INTERNATIONAL JOURNAL OF RESEARCH AND INNOVATION IN SOCIAL SCIENCE (IJRISS)
ISSN No. 2454-6186 | DOI: 10.47772/IJRISS | Volume X Issue VI June 2026

A Critical Study on the Sustainability of Islamic Microfinance through Micro-Takaful in Bangladesh

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DOI: https://doi.org/10.47772/IJRISS.2026.100601273

Received: 01 July 2026; Accepted: 06 July 2026; Published: 16 July 2026

ABSTRACT

This study critically evaluates and assesses the sustainability of Islamic microfinance institutions (IMFIs) in Bangladesh through integration of Micro-Takaful addressing a critical gap in both academic literature and financial practice. Despite Bangladesh's significant progress in Islamic banking, the microfinance segment continues to struggle with structural vulnerability that threatens both institutional sustainability and clients' welfare. The purpose of this study is to incorporate Micro-Takaful with IMFIs to promote sustainability by providing a conceptual framework focusing on institutional resilience and client protection simultaneously. This research adopts mixed-method approach by considering abductive approach. The whole research has been conducted using secondary data. In Qualitative phase, documentary content analysis and thematic analysis has been done by NVivo. And in Quantitative phase, Pearson's correlation analysis has been done by SPSS through collecting the financial data from the reports of the secondary sources of data. The findings reveals that IMFIs in Bangladesh face multiple barriers that undermining their sustainability and mission drift. Also, the Micro-Takaful industry represents untapped potential with few operational models and limited integration with existing IMFI networks. So, the study proposed a framework by establishing risk pooling mechanisms that will protect institutional portfolios by covering client obligations. This research contributes to both theoretical discourse and practical policy by demonstrating that Micro-Takaful integration is a fundamental realignment with the ethical foundations of Islamic Microfinance. The research's originality lies in its explicit focus on the dual objectives of institutional resilience and client protection.

Keywords: Islamic finance; SDG 1 (No Poverty), SDG 8 (Economic Growth), Islamic Microfinance; Micro-Takaful; Sustainability; Bangladesh; Islamic social finance; Framework

INTRODUCTION

Persistent global poverty remains one of the most pressing development challenges of the twenty-first century. According to the World Bank, over 700 million people continue to live on less than $2.15 per day, underscoring the urgency of identifying effective solutions for poverty alleviation (Lahnech and Chami, 2025) According to Asutay (2025), the theoretical foundation of Islamic finance is constituted by the Islamic moral political economy, which aims to provide resource accessibility within the permissibility of Islam to all stakeholders. This paper argues that sustainable development challenges, along with the refugee and immigration crisis, provide Islamic finance with an opportunity to develop its practices within the substantive morality of Islam as an embedded necessity. As Professor Muhammad Yunus, the founder of Grameen Bank, articulates: "If you go out into the real world, you cannot miss seeing that the poor are poor not because they are untrained or illiterate but because they cannot retain the returns of their labor. They have no control over capital, and it is the ability to control capital that gives people the power to rise out of poverty" (Andrews and Wood, 2014). Microfinance institutions (MFIs) started their operation with the vision by offering small loans, saving accounts and other financial services to low-income people and communities to improve their livelihoods and achieve economic stability. However, the optimistic narrative surrounding microfinance has increasingly faced critical scrutiny. Scholars have identified significant challenges undermining microfinance's poverty reduction objectives, including high interest rates, repayment difficulties, and the long-term sustainability of MFIs (Bateman, 2018). This transformation to financialization, microfinance become a commercialized tool rather than a development-oriented tool where profitability sidelines the social objectives.

Islamic microfinance has expanded rapidly in both Muslim-majority and non-Muslim countries as an alternative means of accessing capital and financial services that comply with the prohibition of Riba (interest) and broader Shariah principles. By incorporating fairness, risk-sharing, and contractual discipline into financial transactions, Islamic finance aims to foster a more stable and inclusive economic order (Mutanda and Nomlala, 2025). So, in economic and financial decision making, all stakeholders must be integrated to produce an embedded economy that will achieve the objective of justice and every stakeholder mast be given equal opportunity for development, as Allah created everything and everyone with a path toward fairness. Hence, Islamic banks and financial organizations are criticized for their moral collapse. It means despite these huge aspirations; critical scholars identify a significant gap between Islamic microfinance's ethical ideals and its practical realities.

Simultaneously, Bangladesh has two attributes that make it particularly feasible ground for Islamic microfinance. First, it is a Muslim-majority country with huge demand of Shariah-compliant financial services. Second, it is the pioneer of conventional microfinance through Dr. Professor Muhammad Yunus's Grameen Bank. However, while there can be various models of IMFIs, in essence, the process involves offering financial and technical assistance to the poor and nurturing empathy and philanthropy by following the principles of Islamic Shariah. However, it has been found that the implementation of IMFIs programs in Bangladesh is still at a nascent stage, though it is a Muslim-majority country with approximately 90% Muslims. Generally, financial inclusion is a major issue in Bangladesh as more than 45% of adults in the country are out of formal financial services (Muhammad, et.al., 2023). But, Mutanda and Nomlala (2025), suggest that Islamic banking, microfinance, social finance instruments, and Shariah-compliant fintech can expand access to finance for both Muslims and non-Muslims seeking interest-free products, particularly in underserved market segments in Bangladesh. Profit- and loss-sharing contracts, asset-backed modes of financing, and redistributive tools such as zakat and takaful emerge as key mechanisms for enhancing inclusion.

Islamic microfinance has emerged as a compelling alternative, offering financing modes rooted in profit-and-loss sharing (PLS), asset-backed transactions, and charity-based instruments such as Qard Hasan (benevolent loans) (Saad, et.al., 2025). However, Mokdad (2025) addressed in his paper that, Islamic microfinance institutions (IMFIs) in Bangladesh face formidable sustainability challenges, including high operational costs, limited access to affordable capital, liquidity shortages, and rising non-performing loans. These vulnerabilities threaten the ability of IMFIs to serve clients continuously and level up their operations. The study suggests a partnership-based framework incorporating Micro-Takaful, Mudaraba, Musharaka and Qard Hasan by IMFIs in Bangladesh will be hugely beneficial for improving financial inclusion and elevate overall economic empowerment.

In their paper, Uddin and Mohiuddin (2020) found that, within this context that micro-takaful presents a potential solution. Micro-takaful operates on the principles of mutual guarantee (takaful), where participants contribute to a pooled fund that provides protection against specified risks such as death, disability, illness, or asset loss. So, by integrating micro-takaful with Islamic microfinance institutions can protect both their clients' life and wealth and also their own portfolios which will enhance their overall sustainability. But what is lacking is systematic and empirical investigation that how integration of micro-takaful impacts the operational, financial and social sustainability of IMFIs. The challenge lies in shortages of Islamic microfinance institutions' commercialization and mission drift that have compromised due to be level up with conventional microfinance by avoiding the actual motive of ethical principles and moral political economy for their desperate need of sustainability in Bangladesh. This study seeks to address that gap.

Problem Statement

Though Bangladesh is the pioneer in microfinance and it is Muslim-majority country but Islamic microfinance remains underdeveloped, particularly lagging behind conventional alternatives. So, Micro-takaful or the Islamic insurance designed to protect low-income people and the IMFIs. Abdullah (2021), extendedly insisted in his paper that, Micro-Takaful is a way to jointly attend, cater and mitigate the financial risks, which is in line with the Islamic principle of Harm Prevention.

The sustainability challenges of IMFIs manifest across multiple interconnected dimensions. Saad, et.al. (2025), mentioned in their article, Islamic Microfinance Institutions (IMFIs) struggle with high operational costs and limited access to affordable, Shariah-compliant capital. Conventional microfinance relies on interest-based funding, but IMFIs require alternatives such as profit-and-loss sharing arrangements or charity-based instruments. Recent research indicates that while profit-and-loss-sharing modes of Islamic microfinancing promote sustainable development goals, non-PLS and charity-based financing show limited contributions due to operational inefficiencies and short-term focus. Also, Samrat and Nabi (2025), supported the above statement by give their view in the article, the integration of cash waqf as a perpetual, low-cost funding source has been proposed but requires robust governance frameworks that remain underdeveloped in Bangladesh.

Another problem is Micro-Takaful faces unique structural barriers in Bangladesh. Hasan (2025) stressed in his article in The Business Standard that, despite over 85% of Bangladesh's workforce operating outside formal employment—primarily rickshaw drivers, construction laborers, garment workers, and street vendors—these vulnerable populations lack access to risk protection mechanisms that could prevent financial collapse following accidents, illness, or death.

Haneef, et.al. (2015) found in their empirical research on integrated Islamic microfinance models incorporating takaful remains limited. A study validating an integrated Waqf-Microfinance Model found significant relationships between Islamic microfinance and takaful, suggesting that poverty alleviation is possible through the integration of these constructs. However, these findings require further empirical validation across different contexts in Bangladesh. Globally, micro-takaful has yet to achieve scale due to product structures that mirror conventional insurance rather than reflecting cooperative principles, distribution channels that inadequately serve mass markets, regulatory frameworks that inhibit innovation, and limited public awareness of risk management needs (Odierno, 2020). This study addresses this gap by critically investigating the sustainability of Islamic microfinance through Micro-Takaful integration by examining both institutional validity and client-level impacts.

Purpose of the Research

The aim of this study is to systematically incorporate Micro-Takaful with Islamic microfinance institutions to promote sustainability of IMFIs in Bangladesh with a focus of how Takaful integration can contribute in both institutional resilience and client protection. The research proposal seeks to achieve the following objectives: To assess the sustainability issues of Islamic microfinance institutions in Bangladesh, to evaluate current landscape of IMFIs and Micro-Takaful in Bangladesh and to develop a framework to integrate Micro-Takaful with Islamic microfinance institutions for sustainability. Research Questions are: RQ1: What are the key factors that act as barriers for Islamic microfinance institutions to sustain for long period of time? RQ2: What is the current state of IMFIs and Micro-Takaful in overall Islamic financial industry in Bangladesh? RQ3: How do IMFIs and Micro-Takaful providers can achieve financial, operational and social sustainability by integration?

This study has some recognizable significance for multiple stakeholders. For academics and researchers, it is going to address the focal gap in the literature by providing empirical proof on the underexplored relationship between Micro-Takaful and institutional sustainability within Islamic microfinance. Haneef, et.al. (2015) found in their study that, while previous studies have examined Islamic microfinance and Takaful separately, limited research has investigated their integration impact on sustainability outcomes in the context of Bangladesh.

As Bangladesh continues to pursue Sustainable Development Goals (SDGs), particularly SDG 1 (No Poverty) and SDG 8 (Decent Work and Economic Growth), understanding how Islamic risk-sharing mechanisms can enhance financial inclusion becomes increasingly relevant. The study finds that partnership-based Islamic microfinance has a bright prospect to be implemented in Bangladesh. If properly put into practice, partnership-based Islamic microfinance will effectively assist the nation's poor in enhancing both their financial inclusion and general socioeconomic conditions (Muhammad, et.al., 2024). So, for policymakers and regulators like Microcredit Regulatory Authority (MRA) of Bangladesh and Bangladesh Bank authorities, the results have a possibility to offer proof-based insights that will aid to develop Takaful friendly framework. And also, for IMFIs this study may provide practical guideline to design and implement effective integration of Micro-Takaful within the institutions that would address client vulnerabilities and strengthen institutional sustainability.

This study focuses on Islamic microfinance institutions operating in Bangladesh that have not considered integrating Micro-Takaful with their other service offerings. The study will examine Micro-Takaful products designed to protect client against health issues, livestock, morality, business disruptions and other threatening risks so that IMFIs can run their business smoothly. The researcher will adopt a mixed-method approach to see qualitative and quantitatively the current stance of Micro-Takaful in Bangladesh and will try to come up with a conceptual framework that will unify Micro-Takaful with IMFIs for sustainability purpose (portfolio quality, operational self-sufficiency, client retention rates) and economic empowerment (income stability, asset protection, increasing coping capacity during crises).

Nevertheless, this paper has shortcomings too. To begin with, the inclusion design is characteristically naturally and need factual authentication through case studies and also might need to execute in particular societal settings. Secondarily, in this nascent stage of Micro-Takaful in Bangladesh, integration part for long-term sustainability outcomes may not be fully understandable within the study time frame which means it will require longitudinal follow-up studies. Sequentially, this study has been done on the published data from audited statements of Bangladesh Bank and MRA and also source data like journals, so the outcome may not be as suitable as it should be and future is inconsistent. Finally, the diversity of Takaful models like Mudaraba-based, Wakalah-based or hybrid model in the IMFIs may complicate comparative analysis. And also, resource and time constraints may limit the depth of investigation about detailed analysis or complex Sharia compliance assessments.

LITERATURE REVIEW

Islamic Microfinance (Principles and Models) and the sustainability issues in Islamic Microfinance:

Islamic microfinance in under the umbrella of Islamic social finance which is playing a crucial role to address poverty, improve living standards and achieve higher purpose of Maqasid-Al-Sharia. Conventional microfinance operates on interest-based lending while Islamic microfinance focus on fairness, risk-sharing and ethical law that prohibits Riba (interest) and Gharar (excessive uncertainty). The significance of Islamic microfinance has become increasingly apparent in recent years, particularly during the COVID-19 pandemic, when institutions in countries such as Pakistan and Bangladesh demonstrated their capacity to support deprived and affected communities (Ali, 2024). However, the sector continues to grapple with a fundamental challenge: balancing social outreach with financial sustainability while maintaining strict adherence to Shariah principles (Mikail, 2024).

The risk-sharing principle of Islamic microfinance is to promote equitable distribution of wealth and nurture partnership between microfinance institutions and their members. Risk sharing ensures an efficient allocation of resources and a reduction of waste by providing investors with a powerful incentive - the risk of losses - to exercise due diligence (Abdullah, 2013). Islamic microfinance requires all financial transactions to be backed by tangible assets or services and prevents money as being treated as commodity so that there are real financing contributions in actual economic development. Islamic microfinance requires that all financial transactions be backed by tangible assets or services This principle prevents money from being treated as a commodity in itself and ensures that financing contributes to real economic development. In Islamic finance literature, Asset-Backed Securitization (ABS) is defined as a creative way of raising funds through the issuance of marketable securities backed by future cash flows from revenue-producing assets (Ismail, et.al., 2008). Many Islamic microfinance institutions acknowledge both profit-oriented financing activities and social funds come from charitable tools such as Zakat (obligatory), Sadaqah (voluntary) and Waqf (endowment) through Qard Hasan. Widiyanto, et.al. (2011) explained in their paper, it is a model of free-interest financing which financed by Zakat, Sadaqah and other forms of charity. His study also shows that Qard Hasan is strongly effective in enabling commercial transactions of the impoverished groups. The main objective of integrating one tool with other in Islamic microfinance is to recommend a sustainable and inclusive financial solution that is in line with the principles of Islamic finance and will address the needs of unserved and underserved segments of the population (Shamsudheen and Muneeza, 2024). These unifications recognize that no single contract can serves all member needs and that institutional sustainability requires diversified funding sources and product offerings.

Sustainability in Islamic microfinance often compare with financial self-reliance where income from charges and fees covers operational costs and enables institutions to operate without ongoing underwriting. Abdul and Dean (2013) talked about challenges of IMFIs are low market penetration, sustainability of MFIs due to lack of fund mobilization and high administrative costs, and the effectiveness of Islamic MFIs in alleviating poverty. Suggested solutions include a collective resolution in increasing bank participation in microfinance and diversifying their portfolios, provision of education and training, better coordination and networking, technical assistance through Waqf and Zakat funds, and the development of an enabling regulatory and policy environment. For IMFIs, the trade-off is complicated by the prohibition on interest which exclude the primary revenue source available to conventional microfinance. Rohman, et.al. (2024) signifies in their paper that, the most socially-oriented products—particularly Qard al-Hasan—generate no financial return, while even profitable contracts like Murabaha typically yield lower returns than interest-based lending due to regulatory and competitive constraints. They have also mentioned that, their research on Baitul Maal wat Tamwil (BMT) institutions in Indonesia identifies several capital-related challenges that undermine sustainability: limited capital from low member savings, inadequate accumulation of social funds, mismatch between available funds and customer needs, reliance on external funding, low business volume, and weak integration between social and commercial functions. Risk management in Islamic microfinance also presents different challenges. Like Syarifah et.al (2025) said, equity-based contracts expose institutions to business risks typically borne by entrepreneurs in Islamic finance, requiring sophisticated monitoring capabilities that may be scarce in resource-constrained settings.

In Addition, IMFIs face shortages of skilled human resources combining financial expertise with Shariah knowledge that limits product development, risk management and sustainable growth. Structural issue such as reliance on subsidies could jeopardize the sustainability in the long run, human resource is highly critical in ensuring smooth functioning of the IMFIs as well as their sustainability even in the short run (Satar and Kassim, 2020). Islamic microfinance operates within regulatory frameworks that may not adequately accommodate its distinctive features. According to Ismail (2015), the reasons for allowing the degree to which Islamic microfinance institutions can only engage with micro-small enterprises are due to: first, Islamic microfinance institutions work with the targeted group (example, micro and small enterprises); second, government micro-financing programs and staff tend to be both paternalistic and distrustful of the targeted group; third, identifying and reaching the targeted group is extremely time consuming; fourth, government policies (e.g., licensing requirement).

Micro-Takaful (Concept, Global Practice and Challenges):

Micro-Takaful is fundamentally known as a Sharia-compliant cooperative risk pooling tool which provides financial protection to both vulnerable members and IMFIs. Ahmed (2014) stated the core objective is to mitigate the socio-economic impacts of unforeseen events such as illness, death, or property loss, thereby serving as a tool for financial inclusion and poverty alleviation and its significance is particularly pronounced in Muslim-majority contexts, where religious convictions can be a barrier to accessing conventional, interest-based financial services. Rosman et al. (2024), described in the paper that, Micro-takaful does not simply mirror the concept of microinsurance. It is fundamentally rooted in Islamic principles of mutual aid, including Tabarru' (voluntary contribution), Ta'awun (cooperation), and the avoidance of Riba (interest).

Traditional insurance system is a risk-transfer model where the policyholder pays a premium to insurance company which then assumes the financial risk. Hachemi, et.al. (2014) mentioned that, this system is criticized in Islamic jurisprudence for having prohibited elements: Gharar (excessive uncertainty), Maysir (gambling/speculation) and Riba (usury/interest). Whereas, Takaful as a concept is in practice for more than 1400 years now, but officially as general insurance it was launched in Sudan in 1979. The use of takaful as an alternative to conventional insurance started in 1985 when the Grand Council of Islamic Scholars of the Organization of the Islamic Conference formally gave the required permission (Gor, 2013).

There are two Takaful operational models govern the relationship between participants and takaful operators. One is Mudaraba (Partnership) model and the other is Wakalah (Agency) model. Hussain (2013) explained, Mudaraba (partnership) model establishes a profit-sharing arrangement wherein the operator manages participants' funds and receives a predetermined share of any investment profits generated. Surplus from the takaful fund, after meeting claims and expenses, is distributed among participants. Wakalah is a delegation of task by the principal to the agent. In the context of Takaful operations, the participants appoint and authorize the Takaful operator to be their agent (wakeel) to manage the Takaful fund that has been principally contributed by the Takaful participants. With this regard, the Takaful participants become the principals in the agency or Wakalah contract (Yusoff, 20218). Fikri, et.al., (2022) stated, Malaysia has emerged as a leading jurisdiction for micro-takaful development. Bank Negara Malaysia's 2016 Discussion Paper on Microinsurance and Micro-Takaful established foundational regulatory guidance, recognizing the sector's potential for enhancing financial inclusion. Indonesia demonstrates varied approaches including micro-takaful provision through multi-purpose social development organizations and linkages with microfinance institutions (Rapi and Kassim, 2023). Iqbal, et.al. (2021) raise the topic that, Pakistan have seen scholarly attention to micro-takaful applications for specific populations including women entrepreneurs and low-income households.

Micro-takaful plays a vital role in safeguarding the Malaysia's B40 population who are economically vulnerable. The B40 segment in Malaysia constitutes the lowest 40% of income earners and faced a multitude of financial challenges and limited access to Islamic insurance options (Malik and Sulaiman, 2024). Women entrepreneurs represent a significant target group for micro-takaful. It is identified by many scholars that micro-takaful can profusely support women business owners and low-income population by addressing the risk factors in the business. From the point of view of Daud, et.al. (2016), flood coverage insurance is needed for the poor people at the time of flood to cover their loss so that they can go back to normal life after the catastrophe in Malaysia by micro-takaful flood model. This study also examines crop protection model, flood coverage and agricultural value chains through their micro-takaful model. Ashfaq and Zada (2020) proposed, the combination of Fintech and micro-takaful can offer other benefits like inclusion, innovation, formal economy, less cost, time efficacy, and client protection, to mention briefly. Their research also highlighted the relationship between Islamic microfinance and micro-takaful to show which countries can potentially have the abilities to become leaders in the area of micro-takaful.

The Integration Gap or Challenges (Previous work on Hybrid Models):

As per Rossel (2008), interest is growing to deliver both micro-insurance and micro-loan products to provide a more extensive reply to current market setbacks often leading to limited access to fiscal services for underserved communities. Rossel's concept define that combining credit with insurance in IMFIs settings can emerge by recognizing that poor households need integrated or blended solutions rather than isolated products. Atah, et.al. (2024), supported the above statement by mentioning in their study that, Micro-Takaful—defined as "a joint-guarantee initiative, whereby a group of participants agree among themselves to support one another jointly for the losses arising from specified risks, under the core principles of Tabarru' (donation), Ta'āwun (mutual assistance) and Prohibition of Ribā (usury)" represents the Islamic counterpart of micro-insurance.

A significant shortcoming by IMFI lies in the Palestinian law that focuses on organizing MFI's operations as financial institutions only. With a deviated purpose and generalized laws, the paper proposed a model of IMF. The model consists of three stages covering mission and market-based financing for the economically incapable and those better off. Finally, enacting laws to protect micro-enterprises and cooperation between institutions that operate at each stage is necessary (Migdad, 2023). The study identified a significant shortfall in IMFIs that they only operate as financial institutions with a deviated motive and generalized laws.

The study found that there is a potential for micro-takaful to be offered in Banda Aceh due to the needs of low-income groups for it; however, there are many challenges which need to be overcome for successful implementation (Zuliani and Rahman, 2018). Despite the valuable contributions reviewed above, there is still a clear and significant gap evolves in the literature which is the absence of a comprehensive model for strategic synergy between Islamic microfinance and a tailored Micro-Takaful model. Pratama (2026) stated in her paper, given the growing importance of MSMEs in emerging economies and the persistent gaps in insurance penetration, understanding micro-takaful's capacity to enhance enterprise resilience is increasingly important for sustainable economic development. Previous studies only agricultural Salam financing and does not consider the broader range of Islamic microfinance contracts including Murabaha, Ijara, Musharaka or, Qard Hasan. A comprehensive synergy model should be accommodating with the diversifiable products of Islamic microfinance and their exclusive relationships with Micro-Takaful protection. Such as in new era, Mazlan, et.al., (2024) claimed, the Crowdfunding Waqf Micro Takaful Model is a new, environmentally friendly micro takaful model in Malaysia that aims to provide financial security to low-income individuals who lack adequate safety measures and are susceptible to economic disruptions like the COVID-19 pandemic. The model uses crowdfunding-waqf to generate financial resources for the takaful fund, utilizing perpetual charity (sadaqah jariyah). This approach makes the framework socially responsible and sustainable, fostering financial inclusion, mitigating poverty, and facilitating the attainment of the Sustainable Development Goals (SDGs).

This research intends to explore and develop a blended Islamic social finance-micro-takaful business model by integrating Islamic social finance (ISF) instruments into the micro-takaful framework to enhance its effectiveness and reach. The main objective of integrating these elements is to recommend a sustainable and inclusive financial solution that is in line with the principles of Islamic finance and will address the needs of unserved and underserved segments of the population (Shamsudheen and Muneeza, 2024). In their paper, Bensaid, et.al. (2017), tried to some extent, to assess the efficiency of cooperative system. In order to replicate what is done in real life, we create a cooperative reserve called Micro-Takaful reserve that is fed by the contribution of cooperative agents from the gain in capital each year. This reserve allows to reimburse the debt of agents when there is a credit default toward the IMFI. They attempt to highlight the benefits of the proposed model from a macroeconomic point of view where they consider society of low-income agents and also consider the input parameters of IMFIs so that the agents' performance projects a normal distribution. Khan, et. al. (2016) explains the history, present challenges, and potential of Islamic Microinsurance (Micro-Takaful) in Bangladesh by implementing the qualitative method. They also show that Takaful and Micro-Takaful in Bangladesh is operating under Insurance Act 2010 which is not in line with Islamic insurance and creating variety of problems for Micro-Takaful. They further explain Takaful is a fast-paced economic sector with huge development in Bangladesh. And recommended Islamic and conventional insurance should have specific provisions. Therefore, Bangladesh needs to promote Takaful and Micro-Takaful companies because they can play a valuable part in prompting savings, generating venture opportunity, dropping capital cost and delivering hazard reduction to gain Sustainable Development Goals (SDGs).

METHODOLOGY

The overall study has been administered by applying mixed-method approach including two phases. In the first phase, the author begins with documentary content analysis with thematic analysis accompanied by quantitative analysis of financial data in second phase.

Research Philosophy and Design:

Philosophical Stand: Research philosophy refers to the system of beliefs and assumptions about knowledge development and the nature of reality guiding the research process (Saunders, et.al., 2009). The research has adopted pragmatism, which not only prioritize the existence problem but also tries to come up with practical solutions that are relevant in the real world. Such as in here in the context of Islamic microfinance in Bangladesh. Pragmatism focuses on practical outcomes and recognizes that research questions drive methodological choices rather than rigid philosophical commitments (Creswell and Poth, 2016).

Research Approach: By adopting pragmatic philosophy, a mixed-methods approach is most appropriate for investigating the sustainability of Islamic microfinance through Micro-Takaful. A mixed-methods approach combines quantitative and qualitative techniques within a single study, enabling comprehensive understanding of complex phenomena (Creswell and Clark, 2007).

As per Timmermans and Tavory (2024), The mixed-methods approach aligns with abductive reasoning, which moves between theory and data to develop understanding of phenomena. Abductive reasoning is a form of logical inference that starts with an observation and seeks its simplest and most likely explanation. It is frequently described as "inference to the best explanation" (Walton, 2014). This study will begin with analyzing existing theories or themes of institutional sustainability of Islamic microfinance then will proceed to use empirical data from Bangladesh to revise understanding of how Micro-Takaful contributes to sustainability.

Research Design: This explanatory mixed-method design starts with in-depth qualitative approach (Phase 1) to explore the landscape of IMFIs and Micro -Takaful which will be evaluated in the phase 2 by quantitative approach as Islamic microfinance products. And finally, this “quali-quan” approach will try to develop a data driven conceptual strategic synergistic model. The whole research has been done by collecting and analyzing available secondary data. As Migdad (2023) demonstrates in his Palestine case study, combining "secondary data collected from the Palestinian Central Bureau of Statistics" with institutional documents enables deep understanding of microfinance operations in context.

Phase 1: Documentary Content and Thematic Analysis:

Firstly, the author aggregated current and empirical studies to understand the scenario and gaps. Source for this aggregation are academic journals, Bangladesh Bank reports, MRA reports and Islamic Banking Bulletin.

•Databases Searched: Google Scholar, Scopus, Pro Quest, Emerald, Research Gate, Bangladesh Bank, Microcredit Regulatory Authority (MRA).

•Keywords: Microfinance in Bangladesh, Islamic Microfinance in Bangladesh, Micro Takaful in Bangladesh, MSME financing in Bangladesh, Bangladesh Bank Policy.

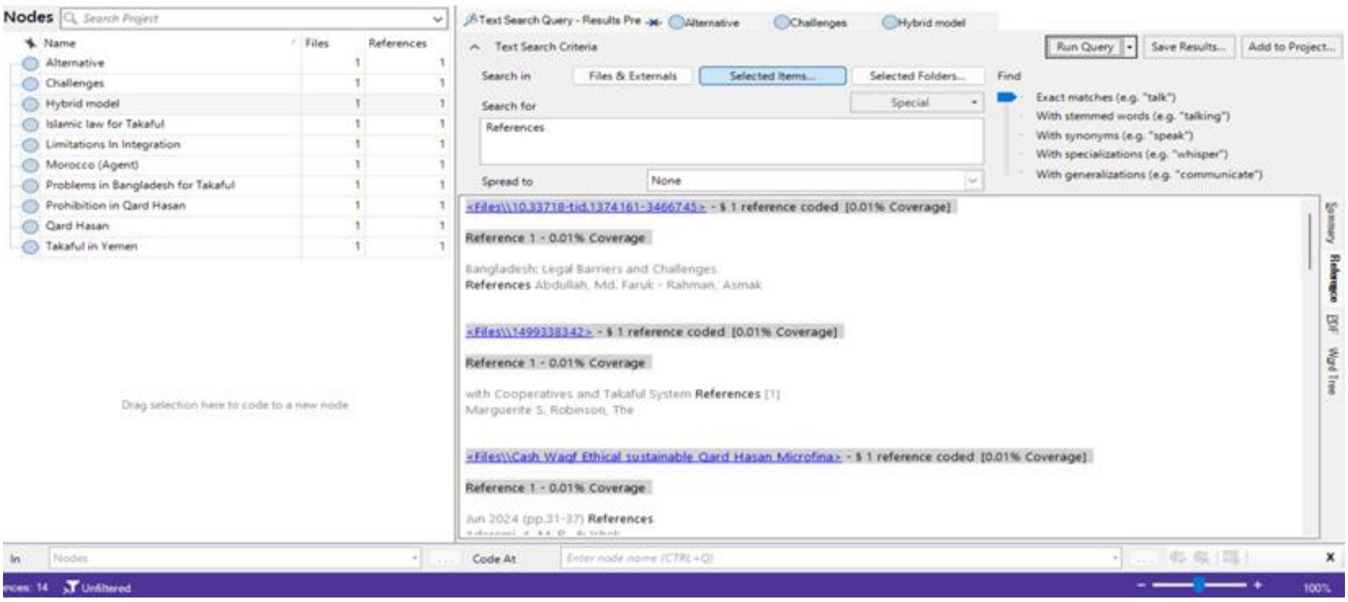
•Inclusion criteria: Journals, articles and working papers from central bank (Bangladesh Bank) published between 2010-2025.

•Thematic analysis: The identified literatures and reports were narrowed down by the codes, themes and organized to construct an analytic sequence and for this review NVivo has been used. So, among 123 articles and reports 20 had been selected as a major document to investigate the actual phenomenon.

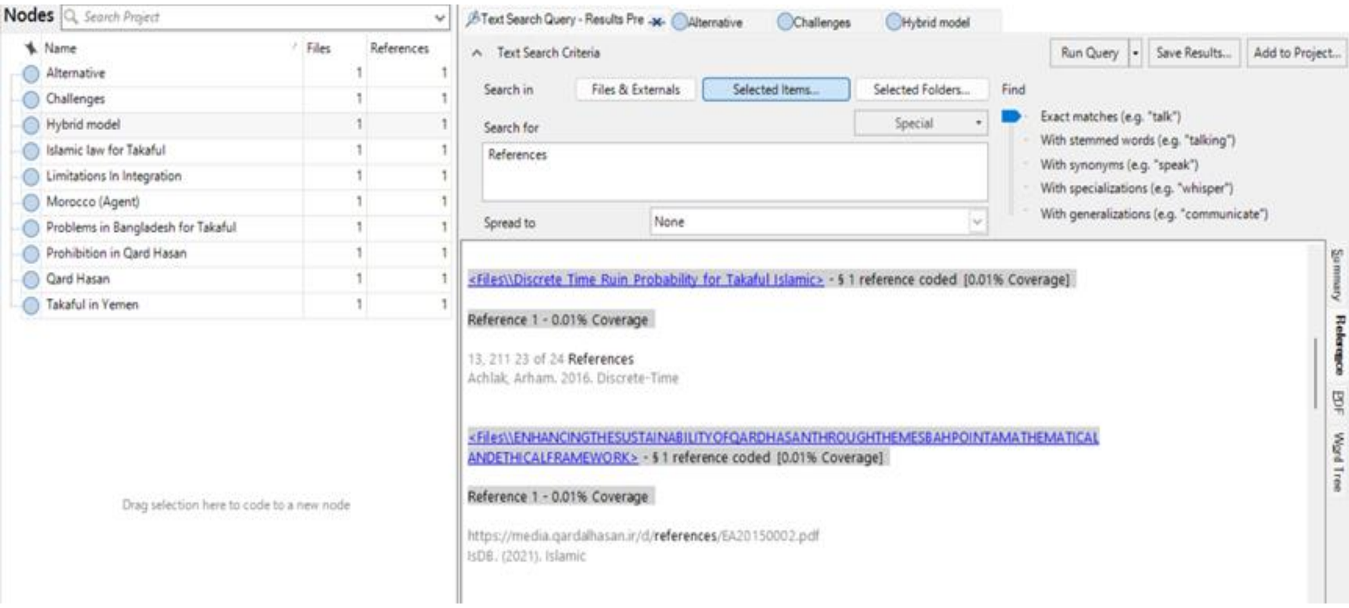
Phase 2 (Quantitative Analysis): Correlation Analysis:

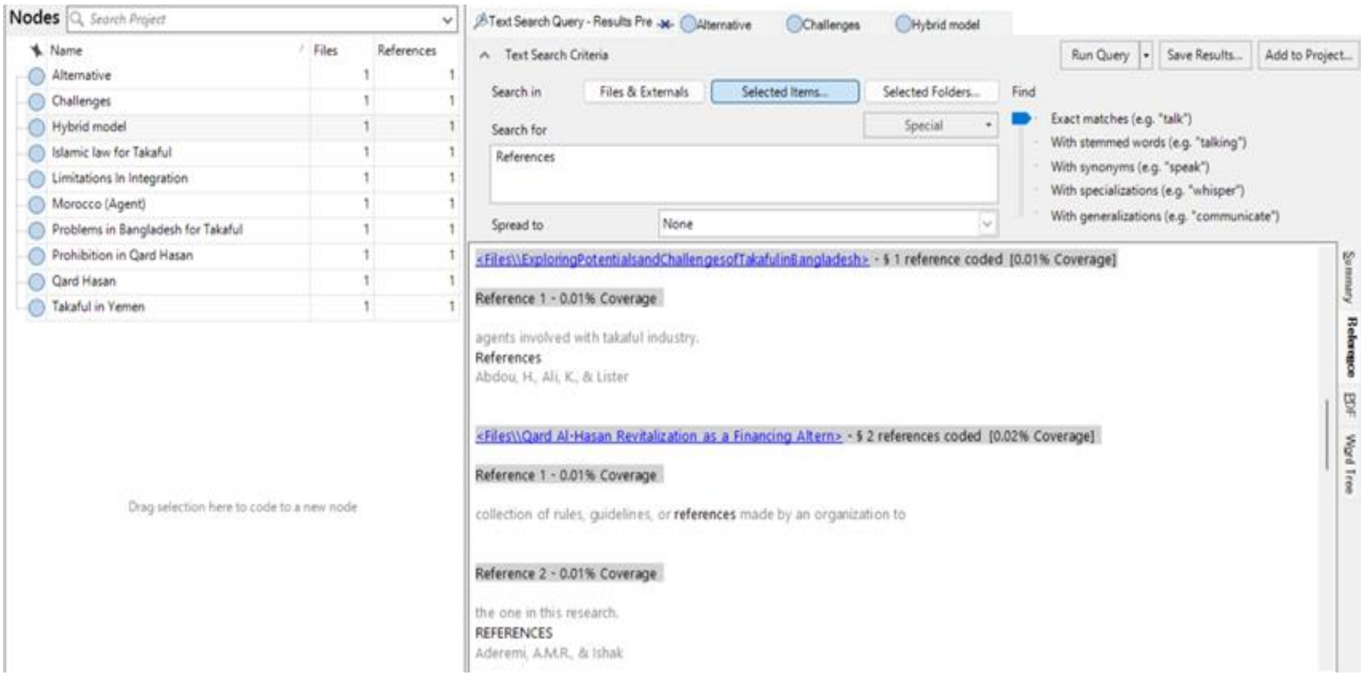
In quantitative method, to perform the analysis based on secondary data from Bangladesh Bank website has been done by using the well-known software SPSS. This secondary data collected from the year 2019-2023 (05 Years).

Phase 1: Documentary Content and Thematic Analysis:



INTERNATIONAL JOURNAL OF RESEARCH AND INNOVATION IN SOCIAL SCIENCE (IJRISS)
ISSN No. 2454-6186 | DOI: 10.47772/IJRISS | Volume X Issue VI June 2026



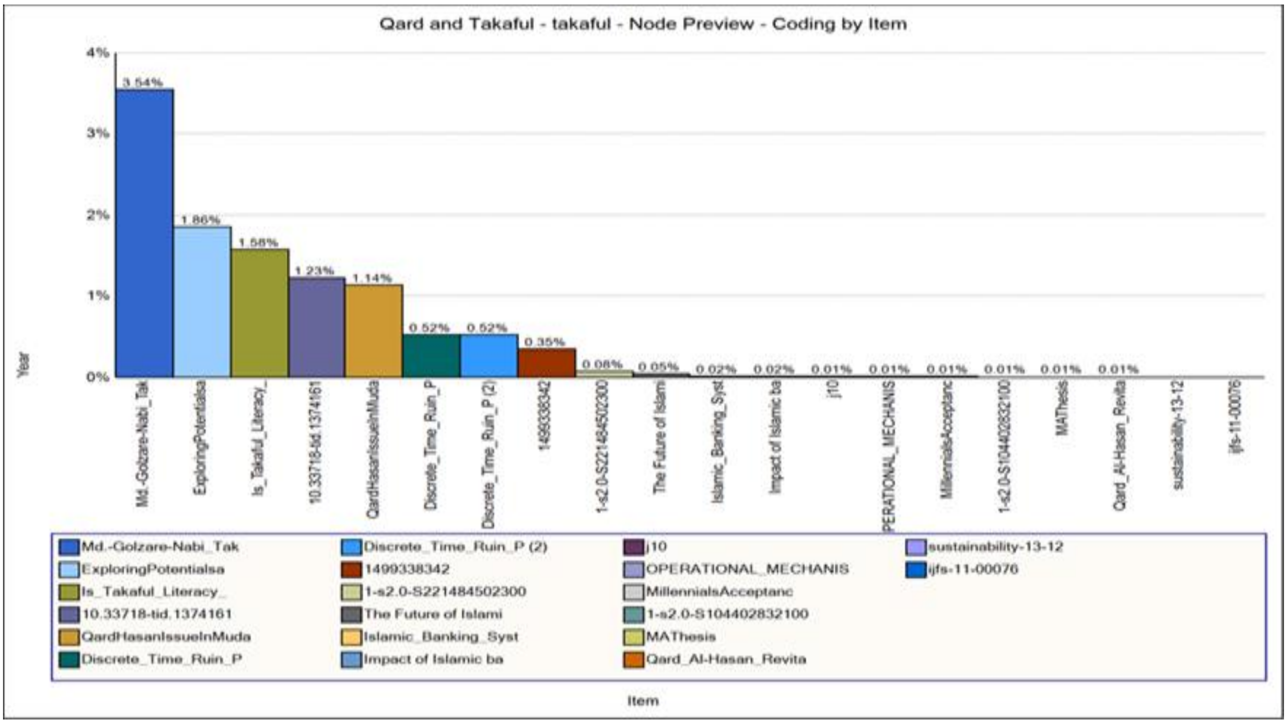


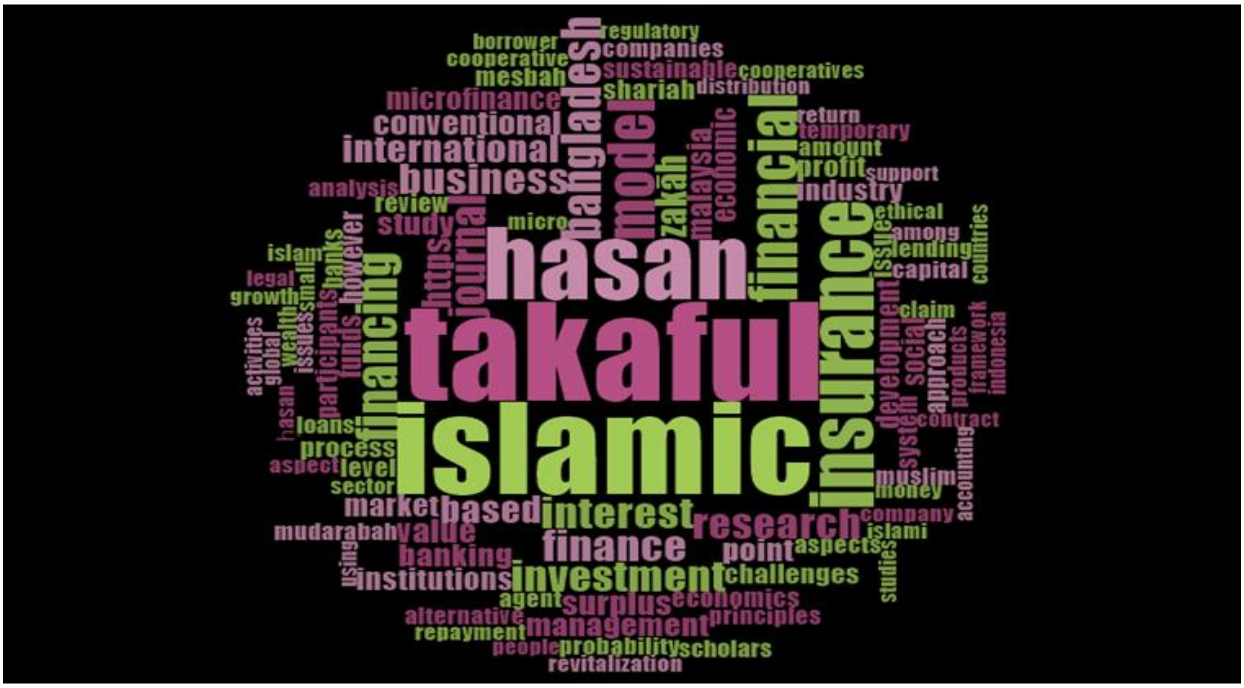
These images are from NVivo performing qualitative data analysis to generate code and organize search materials for a project titled "Search Project". The breakdown are as follows:

1. Left Panel: "Nodes" (Coding Framework): Here, the codes are created to organize data. Such as, these codes are directly related to the research topic; Social Islamic Finance, IMFI stance in Bangladesh, Hybrid Model, Islamic law for Takaful, Limitations in integration, Challenges, Alternative, Yemen, Morocco (Agent) and Problems for Takaful in Bangladesh.

2. Middle Panel: "References" (Coding Interface): The author assigns text segments to nodes in this panel.

The author has set up a coding framework based on key concepts of the study Social Islamic Finance, Micro Takaful, integration challenges and country cases by importing source documents like academic papers. This helps the author not just to read the texts but also highlight relevant passages. This was the critical step to do the Thematic Analysis as mentioned in the methodology. By coding all the literature this way, the researcher was able to find all the evidence systematically, which then help her to identify themes.





Generating Themes:

This word cloud visually confirms that the source literature and reports cover all the dimensions:

1. Rooted in Islam and free from interest.

2. Discusses the process, management and institutions.

3. Situated within the Islamic financial sector.

4. Identified challenges and alternatives.

5. Includes concepts like revival.

Themes (Highest Frequency):

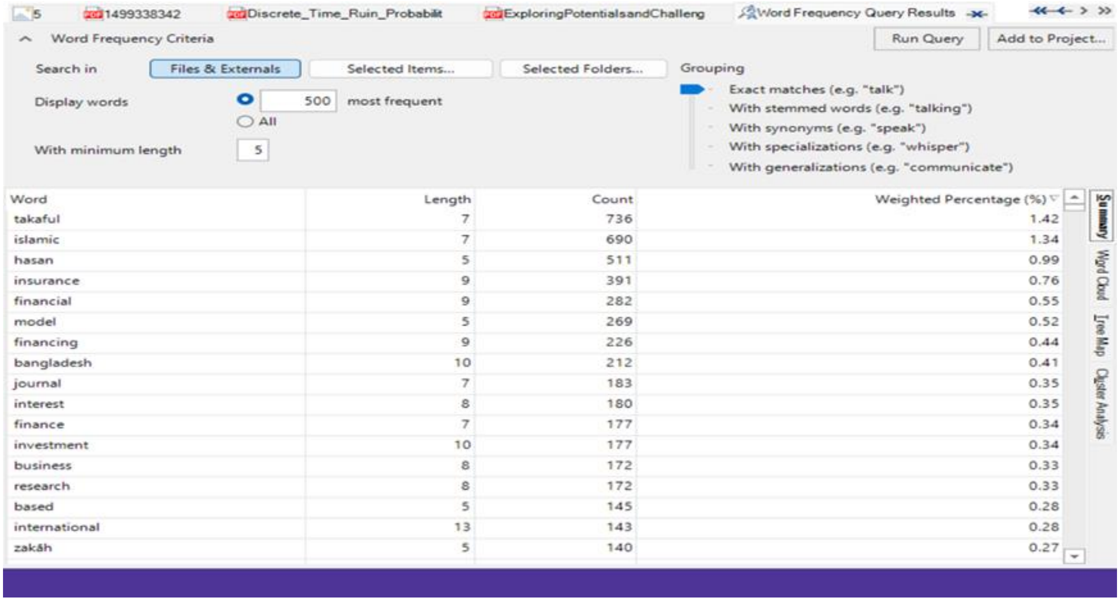
Takaful (736 times) & Islamic Microfinance (690 times) – These are the most dominant themes confirming the researcher's database intensely focused on Islamic Takaful and Islamic Microfinance.

Qard Hasan (511 times) – The high frequency of Qard Hasan shows it is another mandatory pillar as Islamic social finance of the research. The dataset deeply covers this benevolent loan concept.

Bangladesh (212 times) – The specific geographical context is a major focus.

Model (269 times) – This confirms the research is actively engaged in model development.

However, the dataset precisely focused on two main components (Takaful and Islamic Microfinance) in the context of Bangladesh. The literature and reports support the need for and discussion of new frameworks. The collected literature and reports support the title and aims of forming synergistic Islamic Microfinance – Micro Takaful model for Bangladesh.



Word	Length	Count	Weighted Percentage (%)
takaful	7	736	1.42
islamic	7	690	1.34
hasan	5	511	0.99
insurance	9	391	0.76
financial	9	282	0.55
model	5	269	0.52
financing	9	226	0.44
bangladesh	10	212	0.41
journal	7	183	0.35
interest	8	180	0.35
finance	7	177	0.34
investment	10	177	0.34
business	8	172	0.33
research	8	172	0.33
based	5	145	0.28
international	13	143	0.28
zakāh	5	140	0.27

Quote: To execute-reimbursement the agent reimburses the IMFI and the wealth is updated. If the agent cannot reimburse the IMFI it is declared bankrupt and will be out of the economy. And to execute-takaful if the agent belongs to a cooperative and cannot reimburse, the Takaful reserve will reimburse the difference. Recommendations are formulated based on the research findings, aiming to enhance Takaful's role through policy adjustments within the Insurance Act 2010 and addressing challenges related to Islamic commercial law.

Phase 2 (Quantitative Analysis): Correlation Analysis:

In quantitative method, to perform the analysis based on secondary data from Bangladesh Bank website has been done by using the well-known software SPSS. In the process, two hypotheses have been considered:

Null Hypothesis (H0): IMFIs and Micro Takaful are strong enough to work independently.

Hypothesis 1 (H1): Micro Takaful can make IMFIs recoverable and IMFIs can make Micro Takaful viable. So institutional symbiosis is needed.

IMFIs Data from 2019-2023 compiled from Bangladesh Bank's Islamic Banking publications:

Year	Total Islamic Financing Portfolio (in million BDT)	IMFIs amount (in million BDT)	Percentage Share of Total Portfolio	Year-on-Year Growth
2019	28,53,320.00	14,620.00	0.51%	-

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2020	**30,81,840.00**	**15,140.00**	**0.49%**	**3.56%**
2021	**36,32,880.00**	**16,320.00**	**0.45%**	**7.79%**
2022	**42,85,720.00**	**18,410.00**	**0.43%**	**12.81%**
2023	**49,48,150.00**	**19,980.00**	**0.40%**	**8.53%**

Source: Data Compiled from Bangladesh Bank's reports and sector analysis

Correlations:

Descriptive Statistics

	Mean	Std. Deviation	N
IMFIs Amount (in Million BDT)	16894.0000	2258.24711	5
Total Islamic Financing Portfolio	3760382.0000	864032.74152	5

This descriptive statistic table represents summarizing two financial variables from a dataset containing 5 observations (N=5).

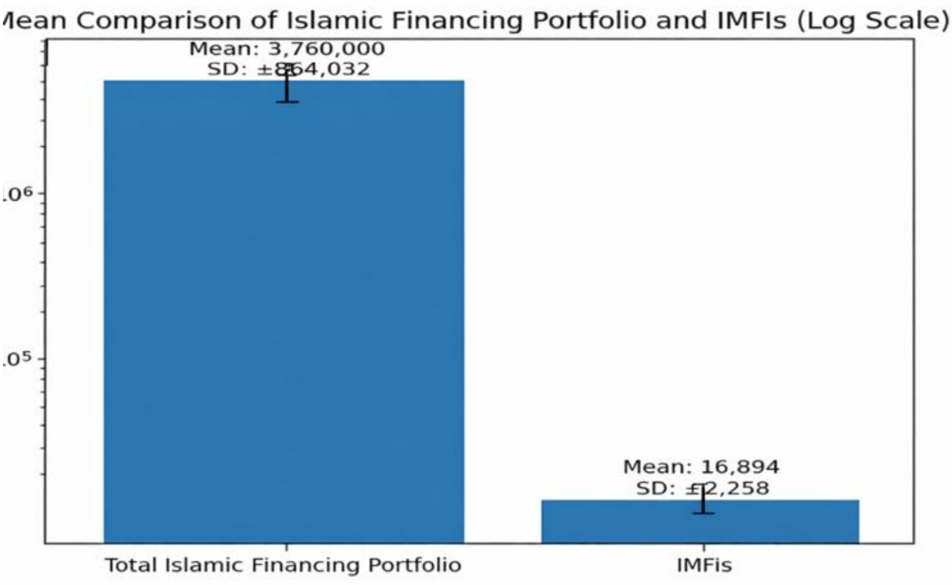
Mean: The average value of each variable. Std. Deviation: How the numbers are spread out around the mean.

Interpretation of the Data:

Total Islamic Financing Portfolio: Mean is 3,760,382.00 (On average, the portfolio value is about 3.76 million). Std. Deviation is 864,032.74152 (The values vary significantly around the mean, indicating high variability across the 5 observations).

IMFIs: Mean is 16,894.00 (The IMFIs portfolio amount in Islamic finance value). Std. Deviation is 2,258.24711 (Compared to the portfolio, variability here is much smaller relative to its mean).

The total Islamic financing portfolio is much larger in scale and more variable than IMFIs' amounts. This suggests IMFI is a smaller component within the larger portfolio.



Key Features of The Chart:

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1. Bar Heights: Represent the mean values of each variable (Total Islamic Financing Portfolio ~ 3.76 million, Qard Hasan ~ 16,894).

2. Error Bars: Represent one standard deviation above and below the mean (Portfolio = Large error bars ± 864,032 and Qard Hasan = Small error bars ± 2,258).

3. Visual Comparison: The massive scale difference is apparent

•The portfolio is over 200 times larger than Qard Hasan on average.

•The portfolio also shows much greater variability.

4. Data Labels: Data labels display exact mean and standard deviation values for specific interpretation.

Pearson Correlations:

Correlations

		IMFIs Amount (in Million BDT)	Total Islamic Financing Portfolio
IMFIs Amount (in Million BDT)	Pearson Correlation	1	.998**
	Sig. (2-tailed)		<.001
	Sum of Squares and Cross-products	20398720.000	7787872260.0
	Covariance	5099680.000	1946968065.0
	N	5	5
Total Islamic Financing Portfolio	Pearson Correlation	.998**	1
	Sig. (2-tailed)	<.001	
	Sum of Squares and Cross-products	7787872260.0	2.986E+12
	Covariance	1946968065.0	7.466E+11
	N	5	5

**. Correlation is significant at the 0.01 level (2-tailed).

Based on Pearson Correlations analysis, there is highly positive correlation between Total Islamic Financing Portfolio and IMFIs. Very strong positive correlation r ~ 0.9. When one increases other tends to increases and vice versa. Correlation Matrix shows 1.0 on diagonal, ~0.9 on off-diagonal. High correlation means diversification benefits may be limited. Investment decisions should consider this relationship. With N=5, statistical power is limited, the correlation should be interpreted cautiously and more data would provide more reliable estimates.

Sig. 1- tailed < .001: The P value is less than .001. .998**: The double asterisk indicates significance at the 0.01 level (1 -tailed test). Sample Size: N=5 for all correlations. Correlation Coefficient is .998 which is almost close to +1. P < 0.001: Very low probability that this correlation occurred by chance and highly significant at the 0.01 level (99% confidence level). The researchers assumes that this test is a directional hypothesis refers to positive correlation. The data also shows correlation ≠ causation (Just because these two variables move together does not mean one causes the other, third variable could be influencing both).

Micro Takaful Data from 2019-2023 compiled from Bangladesh Bank's Islamic Banking publications:

Year	Total Takaful Contribution (in million BDT)	Estimated Micro Takaful Share (in million BDT)	Percentage of Total Micro Takaful	Year-on Year Growth
2019	**5,000.00**	**300.00**	**6%**	**-**

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2020	**5,500.00**	**400.00**	**7.27%**	**33%**
2021	**6,500.00**	**500.00**	**7.69%**	**25%**
2022	**7,000.00**	**550.00**	**7.85%**	**10%**
2023	**8,000.00**	**700.00**	**8.75%**	**27%**

Source: Data Compiled from Bangladesh Bank’s reports and sector analysis

Correlations:

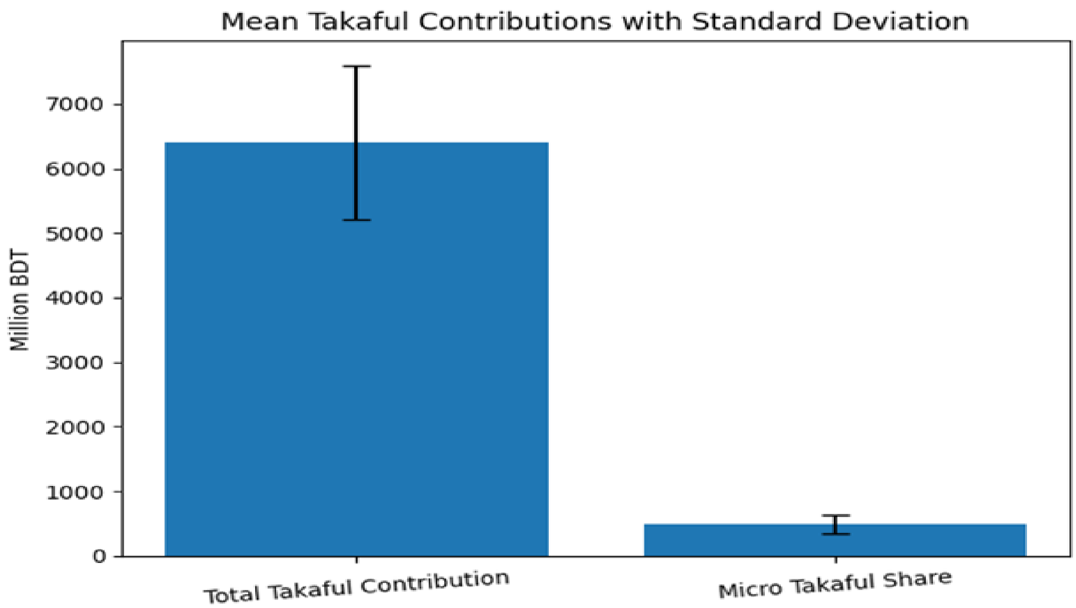
Descriptive Statistics

	Mean	Std. Deviation	N
Total Takaful Contribution (in million BDT)	6400.0000	1193.73364	5
Micro Takaful Share (in million BDT)	490.0000	151.65751	5

The table has four columns: Variable name (Describes the data being analyzed), Mean (The average value), Std. Deviation (Measuring how much the values are spread out around the mean) and N (Sample size or number of observations).

In the table, Total Takaful Contribution has Mean = 6400.00 million BDT, Std. Deviation = 1193.73364 million BDT and N=5 (data from 5 periods of time). This means the average total contribution is about 6.4 billion BDT, with considerable variation from the mean (around ±1.19 billion BDT). And, in case of Micro takaful Share, Mean = 490.00 million BDT, Std. Deviation = 151.65751 million BDT and N=5. This is the proportion of the total contributions that comes from micro takaful likely aimed at low-income clients. On average, it is about 490 million BDT, varying by ±152 million BDT.

Micro Takaful makes up roughly 7.66% (490/6400) of the Total Takaful Contribution on average. Both variables show high standard deviation relative to their means which indicates variability across the 5 data points.



The bar chart shows Total Takaful Contribution and Micro Takaful Share with their respective standard deviation in X axis. The average Total Takaful Contribution is approximately 6,400 million BDT with a relatively high standard deviation of about 1,194 million BDT. In contrast, the mean Micro Takaful Share is approximately 490 million BDT with a standard deviation of about 152 million BDT. The error bars highlight that though Micro Takaful holds a much smaller portion of total contributions, it also shows considerable variation over time.

Correlations

		Total Takaful Contribution (in million BDT)	Micro Takaful Share (in million BDT)
Total Takaful Contribution (in million BDT)	Pearson Correlation	--	
	Sum of Squares and Cross-products	5700000.000	
	Covariance	1425000.000	
	N	5	
Micro Takaful Share (in million BDT)	Pearson Correlation	.994**	--
	Sig. (2-tailed)	<.001	
	Sum of Squares and Cross-products	720000.000	92000.000
	Covariance	180000.000	23000.000
	N	5	5

**. Correlation is significant at the 0.01 level (2-tailed).

The table shows correlations analysis between the two Takaful financial variables. Here some key statistics has been shown, such as: Pearson Correlation, Sum of Squares and Cross-products, Covariance, Sample size (N) and Significance (Sig.).

Pearson Correlation: Between Total Takaful Contribution and Micro Takaful Share Correlation coefficient is 0.994. This indicates a very strong positive correlation, almost 1 means nearly perfect linear relationship. The variables are statistically significant because of marked by **. Sig. (2-tailed) is < .001shows that the probability of this correlation happened by chance is less than 0.001.

Pearson Correlations

Sum of Squares and Cross-products: Variation within Total Takaful Contribution with itself is 5,700,000 and Micro Takaful Share is 92,000. But, Cross-products between them is the combined variation which reflects how they move together and it is 720,000.

Covariance: Covariance between the two is 180,000 which means positive and tend to increase together. Total Takaful Contribution variance = 1,425,000 which matches earlier Std. Deviation. ^{2} (1193.73) ^{2}. Micro Takaful Share variance = 23,000 which matches earlier Std. Deviation^2 (151.66) ^{2}.

•.994 correlation Micro Takaful Share increases proportionately as the Total Takaful Contribution.

•The relationship is statistically significant ($p < .001$).

•Micro Takaful is closely tied to the overall Takaful business performance.

Confidence Intervals

	Pearson Correlation	Sig. (2-tailed)	95% Confidence Intervals (2-tailed)[a]	
			Lower	Upper
Total Takaful Contribution (in million BDT) - Micro Takaful Share (in million BDT)	.994	<.001	.889	1.000

a. Estimation is based on Fisher's r-to-z transformation with bias adjustment.

In the confidence intervals table, 95% confidence interval (2 -tailed) has lower bound of .889 and upper bound of 1.000. This interval was computed by Fisher's r-to-z transformation with bias adjustment for correlation coefficients. It can be said that, the test is 95% confident that the true correlation in the broader population from which these 5 data points came is somewhere between .889 and 1.000. This confirms and supports the earlier conclusion of strong positive link between two variables.

RESULTS AND DISCUSSION

Zakat, Waqf and Qard Hasan can work as a financing scheme that includes Maqasid-Al-Sharia values and can works as an alternative to bridge the gap in access in capital for MSME. But there are some challenges, these tools are more likely to use in charitable institutions but not in the profit-driven Islamic institutions. And secondly, Islamic microfinance institutions often seem these tools as corporate social responsibility (CSR) rather than a fundamental financial activity due to perceived high risks. Micro Takaful can mitigate this financial risk and also can manage annuity reserves system. In addition, micro-takaful in Islamic microfinance can promote financial inclusion. Despite these potentials, due to legal, regulatory and supervisory environment and lack of customized products and manpower in managing agent market micro-takaful could not flourish in Bangladesh. The results and discussion part at a glance for qualitative analysis (Phase 1).

1. Zakat, Waqf and Qard Hasan as a MSME financing tool: Zakat, Waqf and Qard Hasan has ability to alleviate hardship (Maslahah), promote social welfare and justice and ensure circulation of wealth. It is an alternative to traditional loan and can give access to capital gap for MSME, who often lack collateral.

2. Challenges in implementing Qard Hasan: Qard Hasan is still mostly using in charitable organizations, waqf institutions or zakat-based organizations because in nature it is a non-profit product. Islamic microfinance banks and institutions find it less attractive as they are more into profit-driven businesses.

In June, 2025 Research Department of Bangladesh Bank published the mode-wise investment of Islamic Banks. Where the author finds out that, Qard Hasan, Mudaraba and Musharaka investment has dropped from the previous years and Qard Hasan has been associated with security which is collateral/mortgage in sense to avoid risks. This is a highly alarming notion because Qard Hasan cannot be ask for collateral from its borrower, and it is against Sharia. For this reason, the investment has dropped to only 0.76%. Also, Mudaraba is only 0.18% and Musharaka is only 0.28%.

3. Role of Micro Takaful in mitigating risks: Micro Takaful is Sharia compliant insurance model for MSME to address the risks of IMFI. It can protect Islamic microfinance institutions by covering risks due to death, disability or business disruption of lenders. Micro Takaful can increase financial security for MSME owners and encourage entrepreneurship by providing long-term protection to savings and products aligning with broader financial inclusion.

4. Barriers to Micro Takaful in Bangladesh: Micro Takaful could not bloom in Bangladesh owing to dearth of dedicated governing framework which creates uncertainty in operations. It is also not tailored according to the needs and cash flows of MSME or low-income individuals. Another problem is that there are insufficient number of trained manpower or agents with expertise in both Islamic microfinance and microinsurance.

5. Synthesis and Implication: This phase 1 implies that there is a potential of unifying IMFI and Micro Takaful. If micro takaful covers the risks of portfolios then Islamic microfinance institutions can include Islamic social financing as main financial activity rather than CSR. This way the sustainability of MSME financing can be fulfilled following Maqasid-Al-Sharia. So, in the context of Bangladesh, regulatory reforms, product innovation and capacity building in IMFIs and Micro Takaful are urgently needed.

Based on Qualitative (Phase 1) method and Quantitative (Phase 2) method's findings, it is clear that there is a need for a synergistic approach between Islamic microfinance institutions and Micro-Takaful which has the ability to address the core vulnerabilities of Islamic microfinance institutions (IMFIs) in Bangladesh. This combination is not just only beneficial but also essential for sustainability:

1. Addresses Complementary Weaknesses:

•IMFI's Strength: It provides ethical loans which makes it accessible and Sharia-compliant anchor for financial inclusion.

•IMFI's Weaknesses: It generates direct income from Murabaha or Bai-Muajjal, so in nature it is not focusing on non-profitable products thus this nature threatens IMFIs' capital and long-term viability.

•Micro-Takaful's Strength: It mitigates risks and protects clients from shocks (illness, crop failure, etc.). It also provides IMFI a potential revenue stream through operational fees and pooled funds.

•Micro-Takaful's Weaknesses: It faces lots of challenges like high operational costs, client reluctance to pay upfront premiums and regulatory uncertainty.

Synergy with Micro-Takaful can be a gateway for IMFIs. For example, a small takaful premium could be submerged into the Qard Hasan agreement, providing loan insurance.

2. Creates a Sustainable Cross-Subsidy Model: The cost covering attributes of Micro-Takaful can subsidize the cost of offering Qard Hasan. Simultaneously, Qard Hasan gather strong social reputation and client loyalty which can lowers the cost of acquiring and educating clients for Micro-Takaful.

3. Mitigates Risk for both the Institution and the Client: IMFI can solve immediate liquidity problems of clients while Micro-Takaful can protect them from future risk that could push them back to deeper into poverty. For the IMFI, broader client uptake of Micro-Takaful can directly reduce the portfolio risk of social financing. For instance, if a client with a Qard Hasan loan falls ill, their health Micro-takaful cover can prevent default.

4. Covers Regulatory and Market Gaps collectively: Bangladesh lacks a specific regulatory framework for Micro-Takaful which creates uncertainty. But, a combined IMFIs – Micro Takaful programme could be presented to regulators as integrated poverty-alleviation and financial stability tool. This has a chance to develop more supportive and hybrid regulations. Furthermore, IMFIs could achieve better position to negotiate with re-takaful companies to mitigate the high costs and small market issues.

5. Address SDG 1 and SDG 8: As Bangladesh continues to pursue Sustainable Development Goals (SDGs), particularly SDG 1 (No Poverty) and SDG 8 (Decent Work and Economic Growth), understanding how Islamic risk-sharing mechanisms can enhance financial inclusion becomes increasingly relevant.

Conclusion: A standalone approach leaves IMFIs unbalanced. Zakat, Waqf and Qard Hasan alone is ethically ideal but commercially fragile, on the other hand, Micro-Takaful is complex, costly and difficult to expand.

The synergistic approach creates a self-reinforcing ecosystem:

1. Zakat, Waqf and Qard Hasan offers by IMFIs can attract clients and fulfills the social mission.

2. Micro-Takaful protects the client's welfare and the institution's portfolio while generating fee-based income.

Together they build client loyalty, reduce systematic risk and create a viable cross-subsidy model.

Conceptual Framework of Integrating Micro-Takaful with Islamic Microfinance Institutions for IMFIs Sustainability:

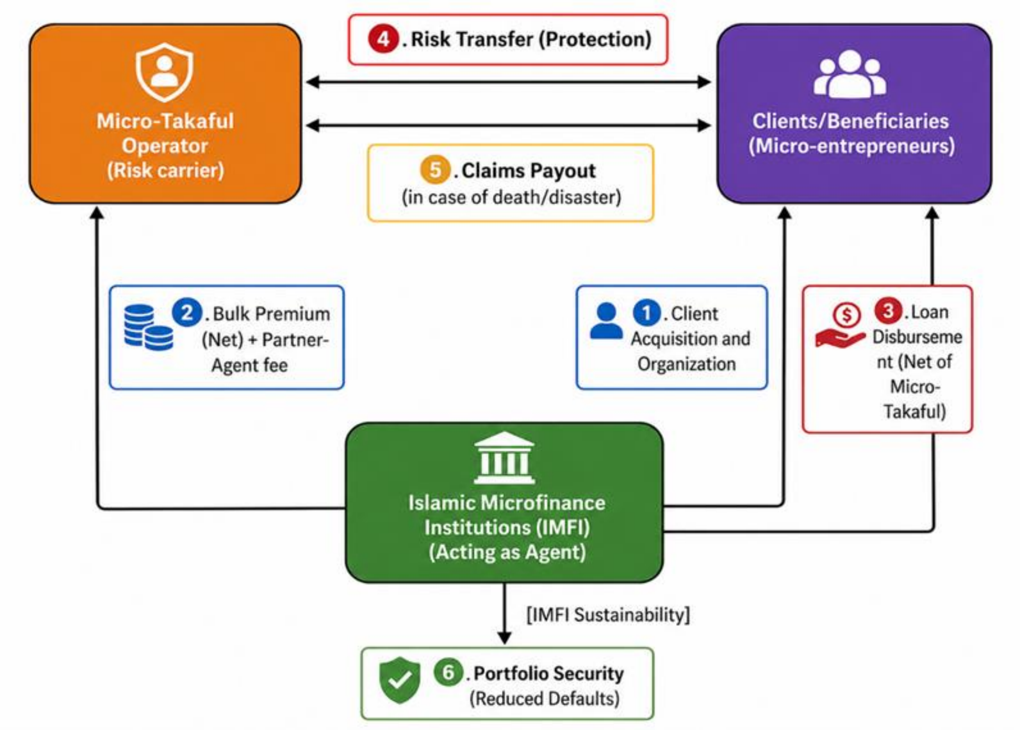
The sustainability dilemma facing Islamic microfinance institutions in Bangladesh stems from interconnected barriers: high operational costs inherent with Sharia-compliant financing models, unable to access sustainable funding, weak governance structure, product designs that is not perfectly balance with religious authenticity and intense competitive pressure. To address this challenge, it requires a systematic hybrid model including Micro-Takaful into IMFIs. The word Takaful is derived from the Arabic verb "kafala" which simply means to help one

ISSN No. 2454-6186 | DOI: 10.47772/IJRISS | Volume X Issue VI June 2026

another of mutual guarantee (Jaffer, et al., 2010). Therefore, the treaty between Takaful operator and IMFI concurring to collectively bonded each other in the incident of a damage or misfortune describes by the contract.

To develop a solid framework for integrating Micro-Takaful with Islamic microfinance institutions (IMFIs), a multi-faceted approach is needed which will address operational models, financial sustainability, social impact and regulatory order. Based on the latest academic research and industry practices from 2024, this study has tried to develop a comprehensive framework considering the key pillars. In this regard, this study focuses on Hybrid-Takaful contract. The Hybrid or mixed model is the most dominant model in the Takaful market, which can be explained by the fact that the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) recommends the practice of this model. According to Khan (2015, 2019), the Hybrid-Takaful model serves as the optimal structure for Takaful operation.

According to Puspita et.al. (2020), The income generated from an investment, after the deduction by client's fee for the operator in conjunction with the underwriting surplus, represents the surplus in Takaful (participants') fund. All the surplus account are property of the Takaful participants. However, a Takaful operator may receive an additional fee, in the form of incentive or performance fee, when the Takaful fund produces a surplus. This fee is determined as a percentage of the surplus generated in the Takaful fund. The remaining profit is then distributed to the participants.



Conceptual Framework: Sketched by the author

Step-by-Step Breakdown of the Diagram:

1. Client Acquisition and Organization:

The Process begins with IMFI acting as the primary interface with the community. The IMFI identify, acquire and organize potential micro-entrepreneurs who are in need of financing. The process begins with the Islamic Microfinance Institution (IMFI) acting as the primary interface with the community. The IMFI leverages its existing grassroots network and relationships to identify, acquire, and organize potential micro-entrepreneurs who are in need of financing. This step is crucial, as the IMFI possesses the local knowledge and trust required to onboard clients effectively, a concept often referred to as the 'Liability of Newness' in financial inclusion (Armendariz and Morduch, 2010). By organizing these clients, the IMFI creates a pool of participants for the Micro-Takaful scheme. This phase is not just about recruitment but it involves financial literacy education and explaining the principles of Takaful (mutual guarantee).

2. Bulk Premium (Net) + Partner-Agent fee:

In this stage, the IMFI will perform a dual financial function. It will collect the Takaful contribution (premiums) from the clients and create a 'Bulk Premium' pool. However, the flow specifies this as 'Net' because IMFI will deduct its operational costs before providing the premiums to the Micro-Takaful operator. Wahab, et.al. (2007) stated in their paper, 'Partner-Agent Fee' is the commission or service charge retained by the IMFI for acting as the distribution and collection channel.

3. Loan Disbursement (Net of Micro-Takaful):

When the risk protection mechanism started, the IMFI will proceed to disburse the microfinance loan to the entrepreneurs. The term 'Net of Micro-Takaful' is critical here. It means the Takaful coverage is deducted from the loan amount at source. This ensures that the client is covered from the very beginning of the financing term, protecting both the client and the lender from the outset (Alhammadi, 2023). This integration will simplify the process and ensure that risk mitigation is a built-in component of the financial product.

4. Risk transfer (Protection):

At this stage, the Micro-Takaful operator becomes the active 'Risk Carrier)'. The operator pools the contributions from all participants into a Risk Fund (Tabarru' fund). Based on the principles of mutual cooperation (Ta'awun), the funds in this pool are used to indemnify any participants who suffers a covered loss (Billah, 2019). This step represents the core value proposition of Takaful that is the transfer of individual risk to a collective pool. For the IMFI, this transfer is invaluable as it can externalize the risk of client default due to unpredictable personal tragedies which is a major threat to the sustainability of microfinance portfolio.

5. Claims Payout (in case of death/disaster):

In the event of a covered contingency, such as death of the micro-entrepreneur or a natural disaster destroying their business, the Micro-Takaful operator processes a Claims Payout. The beneficiaries such as the entrepreneur's family or the business itself receive financial support. This payout serves a dual purpose: it provides a social safety net for the family of the deceased, preventing them from falling into poverty and it can also be used to settle the outstanding loan with the IMFI (Kunhibava, et.al., 2024). This immediate liquidity in a time of crisis is a defining feature of Micro-Takaful's value offering dignity and financial relief in accordance with Islamic principles of caring for the needy people.

6. Portfolio Security (Reduced Defaults):

The final step is highlighting the strategic benefit of the entire arrangement. By ensuring the loans are paid off or businesses are supported in the event of disaster then the claims payout directly leads to portfolio security for the IMFI. The rate of non-performing loans (NPLs) caused by the death or disability of the borrower is significantly reduced (Ahmed, 2002). This creates a more resilient and sustainable Islamic microfinance institutions which is better equipped to continue serving its community. A secure portfolio attracts more investors and allows IMFI to lower its overall risk premium, potentially offering more competitive rates to its clients (Ledgerwood, et.al., 2013).

The conceptual framework illustrates a virtuous cycle of integrated social finance. The IMFI acting as an agent facilitates client acquisition and loan disbursement while embedding a risk mitigation product. The Micro-Takaful operator carries the pooled risk and provides payouts during crises. This model demonstrates how structured financial intermediation ethically can serve as a powerful tool for poverty alleviation and economic empowerment. According to Asutay (2012), the ultimate outcome is a triple-win scenario: the client is protected, the IMFI's portfolio is secured and the social objectives of Islamic finance to promote justice and caring for the community are advanced.

CONCLUSION

The study has found it could be a transformative opportunity if Micro-Takaful can integrate with Islamic microfinance institutions in Bangladesh. Also, this study has examined the sustainability dilemma of IMFIs by addressing landscape and proposed an integration framework that can hopefully and potentially strengthen both institutional resilience and client welfare. The findings shows while Bangladesh has made significant role in Islamic finance, the microfinance sector continues to struggle with structural, operational and financial barriers that undermine its long-term viability.

The sustainability dilemma of IMFIs in Bangladesh comes from multiple factors. This research identifies barriers including lack of people awareness, multiple debts, challenges in ensuring Sharia compliance, shortage of government assistance and mission drift. According to

The dominance of debt-based financing tools over genuine profit-loss sharing agreements further constraints sustainability. Evidence indicates that while profit-and-loss sharing modes such as Mudaraba and Musharaka promote sustainable development goals, their adoption remains minimal—with Musharaka accounting for only 0.38% and Mudaraba just 0.23% of total investments in Islamic banking.

The Islamic financial industry in Bangladesh has demonstrated remarkable growth, with Islamic banking now representing over 26% of total deposits and 28% of investments in the banking sector. The Islami Bank Bangladesh Limited's Rural Development Scheme exemplifies the potential of Islamic microfinance, serving as a model that integrates religious values with poverty alleviation objectives. However, the Micro-Takaful sector remains significantly underdeveloped, representing untapped potential for client protection and institutional risk management.

This landscape reveals a critical gap, such as: while IMFIs provide financing to vulnerable populations they lack the complementary risk mitigation tools that Micro-Takaful can offer. The conceptual understanding of Takaful as mutual support and social coherent provides a foundation for integration which aligns with both Islamic values and original motive of Islamic microfinance.

Recent scholarship demonstrates the viability of blended models that integrate instruments such as Zakat, Waqf, and Qard Hasan into Micro-Takaful frameworks to enhance effectiveness and reach underserved populations. For Bangladesh, a partnership-based framework incorporating Islamic social finance, Micro-Takaful and IMFIs can offer elevated financial inclusion and economic empowerment.

The proposed integration framework operates on three levels to achieve comprehensive sustainability. First, Micro-Takaful will protect both institutional portfolios and client livelihoods. Second, operational sustainability comes from the shared infrastructure and client networks between IMFIs and Micro-Takaful operators by reducing transaction costs and improving outreach efficiency. Third, social sustainability can be achieved through solidarity principle of Micro-Takaful which will ensure the protection of vulnerable clients.

The framework distinguishes between mission-based not-for-profit mechanisms for the poorest segments and market-based for-profit modes for those capable of enterprise development. This tiered policy understands that different clients need different combinations of financing and protection. Cash waqf, in particular, offers potential as a perpetual, low-cost funding source that can subsidize Micro-Takaful contributions for the poorest clients while generating returns for institutional sustainability.

Promoting the potential of Micro-Takaful integration requires actions from multiple stakeholders. Policymakers must develop regulatory frameworks that will facilitate the linkage between IMFIs and Takaful operators to address the legal gap. The government and other regulatory bodies including all IMFIs and Takaful companies should create enabling environment for blended Islamic social financing models recognizing that sustainability needs both commercial viability and protection mechanisms. For IMFIs, the integration journey demands investment in institutional capacity, staff training, and client education. The successful implementation of profit-and-loss sharing modes requires robust governance frameworks that mitigate moral hazard and adverse selection. For future, a formal network needs to be established between Bangladesh, Malaysia, Indonesia and other countries with robust Islamic finance sectors. This would facilitate the exchange of research, product innovations, and best regulatory practices by positioning Bangladesh as the thought leader in this segment.

To conclude, this research contributes to both theoretical discourse and practical policy by demonstrating that Micro Takaful integration is a fundamental realignment with the ethical foundations of Islamic Microfinance. The research’s originality lies in its explicit focus on the dual objectives of institutional resilience and client protection.

Nevertheless, this paper has shortcomings too. the inclusion design needs factual authentication through case studies and also might need to execute in particular societal settings. Additionally, this study has been done on the published data from audited statements of Bangladesh Bank and MRA and also source data like journals, so the outcome may not be as suitable as it should be and future is inconsistent.

Author’s Contribution

Conceptualization, Methodology, Validation, Formal Analysis, Investigation, Resources, Data Curation, writing – Original Draft, Preparation, writing – Review & Editing and Visualization; Farzana Taslim. Authors have read and agreed to the published version of the manuscript.

Institutional Review Board Statement:

Ethical review and approval were waived for this study, due to the fact that the research does not deal with vulnerable groups or sensitive issues.

Funding: The authors received no direct funding for this research.

Informed Consent Statement: Informed consent was obtained from all subjects involved in the study.

Data Availability Statement: The data presented in this study are available publicly.

Declaration of Generative AI And AI-Assisted Technologies in the Writing Process:

All intellectual content, analysis, and interpretations were produced solely by the authors. No kinds of AI tools had been used for this research.

ACKNOWLEDGEMENT

I, Farzana Taslim, declare that this research paper is my original work. I acknowledge the support of Dr. Adnan Salaudeen, University of Greater Manchester. This paper maintains ethical guidelines, and I have obtained the necessary approvals for using supporting articles, journals, annual report and books.

I dedicate this paper to my mother Late Gulshan Ara Taslim. I hope I will make her proud one day.

Disclosure Statement

The paper includes no potential conflicts, like financial interests, institutional affiliations, personal relationships, third part involvement. The author ensures that full and transparent integrity is maintained, ethical guidelines has followed and reassure the trust of readers and reviewers.

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