yusuf et al. (2024)	Multiple	Highlights synergy with SDGs and *Maqasid Shariah* principles	Requires strong multi-stakeholder collaboration

Source: Author's Illustrations.

Table 1 provides comparative strengths and weaknesses of the financing modes. Furthermore, as evident from the literature reviewed, Islamic microfinance serve as an efficient mechanism for advancing SDGs in countries with Muslim majorities. Through its application of *Maqasid Al-Shariah* principles and diverse financial instruments, such as *Musharakah*, *Murabaha*, and *Zakat*, Islamic microfinance helps to decrease poverty, increase financial inclusion and empowered people to be self-reliant. Furthermore, it enhanced sustainable livelihoods, increased social welfare, and raised living standards for those who are less privileged. However, despite its potential, challenges in the form of high transaction costs, constrained scalability, and limited outreach and inadequate sustainable source of loanable funds remain a major concern as PLS modes such as *Musharakah, and Mudarabah* relates to long term financing, non-PLS such as *Murabaha and Ijara* relate to short term financing while charitable-based mechanisms such as *Zakat, Sadaqah and Qard al-Hasan* relate to immediate poverty relief. Therefore, there is the need for more research to come up with innovative means of optimizing Islamic microfinance and provide strategies for promoting SDGs which this study aimed to provide.

METHODOLOGY

Research Design

This study utilized a quantitative research design to evaluate the impact of Islamic microfinance on achieving Sustainable Development Goals (SDGs) in Bangladesh, Malaysia, and Turkey. Responses were obtained from 367 participants through purposive sampling, comprising of beneficiaries of Islamic micro-finances in the three selected countries, using a structured questionnaire developed and administered through Google Forms. The measurement details of the quantitative analysis gave clear evidence of how Islamic microfinance has benefited the economic, social and ethical goals in the respective countries. The questionnaire assessed various indicators, including the impact of Islamic microfinance on Islamic, social, and ethical goals, adoption of profit and loss sharing (PLS) modes (e.g., *Musharakah*, *Mudarabah*), non-PLS modes (e.g., *Murabahah*, *Ijarah*) and charity-based financing modes (e.g., *Zakat*, *Sadaqah*, *Qard al-Hasan*). In addition, the questionnaire examined the impact of Islamic microfinance on household income, enterprise development as well as program and practice.

Variable Operationalization

The dependent variable Sustainable Development Goals (SDGs) is operationalized as a Binary outcome (1 if SDGs are achieved, 0 otherwise).

Dependent variables were measured using 5 point Likert scale (1 = strongly disagree to 5 = strongly agree) as follows:

Impact of Islamic Microfinance on Islamic, Social, and Ethical Level:

- Islamic microfinance helps uphold Islamic values, such as fairness and transparency, in financial transactions.
- Islamic microfinance contributes to the social well-being of underprivileged communities by promoting financial inclusion.
- Islamic microfinance practices encourage ethical financial behavior, helping to reduce exploitation and unfair practices.
- Islamic microfinance fosters social responsibility among individuals by aligning financial support with ethical principles. Islamic microfinance has a
- impact on the moral and ethical development of beneficiaries, guiding them towards responsible financial choices.

Profit and Loss Sharing Financing Modes:

- Profit and loss sharing financing modes encourage fairness in microfinance transactions.
- I believe that profit and loss sharing modes benefit both the lender and borrower equally.

ISSN No. 2454-6186 | DOI: 10.47772/IJRISS |Volume VIII Issue XII December 2024

- Profit and loss sharing financing aligns with my values and principles for ethical financial practices.
- Profit and loss sharing modes in Islamic microfinance contribute to economic stability in communities.
- I feel confident about the risk management in profit and loss sharing financing modes.

Non-Profit and Loss Sharing Based Financing Modes:

- I believe that non-profit and loss-sharing financing modes provide a fair and equitable way of supporting small businesses.
- Non-profit and loss-sharing financing options in Islamic microfinance encourage financial inclusion by minimizing financial risk for clients.
- I find that non-profit and loss-sharing modes align well with ethical and moral values in financial transactions.
- I am more likely to engage with Islamic microfinance institutions that offer non-profit and loss-sharing financing modes over other options.
- Non-profit and loss-sharing financing modes in Islamic microfinance foster trust and collaboration between financial institutions and clients.

Charity Based Financing Modes:

- Charity-based financing modes in Islamic microfinance effectively support low income individuals without expecting financial returns.
- Charity-based financing models (e.g., Qard Hasan, Sadaqah) are beneficial in fostering social welfare and reducing poverty within communities.
- Charity-based financing mechanisms in Islamic microfinance are more accessible to the needy compared to profit-driven financing options.
- I believe that charity-based financing can promote economic empowerment and stability for underprivileged individuals and families.
- Islamic microfinance institutions should increase the use of charity-based financing modes to enhance financial inclusion in society.

Impact at Household Level:

- Islamic microfinance has improved my household 's financial stability.
- Access to Islamic microfinance has enabled my family to afford better healthcare services.
- My family's ability to afford educational expenses has increased due to Islamic microfinance. Islamic microfinance has contributed to an improvement in my household's living conditions.
- I feel that my household's overall quality of life has improved through Islamic microfinance support.

Impact at enterprise Level:

- The Islamic microfinance support has contributed to the financial growth of my enterprise.
- The productivity of my enterprise has improved since receiving Islamic microfinance.

- Islamic microfinance has enabled my enterprise to expand its products or services.
- Access to Islamic microfinance has helped improve the operational efficiency of my enterprise.
- The support from Islamic microfinance has strengthened the long-term sustainability of my enterprise.

Islamic Microfinance Program and Practices

- To what extent do you agree that this Islamic microfinance program promotes social justice and fairness in financial practices?

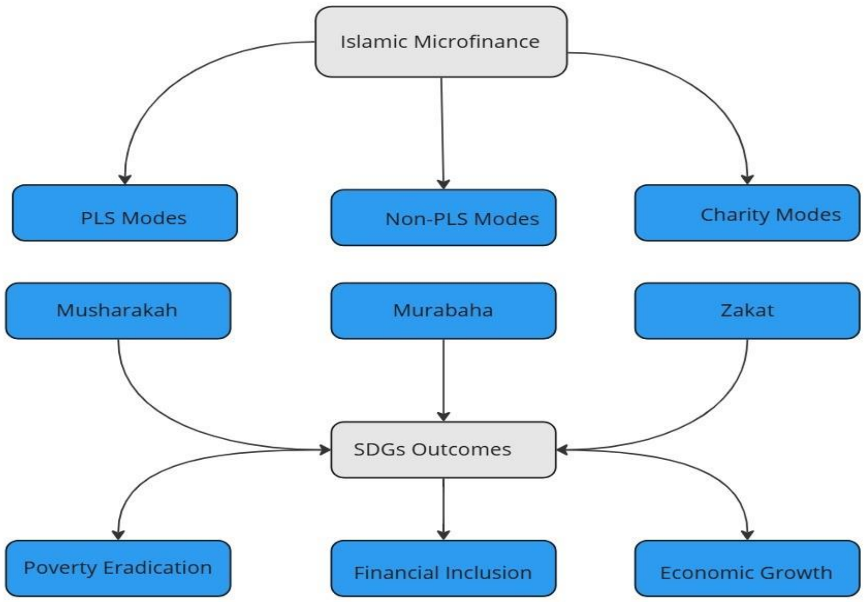

Figure 1: Islamic Microfinance Modes and SDGs Relationships

Source: Author’s Illustrations.

Figure 1 depict the relationship between Islamic microfinance modes and SDGs. The figure shows how Islamic microfinance modes such as PLS modes, non-PLS modes and charity modes impact on SDGs through its mechanism namely, *Musharakah*, *Murabaha*, and *Zakat* directly eradicating poverty, enhance financial inclusion and subsequently leads to economic growth.

Model Specification and Variable Selection

The logistic regression model is specified to examine the probability of achieving the Sustainable Development Goals (SDGs) based on the influence of Islamic microfinance practices. The model is expressed as:

$$Logit\ (Y) = In\left(\frac{P(Y=1)}{1-\mathrm{P(Y=1)}}\right) = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \beta_6 X_6 + \beta_7 X_7 + e \ldots\ 1$$

Where:

Y: Binary dependent variable (1 if SDGs are achieved, 0 otherwise).

P(Y=1): Probability of achieving SDGs.

β_0: Intercept term.

$\beta_1, \beta_2, \beta_3, \ldots\ldots, \beta_6$: Coefficients for the independent variables.

X1: Impact of Islamic microfinance on Islamic, social, and ethical levels.

X2: Adoption of profit and loss sharing (PLS) modes (e.g., *Musharakah, Mudarabah*).

X3: Adoption of non-profit and loss sharing (non-PLS) modes (e.g., *Murabahah, Ijarah*).

X4: Charity-based financing modes (e.g., *Zakat, Sadaqah, Qard al-Hasan*).

X5: Impact at the household level (e.g., improved education, healthcare, living standards).

X6: Impact at the enterprise level (e.g., business growth, job creation, income generation).

X7: Impact of program and practice (e.g., promoting social justice and fairness in financial practice).

e: Error term.

The variables are selected based on Islamic economic theory and the empirical studies that have been conducted on the role of Islamic microfinance in promoting sustainable development. More specifically, *Maqasid al-Shariah* provides the theoretical framework underpinning this study by emphasizing poverty reduction, social justice, and ethical financial practices that are in line with the SDGs framework. Indicators like PLS and non-PLS financing modes reflect the operational mechanisms of Islamic finance, while charity-based financing modes address wealth redistribution and social welfare as emphasized in works by Rashid et al. (2018) and Usman & Tasmin (2016).

The choice of Sustainable Development Goals (SDGs) as the dependent variable depicts the multi-dimensional impact of Islamic microfinance in poverty eradication (SDG 1), economic growth (SDG 8), and reducing inequality (SDG 10). Independent variables (X1 to X7) were included to estimate the overall impact of Islamic microfinance on these goals, as justified by prior studies such as Khairunnisa et al. (2019) and Wahyudi & Leny (2024).

Method of Data Analysis

The study employed logistic regression (logit model) to analyze the impact of Islamic microfinance on various indicators related to the Sustainable Development Goals (SDGs) in Bangladesh, Malaysia, and Turkey. Logistic regression is particularly suitable for this analysis because the dependent variable is categorical or binary in nature, such as whether SDGs are achieved or not. The logit model is effective for predicting probabilities of these outcomes while accounting for the influence of multiple independent variables. The coefficients (β1 to β7) quantify the relative contribution of each independent variable, offering actionable recommendations for enhancing the effectiveness of Islamic microfinance in achieving SDGs.

RESULTS AND DISCUSSIONS

Profile of the Respondents

Table 2: Demographics Profile of the Respondents

Demographic	Particulars	No. of Respondents	% of Respondents
Marital Status	Single	143	38.5
	Married	167	45.0
	Separated/Divorced	28	7.5
	Widowed	29	7.8

ISSN No. 2454-6186 | DOI: 10.47772/IJRISS |Volume VIII Issue XII December 2024

Area	Rural	324	87
	Urban	43	13
Age	Below 25	49	13.2
	26-40	140	37.7
	41-55	112	30.2
	46 & above	66	17.8
Gender	Male	136	36.7
	Female	231	62.3
Country	Bangladesh	130	35.0
	Malaysia	113	30.5
	Turkey	124	33.4
		367	100
Total for each segment		367	100

Sources: Author's computation using SPSS 20.

Table 2 provides the demographic profile of the respondents. It provides insights into the diverse characteristics of participants across three countries: Bangladesh, Malaysia, and Turkey. In terms of marital status, most respondents are married (45%), followed by single individuals (38.5%), with a smaller proportion being separated/divorced (7.5%) or widowed (7.8%). The respondents predominantly reside in rural areas (87%), with urban residents constituting only 13%. Age distribution shows that most respondents are between 26 and 40 years (37.7%), followed by those aged 41–55 years (30.2%), while a smaller portion is below 25 years (13.2%) or above 46 years (17.8%). This indicates a concentration of participants within the economically active and mature age brackets.

In terms of gender, females make up the majority of respondents (62.3%), compared to males (36.7%), reflecting a significant female representation in the study. Geographically, the respondents are relatively evenly distributed among the three countries, with Bangladesh accounting for the highest proportion (35%), followed by Turkey (33.4%) and Malaysia (30.5%). This demographic diversity highlights the study's effort to incorporate varied perspectives from different regions, age groups, and social conditions. The representation from rural areas and the inclusion of a substantial number of married and female participants suggest a focus on understanding how Islamic microfinance impacts traditionally underserved or critical demographic groups in the context of achieving the Sustainable Development Goals (SDGs).

Regression Analysis

Table 3: Logistic Regression on the Islamic Microfinance and Sustainable Development Goals

Variable	B	S.E.	Wald	df	Sig.	Exp(B)
Impact of Islamic microfinance on Islamic, social, and ethical levels	-.667	.046	.402	1	. 005	.033
Profit and loss financing modes	3.900	2.102	3.441	1	.064	49.414
Non-PLS financing modes	2.890	2.486	1.351	1	.245	17.994
Charity based financing mode	-1.985	1.444	1.889	1	.169	.137
Impact at household level	-.254	. 0190	.110	1	. 040	.664
Impact at enterprise level	.087	.878	.010	1	.921	1.091
Islamic micro finance program practice	-2.570	1.578	2.652	1	.103	.077
Constant	12.791	11.893	1.157	1	.282	358831.632

Sources: Author's computation using SPSS 20.

Table 3 presents the relationship between various predictors and the likelihood of SDG attainment or achievement. The Wald statistics and associated significance values provide insights into the importance of each variable in the model.

ISSN No. 2454-6186 | DOI: 10.47772/IJRISS |Volume VIII Issue XII December 2024

The impact of Islamic microfinance on Islamic, social, and ethical levels is significant (p = .005) with a negative coefficient (B = -0.667), indicating that an increase in the focus on these levels reduces the likelihood of SDG attainment. This could suggest a misalignment between current Islamic microfinance practices in these areas and broader SDG goals. The profit-and-loss-sharing (PLS) financing mode demonstrates a strong positive association with SDG achievement (B = 3.900, Exp(B) = 49.414), and statistically significant at 10% (p = .064). This result highlights the potential of PLS models to contribute to SDG attainment but calls for further investigation into their implementation. Non-PLS financing modes (B = 2.890, p = .245) and charity-based financing (B = -1.985, p = .169) do not show significant relationships, suggesting their limited or context-specific influence on SDGs.

At the household level, Islamic microfinance shows a significant and negative impact (B = -0.254, p = .040, Exp(B) = 0.664), indicating challenges in translating household-level benefits into SDG outcomes. Conversely, the enterprise-level impact (B = 0.087, p = .921) is insignificant, suggesting that enterprise-level activities may not have a direct measurable influence on SDGs. Interestingly, Islamic microfinance program practices show a negative and statistically significant relationship at 10% (B = -2.570, p = .103). The constant term (B = 12.791, p = .282) indicates a high baseline probability of SDG attainment in the absence of other variables, emphasizing the inherent strength of SDG-related efforts in the regions studied.

In general, the result suggests that while certain Islamic microfinance approaches, such as PLS financing, have the potential to positively influence SDG attainment, others, particularly those focused on social and ethical dimensions or household-level impacts, require refinement. Policymakers and practitioners should explore integrating Islamic microfinance into broader SDG-aligned strategies, emphasizing PLS models and addressing limitations at the household level to maximize outcomes.

Diagnostic Check

Table 4: Model Diagnostic

Model Summary			
Step	-2 Log likelihood	Cox & Snell R Square	Nagelkerke R Square
1	17.803[a]	.449	.601

Sources: Author’s computation using SPSS 20.

Table 4 presents the Model Diagnostic. The model summary indicates a robust relationship between the predictors and the dependent variable. The *-2 Log Likelihood value* of 17.803 reflects the goodness-of-fit of the model, with lower values indicating a better fit. The *Cox & Snell R Square* of 0.449 suggests that 44.9% of the variability in achieving Sustainable Development Goals (SDGs) can be explained by the predictors in the model. The *Nagelkerke R Square* of 0.601 indicates a stronger explanatory power, with 60.1% of the variance accounted for. The model converged after seven iterations, confirming stability in parameter estimates and the reliability of the results.

DISCUSSION

The findings suggests that while Islamic, social, and ethical principles are essential to Islamic microfinance, their current implementation may not be sufficiently aligned with broader SDG objectives. This misalignment could stem from excessive focus on compliance with Shariah principles without adequately addressing the practical challenges of poverty alleviation, gender equality, and economic growth. For instance, in Bangladesh, some IMFIs prioritize the observance of religious tenets over operational efficiency, resulting in lower outreach and impact (Rahman et al., 2017). Similarly, Malaysia's Islamic finance sector has faced criticism for overemphasizing religious compliance at the expense of inclusive development (Dusuki, 2008). While these ethical dimensions are vital, their isolated application may fail to address the multidimensional nature of SDGs, such as quality education or climate action. Amanah Ikhtiar Malaysia (AIM) is an IMFI that integrates social and ethical principles into its operations. While AIM successfully provides *Shariah-compliant* loans,

ISSN No. 2454-6186 | DOI: 10.47772/IJRISS |Volume VIII Issue XII December 2024

critics argue that its focus on ethical lending practices sometimes limits scalability, reducing its ability to significantly impact poverty rates.

The profit-and-loss-sharing financing model demonstrated a strong positive relationship with SDGs attainment (B = 3.900, Exp(B) = 49.414, p = .064). Although statistical significance at 10%, this result indicates that PLS financing, as a core feature of Islamic microfinance, has immense potential to foster SDGs. By promoting equity and risk-sharing, PLS models align well with SDG objectives like poverty eradication, economic growth, and reducing inequality. Empirical evidence supports this finding. For example, Khan et al. (2020) highlight that PLS models in Turkey have significantly improved financial inclusion and enterprise growth. Similarly, Farooq and Ahmed (2017) observed that PLS contracts in Pakistan encouraged entrepreneurship and wealth redistribution, directly contributing to SDGs such as reduced inequalities (SDG 10) and no poverty (SDG 1). However, operational challenges, such as moral hazard and adverse selection, often limit the widespread application of PLS models. In Turkey, institution like Kuveyt Türk has successfully implemented PLS financing to fund small businesses, particularly in under-served regions. By sharing profits and losses with entrepreneurs, these institutions mitigate financial risk while promoting sustainable enterprise development.

Non-PLS financing modes, such as *Murabaha* (cost-plus financing) and *Ijarah* (leasing), showed a positive but statistically insignificant relationship with SDG achievement (B = 2.890, p = .245). These financing models are easier to implement compared to PLS modes, making them more popular among IMFIs. However, their limited emphasis on equitable wealth distribution and risk-sharing reduces their overall contribution to SDG objectives. A study conducted by Siddique and Iqbal (2017) shows that non-PLS modes are particularly effective for short-term asset financing but fail to address structural issues like poverty or inequality. Similarly, Usmani (2018) notes that while Murabaha dominates Islamic microfinance globally, its inability to share risks undermines its impact on long-term development goals. In Malaysia, *Murabaha-based* financing has enabled many small businesses to purchase machinery and equipment. However, its fixed-profit structure limits the client's ability to adapt during financial downturns, which can hinder the attainment of SDG 8 (decent work and economic growth).

The negative relationship between charity-based financing and SDG attainment (B = -1.985, p = .169) underscores the limitations of relying solely on charitable mechanisms like Zakat and Sadaqah for sustainable development. While these modes are integral to Islamic microfinance, their short-term nature makes them less effective in addressing the systemic issues targeted by the SDGs. Ahmed (2004) argues that while *Zakat* is essential for immediate poverty relief, it must be complemented by development-focused programs to achieve lasting impact. Similarly, Hasan and Tahir (2020) highlight that over-reliance on charity can create dependency, reducing the incentive for self-sustaining economic activities. In Bangladesh, *Zakat-based* programs have successfully provided temporary relief to impoverished households. However, without linking *Zakat* to income-generating activities, these programs often fail to lift beneficiaries out of poverty permanently, thereby limiting their contribution to SDG 1.

The significant negative relationship between household-level impact and SDG attainment (B = -0.254, p = .040) suggests that while Islamic microfinance can improve household welfare, these benefits do not always translate into broader SDG outcomes. This disconnect may arise due to the limited scale of household interventions and their focus on immediate needs rather than long-term development. Hassan and Saleem (2017) found that while Islamic microfinance improves household income and consumption in Pakistan, its impact on education, healthcare, and gender equality remains marginal. Similarly, Iqbal et al. (2019) observed that household-level benefits in Indonesia were often confined to the short term, with limited contributions to systemic SDGs. In Bangladesh, Islami Bank microcredit program have successfully increased household incomes. However, these programs often fail to address broader community needs, such as building infrastructure or improving healthcare access.

The insignificant relationship between enterprise-level impact and SDG achievement (B = 0.087, p = .921) suggests that while Islamic microfinance supports small enterprises, its contributions to SDGs like economic growth and reduced inequalities remain limited. This could be due to challenges such as limited access to markets, inadequate business training, and low scalability of microfinance-funded enterprises. Khalid and

Abdullah (2020) found that microfinance-funded enterprises in Malaysia often struggle to expand beyond subsistence-level activities, limiting their broader economic impact.

The negative and significant relationship at 10% between Islamic microfinance program practices and SDG attainment (B = -2.570, p = .103) highlights the need for more effective program design and implementation. Inefficiencies in targeting, monitoring, and resource allocation may reduce the overall impact of these programs on SDG outcomes. Dusuki (2008) argues that the operational inefficiencies of many IMFIs hinder their ability to achieve broader development goals. Similarly, Obaidullah and Khan (2019) emphasize the need for better program evaluation and integration with national development strategies.

CONCLUSION AND RECOMMENDATIONS

This study examined the role of Islamic microfinance in achieving Sustainable Development Goals (SDGs) across Bangladesh, Malaysia, and Turkey. The findings reveal a complex interplay between various financing modes and SDGs impacts. While profit-and-loss-sharing (PLS) models exhibit significant potential to drive SDGs, other modes such as non-PLS and charity-based financing show limited contributions due to operational inefficiencies and short-term focus. Household, enterprise-level as well as program practice impacts highlight the need for scalable and systemic interventions, as their current implementations do not consistently translate into broader SDGs achievements.

To address these challenges, policymakers should encourage the adoption of profit-and-loss-sharing contracts, supported by regulatory frameworks that mitigate moral hazard and adverse selection issues. IMFIs should adopt rigorous monitoring and evaluation frameworks to ensure optimal resource allocation and alignment with SDG objectives. In addition, IMFIs should incorporate non-financial services, such as business training, market access support, and community development initiatives, to amplify the impact on SDGs. Moreover, there should be collaborations between IMFs, Governments, and international development agencies to integrate Islamic microfinance into national development strategies. Such collaborations will enhance its role as a tool for poverty eradication, gender equality, financial inclusion, environmental sustainability and economic growth. These efforts would not only address current inefficiencies but also position Islamic microfinance as a vital mechanism for achieving long-term SDGs in the countries under study.

Conversely, the study is limited to only 3 countries namely, Bangladesh, Malaysia and Turkey as well as the use of purposive sampling technique. As such, further research should be conducted in a specific country and the use of randomized sampling technique to validate the empirical results obtained from this study. Moreover, future studies could discuss how Islamic microfinance principles could be adapted in non-Muslim majority countries or how it can be compared with conventional microfinance systems in achieving SDGs.

Ethical Considerations

All the study participants give consent, and their anonymity and confidentiality are maintained.

Conflict of Interest

The authors agree that this research was conducted in the absence of any conflict of interests.

Data Availability

The data used in this study is not publicly available due to ethical considerations of the participants.

ACKNOWLEDGEMENT

The researchers wish to express their sincere gratitude to the Department of Business Administration Research Grant (DEBA), International Islamic University Malaysia (IIUM), for the generous funding provided to support this research study.

REFERENCES

1. Abdalla, R. A., Alaaraj, H. K., & Mulla, G. S. (2024). The Contribution of Islamic Banking and Finance to the Sustainable Development Goals of 2030. Sustainable Innovations in Management in the Digital Transformation Era, 249-261. https://doi.org/10.4324/9781003450238-25.
2. Abdullah, M. N., Ismail, Z., & Khalid, A. (2022). The Role of Fairness in Islamic Microfinance: A Study of Client Satisfaction and Loyalty. Journal of Islamic Economics and Finance Studies, 8(2), 123–140. https://doi.org/10.1016/j.jief.2022.05.008.
3. Abubakar, A. S., and Handayani, P. W. (2023). Profit-and-Loss Sharing Mechanisms in Islamic Microfinance: A Comparative Study in Rural Settings. International Journal of Islamic Business and Economics, 11(1), 56–72. https://doi.org/10.1108/IJIBE-03-2023-0021.
4. Ahmad, R. A. and Ahmad, H. F. (2021). The Role of Islamic Microfinance Towards SDGS 2030 from Poverty Alleviation. Islamic Economics Journal, 7(2), 150. https://doi.org/10.21111/iej.v7i2.7105.
5. Ahmed, H. (2004). Role of Zakat and Awqaf in Poverty Alleviation. Islamic Economic Studies, 11(2), 43-69.
6. Ahmed, H., and Nordin, Z. (2021). Islamic Microfinance and Poverty Alleviation: A Critical Review of Practices in Malaysia. Asian Journal of Islamic Finance, 13(4), 45–67. https://doi.org/10.1108/AJIF-10-2021-0067.
7. Ahmed, M. S., Rashid, A., & Khan, M. I. (2021). Challenges in Achieving SDGS Through Islamic Microfinance: Evidence from South Asia. Sustainable Development Journal, 9(3), 78–96. https://doi.org/10.1016/j.sd.2021.09.004.
8. Ali, M. K. (2014). Integrating Zakah, Awqaf and Islamic Microfinance for Poverty Alleviation, Three Models of Islamic Micro Finance. Working Paper Series 1435- 19. IRTI.
9. Ali, N. and Rahman, R. A. (2013). Financing the Poor, Sustaining the Provider: Issue on Transaction Cost in Microfinance Program. Middle East Journal of Scientific Research, 18 (4), 512-516. http://www.idosi.org/10.5829/idosi.mejsr.2013.18.4.11714.
10. Aziz, R. A., and Kassim, S. (2021). Non-PLS Financing in Islamic Microfinance: Balancing Financial Sustainability and Inclusiveness. Islamic Finance Review, 10(2), 67–89. https://doi.org/10.1108/IFR-06-2021-0058.
11. Bhuiyan, A. B. and Hassan, A. (2013). Microcredit and Sustainable Livelihood: An Empirical Study of Islamic and Conventional Credit on the Development of Human Capital of the Borrowers in Bangladesh. Journal of Economic Cooperation and Development, 34 (3), 101-127. http://www.sesric.org/jecd/jecd_articles/ART13031001-2.pdf.
12. Bhuiyan, A. B., Siwar, C., Ismail, A. G., & Talib, B. A. (2011). Islamic Microcredit is the Way of Alternative Approach for Eradicating Poverty in Bangladesh: A Review of Islami Bank Microcredit Scheme. Australian journal of basic and applied sciences, 5, 221-230.
13. Dusuki, A. W. (2008). Understanding the Objectives of Islamic Banking: A Survey of Stakeholders' Perspectives. International Journal of Islamic and Middle Eastern Finance and Management, 1(2), 132-148.
14. Farooq, M., and Ahmed, M. (2017). Profit-and-Loss-Sharing Contracts in Islamic Finance: Challenges and Opportunities. Journal of Islamic Economics, 29(4), 45-59.
15. Farooq, M., and Rosli, N. (2023). Enhancing the Effectiveness of Islamic Microfinance Programs: A Capacity-Building Perspective. Global Journal of Islamic Finance, 14(1), 34–51. https://doi.org/10.1016/j.gjif.2023.03.009.
16. Gündoğdu, A. Ş. (2018). An Inquiry into Islamic Finance from The Perspective of Sustainable Development Goals. European Journal of Sustainable Development, 7(4). https://doi.org/10.14207/ejsd.2018.v7n4p381.
17. Hassan, A. and Saleem, S. (2017). An Islamic Microfinance Business Model in Bangladesh. Humanomics, 33(1), 15-37. https://doi.org/10.1108/h-08-2016-0066.
18. Hassan, M. K., and Mollah, M. A. (2022). The Impact of Islamic Microfinance on Sustainable Development: Insights from Bangladesh. Journal of Development Studies, 15(2), 112–130. https://doi.org/10.1016/j.jds.2022.06.011.
19. Iqbal, Z., Ahmed, R., & Bakar, N. (2023). Fixed-Repayment Financing Models in Islamic Microfinance: Challenges and Opportunities. Review of Islamic Economic Studies, 19(1), 45–62.

https://doi.org/10.1016/j.ries.2023.01.005.

20. Kamarudin, S., Ismail, A., & Abdullah, H. (2020). Equity-Based Financing in Islamic Microfinance: A Catalyst for Entrepreneurship Development. Journal of Entrepreneurship and Islamic Business, 7(3), 56–74. https://doi.org/10.1108/JEIB-07-2020-0045.
21. Karim, S., and Kamal, A. M. (2022). Constraints in Scaling Enterprises with Islamic Microfinance: Evidence from Malaysia. Economic Studies on Islamic Development, 11(4), 89–102. https://doi.org/10.1016/j.esid.2022.08.010.
22. Khairunnisa, H. L. and Rusydiana, A. S. (2024). Mapping on Islamic Microfinance Research: Lesson Learn from Indonesia and Turkey. Economics and Sustainability, 1(1). https://doi.org/10.58968/es.v1i1.411.
23. Khairunnisa, S., Muzayanah, I. F. U., & Kasri, R. A. (2019). Impact of Islamic Microfinance on Quality of Life: Maqasid Al-Shariah Approach. In Challenges of the Global Economy: Some Indonesian Issues, 205-227. Nova Science Publishers, Inc.
24. Khan, N. A., Rahman, A., & Ahmed, S. (2020). Zakat-Based Microfinance Programs: A Critical Assessment of Poverty Alleviation in Bangladesh. Islamic Finance and Development, 8(1), 45–60. https://doi.org/10.1016/j.ifd.2020.01.003.
25. Khouildi, M. Y. and Kassim, S. (2019). An Innovative Financing Instrument to Promote the Development of Islamic Microfinance Through Socially Responsible Investment Sukuk. Journal of Islamic Monetary Economics and Finance, 4(2), 237-250. https://doi.org/10.21098/jimf.v4i2.935.
26. Mohamad, N. E. A., Saad, N. M., & Mohamed, Z. b. (2023). An Overview of Sustainable and Responsible Investment Sukuk for Social Impact Financing. European Proceedings of Finance and Economics, 327-341. https://doi.org/10.15405/epfe.23081.29.
27. Mukhlisin, M., Ismail, N., Azid, T., & Mustafida, R. (2020). Contribution of Islamic Microfinance Studies in Achieving Sustainable Development Goals. Enhancing Financial Inclusion Through Islamic Finance, I, 51-79. https://doi.org/10.1007/978-3-030-39935-1_4.
28. Rahman, M., Ahmad, F., & Asutay, M. (2017). Islamic Microfinance and Poverty Alleviation in Bangladesh: A Qualitative Study. Islamic Finance Review, 3(1), 25-42.
29. Rahman, S., and Ali, M. (2023). Beyond Charity: Integrating Skills Development in Zakat-Based Microfinance Programs. Journal of Islamic Finance, 15(2), 123–140. https://doi.org/10.1108/JIF-12-2023-0072.
30. Rashid, M. H. U., Uddin, M. J., & Zobair, S. A. M. (2018). Islamic Microfinance and Sustainable Development Goals in Bangladesh. International Journal of Islamic Business &Amp; Management, 2(1), 67-80. https://doi.org/10.46281/ijibm.v2i1.53.
31. Redzuan, N. H., Kassim, S., Rosman, R., Muhammad Zuki, M. F., & Shaharuddin, S. S. (2023). Potential of Islamic Microfinance: Issues, Challenges, and Way Forward. Contributions to Management Science, 157-166. https://doi.org/10.1007/978-3-031-27860-0_14.
32. Siddique, S., and Iqbal, M. (2017). Exploring the Potential of Non-PLS Financing in Achieving SDGs. Journal of Islamic Financial Studies, 5(3), 23-34.
33. Turan, E., Demir, A., & Cetin, M. (2023). Microfinance and Enterprise Development in Rural Turkey: Lessons for Islamic Finance. Anatolian Journal of Economic Studies, 12(3), 56–78. https://doi.org/10.1016/j.ajes.2023.09.005.
34. Uddin, N. (2020). Role of Islamic Microfinance Institutions for Sustainable Development Goals in Bangladesh. Journal of International Business and Management, 1-12. https://doi.org/10.37227/jibm-2020-64.
35. Ülev, S., Savaşan, F., & Özdemir, M. (2022). Do Islamic Microfinance Institutions Affect the Socio-Economic Development of The Beneficiaries? The Evidence from Turkey. International Journal of Ethics and Systems, 39(2), 286-311. https://doi.org/10.1108/ijoes-09-2021-0179.
36. Usman, A.S., & Tasmin, R. (2016). The Relevance of Islamic Micro-finance in achieving the Sustainable Development Goals. The International Journal of Latest Trends in Finance and Economic Sciences, 6, 1115-1125.
37. Wahyudi, H. and Leny, S. M. (2024). Nexus Between Islamic Investment, Musyarakah Financing, Islamic Microfinance and Achieving SDGS in Indonesia. Journal of Ecohumanism, 3(7), 1976-1986. https://doi.org/10.62754/joe.v3i7.4346.
38. Wulandari, P. and Prijadi, R. (2021). A Review of Risk Rationing Practice in Islamic Microfinance to

Achieve Sustainable Development Goals in Term of Poverty in Indonesia. IOP Conference Series: Earth and Environmental Science, 716(1), 012107. https://doi.org/10.1088/1755-1315/716/1/012107.

39. Zain, N. S. and Sori, Z. M. (2020). An Exploratory Study on Musharakah Sri Sukuk for the Development of Waqf Properties/Assets in Malaysia. Qualitative Research in Financial Markets, 12(3), 301-314. https://doi.org/10.1108/qrfm-09-2018-0099.