

The Role of Sukuk as an Inclusive Financial Instrument for Poverty Alleviation in Malaysia: Challenges and Opportunities

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ABSTRACT

Despite the country's advancement, financial exclusion continues to affect disadvantaged communities, with poverty rates remaining a significant concern, particularly in rural areas. As a Shariah-compliant financial instrument, Sukuk offers an alternative approach to mobilizing funds for socio-economic development. However, there is limited evidence of Sukuk's effectiveness in reducing poverty, and challenges such as regulatory constraints and fragmented frameworks hinder its broader implementation. Therefore, this study aims to examine the role of Sukuk as an inclusive financial instrument for poverty alleviation in Malaysia. The data are collected from secondary data sources, including policy documents, regulatory frameworks, academic publications, and reports from financial access for low-income groups and its potential to reduce poverty. The study contributes to the literature on optimizing Sukuk as a tool for achieving sustainable development goals and fostering inclusive economic growth.

Keywords: sukuk, financial inclusion, poverty alleviation, document analysis

INTRODUCTION

Financial inclusion is crucial for a country's development as it enhances economic growth, reduces poverty, and promotes equitable access to financial services. By integrating individuals and businesses into the financial system, financial inclusion facilitates broader participation in economic activities, which is essential for sustainable development. Countries with higher financial inclusion rates tend to experience more robust economic performance [1].

Malaysia has achieved significant economic progress over the decades, transitioning from a low-income to an upper-middle-income country. However, financial exclusion remains a challenge for marginalized communities, with poverty rates recorded at 5.6% in 2019, affecting approximately 405,000 households[2] [3]. Despite policies aimed at achieving Sustainable Development Goals (SDGs), poverty persists, particularly in rural areas[4]. Sukuk, Shariah-compliant financial instruments, have the potential to bridge financial gaps by mobilizing funds for socio-economic development [5].

However, their effectiveness in reducing poverty is not well-documented. This research aims to address this gap by analyzing existing documents, reports, and literature to explore the role of Sukuk as an inclusive financial instrument for poverty alleviation. The significant of this study is that it provides insights into how Sukuk has been utilized in the past, its effectiveness, and challenges faced in various contexts, especially in relation to poverty alleviation.

The remainder of the paper is organized as follows. The next section reviews existing literature on Sukuk, followed by the methodology that is employed to obtain the findings from the secondary resources. The results of this study are reported and discussed in the fourth section. The last section concludes and discusses the implications of this study.

LITERATURE REVIEW

Sukuk in Socio-Economic Development

Sukuk, commonly referred to as Islamic bonds, is a financial instrument that provides investors with ownership interests in an underlying asset, project, or investment while ensuring compliance with Shariah principles [6]. Unlike conventional bonds, which generate returns based on interest (riba), Sukuk structures emphasize risk-sharing and asset-backed financing, making them suitable for ethical and socially responsible investments [7].

Sukuk have been instrumental in funding large-scale infrastructure projects, including highways, energy facilities, and public utilities in many Muslim-majority countries. In Malaysia, the world's leading Sukuk issuer, the government has used Sukuk to finance key infrastructure projects that contribute to economic development and job creation [8]. The issuance of Green Sukuk in 2017 marked a milestone, as it allowed funding environmentally sustainable projects such as renewable energy and low-carbon transportation initiatives, setting an example for ethical investment aligned with Sustainable Development Goals (SDGs) [8].

The literature also highlights the importance of government support and policy incentives in encouraging the issuance of socially responsible Sukuk [9]. For example, tax incentives, risk sharing mechanisms, and credit enhancements can make Sukuk more attractive to investors and encourage their use in financing poverty reduction programs [10]. Malaysia's Financial Sector Blueprint 2022-2026 emphasizes financial inclusion and sustainable economic growth, providing an opportunity for policymakers to further integrate Sukuk into national development strategies [11].

Sukuk as A Tool for Financial Inclusion

Financial inclusion promotes social equity by ensuring that all socioeconomic groups can access financial products, which is vital for inclusive growth. [12]. It addresses disparities in access, particularly in rural areas, fostering community development and empowerment.

Sukuk provides an alternative financing mechanism, enabling individuals and businesses, especially those in underserved populations, to access capital for projects. This can lead to economic opportunities for those who may not qualify for traditional banking loans [13].

Beyond infrastructure, Sukuk has been increasingly considered as a tool for financial inclusion. Microfinance institutions and social development programs are beginning to leverage Sukuk structures to provide financing for small businesses, farmers, and underserved communities [14]. Through asset-backed financing mechanisms, Sukuk can mobilize capital for enterprises that may otherwise lack access to conventional credit facilities due to the prohibition of interest-based lending [15]. This makes Sukuk an attractive instrument for addressing financial exclusion among low-income groups.

Challenges in Using Sukuk for Poverty Alleviation

Despite the potential of Sukuk in fostering socio-economic development, their direct impact on poverty alleviation remains underexplored in existing literature. One of the key barriers is the regulatory framework governing Sukuk issuance, which is often fragmented across jurisdictions [14]. In Malaysia, while regulatory bodies such as the Securities Commission Malaysia (SCM) and Bank Negara Malaysia (BNM) have established guidelines for Sukuk issuance, challenges persist in ensuring the standardization and harmonization of these regulations with international Shariah-compliant frameworks [15].

Limited public awareness is another challenge hindering the widespread use of Sukuk for social finance. Many potential investors, particularly retail investors and socially responsible funds, lack understanding of how Sukuk differs from conventional bonds and how they can be utilized for impact investing [16]. Financial literacy programs and investor education are needed to bridge this knowledge gap and encourage broader participation in Sukuk-based social initiatives.

Aligning Sukuk with Maqasid Shariah and Waqf-Based Financing

Aligning Sukuk structures with Maqasid Shariah, which emphasizes social justice, economic equity, and the welfare of society, can enhance their effectiveness in poverty alleviation. Current Sukuk structures predominantly focus on corporate and sovereign issuances rather than social-impact-driven projects [16]. Besides, introducing Socially Responsible Investment (SRI) Sukuk and integrating Sukuk with Islamic endowments (Waqf) can create long-term financial sustainability for social programs [17].

Furthermore, the Cash Waqf Linked Sukuk (CWLS) initiative launched in Indonesia serves as a successful case study of how Waqf and Sukuk can be combined to fund educational scholarships, healthcare programs, and social housing [18]. By leveraging Waqf assets as a collateral base, Sukuk issuances can generate stable returns while preserving the capital for future social projects. This model holds significant promise for Malaysia, where a well-developed Waqf system exists but is underutilized for large-scale social financing.

METHODOLOGY

This study employs a document analysis method, focusing on the analysis of existing documents, reports, and literature to explore the role of Sukuk as an inclusive financial instrument for poverty alleviation. Given the theoretical nature of this inquiry, the research relies on secondary data sources, including policy documents, regulatory frameworks, academic publications, and reports from financial institutions. This approach allows for a comprehensive examination of the regulatory landscape, conceptual frameworks, and socio-economic implications of Sukuk in financial inclusion and poverty reduction [11] [17].

The study systematically reviews key sources, such as the *Financial Sector Blueprint 2022–2026* by Bank Negara Malaysia, reports from the Securities Commission Malaysia, and international guidelines on Islamic finance from the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI). Additionally, scholarly articles and case studies from academic journals provide insights into the theoretical underpinnings of Sukuk and its alignment with the principles of Maqasid Shariah [16] [14]. The analysis follows a thematic approach, categorizing information into key themes such as regulatory barriers, financial inclusion strategies, and the integration of Sukuk with waqf-based financing [18] [19]. By synthesizing insights from various documented sources, this study aims to construct a conceptual understanding of how Sukuk can be positioned as a tool for socio-economic development while addressing structural and policy challenges [5].

The reliability of the research is ensured through a systematic selection of credible sources, cross-referencing multiple reports, and validating findings against established Islamic finance principles [7]. Ethical considerations are upheld by appropriately citing all sources and ensuring the accuracy and integrity of information interpretation (Patton, 2002). The findings from this conceptual study will contribute to policy discussions and academic discourse on the potential of Sukuk in fostering financial inclusivity and sustainable economic growth in Malaysia [10].

DISCUSSION

The findings of this study reveal several key challenges and opportunities. For the challenges, the findings reveal what hinders the broader application of Sukuk in social finance and poverty alleviation. One major barrier is the regulatory framework, where inconsistencies in Sukuk issuance regulations across jurisdictions create uncertainty for investors and financial institutions [10]. Unlike conventional financial instruments, Sukuk requires adherence to Shariah principles, which often results in additional compliance requirements and varying interpretations by Shariah scholars [6]. The lack of standardization in Sukuk structuring leads to higher issuance costs, making it less attractive for social and impact-driven financing [15].

Additionally, limited community awareness and financial literacy regarding Sukuk's role in poverty alleviation further reduces its adoption in social development projects. Many potential beneficiaries and investors remain unaware of how Sukuk can be structured to support financial inclusion, particularly through models like SRI (Socially Responsible Investment) Sukuk and Waqf-Sukuk integration [9].

Given these challenges, there are also opportunities such as the role of government to intervene as well as policy enhancements to promote Sukuk as a social finance tool. The implementation of incentives, such as tax benefits and risk-sharing mechanisms, can encourage greater Sukuk issuance for social impact projects.

Moreover, the integration of waqf-based Sukuk has emerged as a promising solution for ensuring long-term and sustainable poverty alleviation [18]. A successful example of this approach is the Cash Waqf Linked Sukuk (CWLS) initiative in Indonesia, where public donations through waqf-based Sukuk are used to fund healthcare, education, and social infrastructure for low-income communities [20]. The success of such models highlights the importance of regulatory clarity, investor confidence, and alignment with social projects to enhance Sukuk's effectiveness in financial inclusion and poverty reduction [19].

By addressing these regulatory, structural, and awareness-related barriers, Sukuk can become a more effective tool in bridging socio-economic disparities and supporting Malaysia's Financial Sector Blueprint 2022–2026.

ANALYSIS AND FINDINGS

The findings of this study emphasize that Sukuk issuance plays a significant role in enhancing financial access for low-income groups, particularly those who are often excluded from conventional financial systems due to credit constraints or Shariah-related concerns [6]. Sukuk, unlike traditional bonds, is structured based on asset ownership and risk-sharing principles, making it a viable option for funding socially impactful projects such as affordable housing, education, and healthcare. By channeling funds into these sectors, Sukuk helps create sustainable economic opportunities for marginalized communities.

However, the effectiveness of Sukuk in poverty alleviation is largely dependent on regulatory support. A strong legal and policy framework ensures that Sukuk issuance aligns with national development goals while attracting both domestic and foreign investors to contribute to socially responsible finance [14]. Furthermore, governments and financial institutions must ensure that Shariah compliance is standardized across jurisdictions to prevent regulatory inconsistencies, which can deter investors from participating in Sukuk markets for social development [15].

Another critical finding is the integration of waqf-based Sukuk, which has demonstrated higher socio-economic benefits compared to conventional Sukuk structures [14]. Waqf, a form of Islamic endowment, allows Sukuk to be structured in a way that ensures long-term financial sustainability for social welfare projects. Countries like Indonesia and Malaysia have successfully implemented waqf-linked Sukuk models, directing funds towards public health infrastructure, low-cost housing, and educational initiatives [19].

Additionally, transparency and accountability in Sukuk-based social finance projects are crucial factors influencing their success. Clear disclosure of fund allocation, risk-sharing mechanisms, and project performance reports foster trust among investors, regulators, and beneficiaries [9]. The study suggests that Sukuk structuring should be tailored to meet specific socio-economic needs, ensuring that funds are efficiently allocated to high-impact projects. A more targeted approach—such as issuing poverty-focused Sukuk for rural development and microfinance initiatives—can significantly enhance Sukuk's impact in bridging economic disparities and promoting financial inclusivity [10].

Ultimately, these findings reaffirm the importance of policy-driven enhancements, institutional collaboration, and public awareness to optimize Sukuk's role in poverty alleviation and sustainable development.

CONCLUSION

This study examines the role of Sukuk as an inclusive financial instrument for poverty alleviation in Malaysia. The findings of this study emphasize that Sukuk issuance plays a significant role in enhancing financial access for low-income groups. Sukuk represents a viable instrument for poverty alleviation in Malaysia, yet their full potential remains underutilized due to regulatory constraints and lack of awareness [11].

This study contributes to literature by highlighting how Sukuk plays a significant role in poverty alleviation. By aligning Sukuk structures with Maqasid Shariah principles and integrating waqf-based financing, Sukuk can contribute to achieving sustainable development goals [16]. Policymakers, financial institutions, and researchers can utilize these insights to optimize Sukuk's impact on socio-economic development, supporting Malaysia's Financial Sector Blueprint 2022–2026 [11].

Future research should explore case studies from other regions to broaden the understanding of Sukuk's global impact [19]. In addition, the qualitative approach can be conducted through interviews with the related stakeholders and policymakers.

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