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# NANOCREDIT FOR EMPOWERING THE UNDERPRIVILEGED: A COMPREHENSIVE SYSTEMATIC REVIEW

## ABSTRACT

Poverty is a universal reality that takes various forms worldwide. It is considered the most detrimental economic and social issue, being the root cause of human rights violations due to its destructive effects on individuals and society. In the modern era, poverty has become a major global issue, hindering economic and human development and leading to deprivation of well-being. Any credit type, micro or nano credit, must be implemented well to help the poor. Recently, there has been an interest in nanocredit. Although there are limited studies on nanocredit, there have been some attempts to review the topic. In contrast to other research, this study adopts a different methodology to thoroughly review the literature on the development of nanocredit to address the innovative and reliable tools that are dependable financial inclusion for the underprivileged. This study is being conducted to comprehensively review and analyse current research on nanocredit. Scopus, Web of Science (WoS), Emerald Insights, and Google Scholar index the reviewed literature from 2000 to 2022 for published article access. Studies have presented that nanocredit is a new paradigm in the lending industry with fewer requirements and bureaucracy. Although it is still lacking in fully complying with Shariah guidelines, nanocredit is a saviour for the poor in improving their quality of life. In simple understanding, nanocredit should be the bridge that connects Islamic finance and Islamic philanthropy.

**Keywords:** nanocredit, poverty, contract, sources, Islamic finance, underprivileged

**JEL Classification:** G21, G40, R51

## INTRODUCTION

Nobody can dispute that poverty exists everywhere and is a universal reality. In different parts of the world, it has different forms and facets. In the current situation, poverty serves as a breeding ground for interpersonal conflicts. The most detrimental economic and social issue affecting humans since their creation is considered to be poverty. Poverty is believed to be the root cause of all human rights violations due to its destructive effects on individuals and society. Moreover, poverty has become a major global issue in the modern era. Not only does it prevent the country's economic development, it also prevents human development and is also defined as deprivation of well-being.

Any credit type, micro or nanocredit, must be well implemented to help the poor. Empowering the poor with financial knowledge equips them with the skills to make informed decisions about alternative financing, reducing the risk of over-indebtedness. In conjunction with this, proper and authorised channels of small loans will assist the poor (young ones or those on low incomes) in obtaining financial products such as loans and credits. These loans are frequently utilised to launch or grow a small business, which can enhance the poor's earnings and financial prospects. Otherwise, they might seek help from pricey payday lenders and potentially dangerous loan sharks, which could contribute to a vicious cycle of debt that is challenging to break. The idea of small loans, namely microcredit, was first proposed by Muhammad Yunus, who founded the Grameen Bank in Bangladesh in 1983. Furthermore, the theory behind microcredit is that small loans can significantly impact their lives by giving poor people the tools they need to become self-sufficient. Meanwhile, nano credit, a much smaller amount of loan, can be a powerful tool for poverty alleviation, as it provides access to capital for those often

excluded from the formal financial sector.

Nanocredit is a financing concept that has emerged as an innovative solution to address the challenges faced by low-income individuals, that is lack of access to traditional credit facilities. Basically, nanocredit is a relatively new concept in the field of microfinance. It involves providing small loans to low-income individuals, typically in the range of a few dollars to a few hundred dollars, to help individuals start or expand small businesses, cover emergency expenses, or meet other financial needs. Furthermore, one of the key benefits of nano credit is that it helps promote financial inclusion by providing access to credit for those who would otherwise be excluded from the formal financial sector. Many low-income individuals lack the collateral or credit history required to obtain loans from banks. Therefore, they are often forced to turn to informal sources of credit, such as moneylenders, who charge exorbitant interest rates.

## LITERATURE REVIEW

Researchers suggest that nanocredit could be used as a substitute for microcredit. Microcredit is undoubtedly in line with the goals of Islamic finance and economics (Musari, 2019). Nonetheless, the use of microcredit is still not regarded as Shariah-compliant due to the inclusion of interest rates in the contract. Although it receives less attention than microcredit, nanocredit offers a solution to this problem. Recently, certain Southeast Asian nations have begun operating nanocredit programmes to aid the needy populace. The implementation of nano credit in nations including Indonesia, Vietnam, Malaysia, Thailand, and Brunei was examined in Musari (2019) study (Musari, 2019). The author learned from her research how the concepts of nanocredit are applied in Thailand and Indonesia. Furthermore, the author further stressed that nano credit aligns with Islamic economics' goals since it serves as a humanitarian effort to aid the extremely poor. This is especially by preventing them from falling victim to loan sharks by employing a Qard al-Hasan contract to address urgent requirements such as food and shelter, amongst others.

To further strengthen her discussion, Musari (2019) includes findings from Dubey et al (2007), who define nano credit as different from microcredit (Dubey et al., 2007; Musari, 2019). The most vulnerable people in society are provided with small grants, credit, savings, and other social benefits through nanocredit. In other words, nanocredit addresses extreme poverty through subsidised funding. It is conducted by combining grants, social security funds, interest-free loans and Non-Governmental Organisations (NGOs), to name a few, with specific government investments in infrastructure development, health and education that have the potential to assist boost the income of the very poor. Its objectives include preventing the extremely poor from turning to moneylenders. This bridges the Islamic microcredit gap, assisting the extremely poor in acquiring the necessities of life and independence. Other than that, it builds adequate internal financial and human resources while using nano credit funding to settle other debts they owe. This nanocredit scheme also reduces the negative humanitarian consequences of poverty and money lending.

Recently, there has been an interest in nanocredit. Although there are limited studies on nanocredit, there have been some attempts to review the topic. As a result, this study will substantially fill a gap in the literature. In contrast to other research, this study adopts a different methodology to thoroughly review the literature on the development of nanocredit to address the innovative and reliable tools that are dependable financial inclusion for the underprivileged.

## AIMS AND OBJECTIVES

The aims and objectives of this study are to fill a gap in the literature on nanocredit by conducting a systematic evaluation of its development and efficacy as an innovative and reliable tool for financial inclusion for the poor. Specifically, the study aims to: describe the nanocredit institutions in India, Indonesia, and Thailand; identify the sources of funding for these institutions; detail the nanocredit contract between providers and borrowers; and discuss how nanocredit schemes offer a viable and innovative solution to financial inclusion challenges faced by the underprivileged. Through these objectives, the study seeks to highlight the potential of nano credit to provide accessible and low-cost financial services to those excluded from traditional banking systems, thereby supporting poverty alleviation and economic empowerment.

## METHODS

A systematic review can provide a thorough overview of the procedure for conducting a Systematic Literature Review (SLR). For the purpose of researching a specific research question, an SLR is a significant and popular method for evaluating and synthesising the available data. By critically analysing all pertinent studies and synthesising their findings, an SLR aims to provide a thorough and current understanding of the current state of knowledge on a specific topic. Note that

SLRs are frequently used in research in various fields, including psychology, sociology, education, healthcare, and computer science. Additionally, they are especially helpful in fields with a substantial body of literature, where it is crucial to comprehend the general direction of research and where it is important to pinpoint gaps in the body of knowledge. Common steps in the SLR process include:

1. Developing an understandable research question.
2. Establishing standards for inclusion and exclusion.
3. Carry out a thorough study search to find pertinent articles.
4. Study evaluation and inclusion selection.
5. Taking data from the included studies and combining it.
6. To evaluate the included studies' quality and risk of bias.
7. Data evaluation and analysis.
8. Summing up the results and recommendations.

Following a set of clearly defined procedures and summarising the results clearly and concisely is crucial for ensuring the SLR is rigorous, transparent, and reliable.

### ***Review Protocol – ROSES***

The SLR is guided by the Reporting Standards for Systematic Evidence Syntheses (ROSES). ROSES were developed by Haddaway et al to ensure and manage the review's quality and enhance and maintain a sound methodology for creating an SLR through increased transparency (Haddaway et al., 2018). Even though this review is more focused on nanocredit, and ROSES was developed specifically for environment management, the review protocol is appropriate for the current review as it was designed to accommodate the nuances and heterogeneity across various situations and research regarding the synthesis method (Haddaway et al., 2018). The SLR process was guided by ROSES, established by the PICO method, which stands for Problem or Population, Interest, and Context.

The strategy for document searching was planned and executed in three systematic phases: identification, screening, and eligibility. Prior to being included in the review, the calibre of each selected article was assessed in this case. Afterwards, the selected articles underwent several processes, including data extraction and analysis. The extracted data was analyzed using qualitative (thematic) synthesis, guided by the primary research question.

### ***Formulation of the Research Questions***

The research questions for this study were inspired by two sources. First, ideas from earlier studies of microcredit, such as those by Ribero et al and Tria et al (Ribeiro et al., 2022; Tria et al., 2022), were used as a starting point. The mnemonic PICO (Lockwood et al., 2015), which stands for "P" (population or problem), "I" (interest), and "Co" (context), is used as the second source. The analysis of poor people (Population), nanocredit (Interest), and nanocredit is an innovative and reliable financial inclusion for the poor (Context) in this study was built on these ideas. This made it possible to develop the research questions for the study, which were: How are the nanocredit institutions in India, Indonesia, and Thailand doing? What are the funding sources for these institutions that offer nanocredit? What are the terms of the borrower-provider nanocredit contract for these nanocredit institutions? Is the nanocredit programme an innovative and reliable source of financial inclusion for the poor?

### ***Systematic Searching Strategies***

Three fundamental stages of the systematic review process were used to select a large number of relevant papers for this study. In conjunction with this, three systematic identification, screening, and eligibility processes were used to find pertinent articles (Shaffril et al., 2021). Using these procedures, researchers could thoroughly locate and synthesise the studies for a coherent and understandable SLR.

### ***Identification***

In the first stage, keywords are identified, and related terms are sought using thesauruses, dictionaries, encyclopaedias, and previous research. These keywords are nanocredit and nanofinance. Search strings have been created for the Scopus, Web of Science (WoS), Emerald Insights, and Google Scholar databases using search functions such as field code functions, phrase searching, wildcards, truncation, and Boolean operators (Table 1). From the selected databases, the current study successfully obtained 24 papers.

**Table 1. The Search String.** Note: Date of access: 27 March 2023.

Source	Description
Scopus	TITLE-ABS-KEY ((nanocredit OR nano AND credit OR nano-credit) AND (nanofinance OR nano AND finance OR nano-finance))
Google Scholar	Nanocredit OR nano credit OR nano-credit OR nano finance OR nano finance OR nano-finance
Web of Science	Nanocredit OR nano-credit OR nanofinance OR nano-finance (Topic)
Emerald Insight	Advanced search "nanocredit" OR ("nano credit") OR ("nano-credit") OR ("nanofinance") OR ("nano finance") OR ("nano-finance")

### Screening

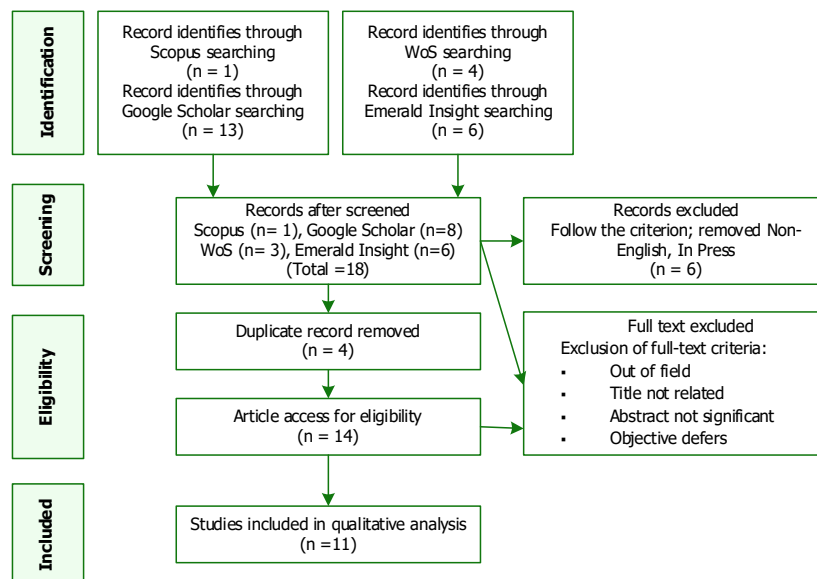
The second procedure was screening, where articles were either included or excluded from the study based on a pre-determined set of criteria (using the database or manually by the researchers; see Table 2). Additionally, the screening phase extensively selects research topics based on the classification of nanocredit/nanofinance. The screening process for this review was limited to articles published between 2000 and 2022 in consideration of the idea of "research field maturity", as emphasised by Kraus et al (2020) (Kraus et al., 2020). This time frame was selected since there were enough published studies to make a thorough review. Furthermore, journal articles, conference proceedings, books, and reviews were the first criteria considered, as they were the primary sources of useful recommendations. To avoid confusion, the review was also restricted to works published in English. Consequently, six publications were removed since they did not meet the inclusion criteria, leaving 18 articles for evaluation in the following phase.

**Table 2. The selection criterion is searching.** (Source: Siti Nur Aisyah Azeman, Anis Zafirah Azmi, Nurul Hafizah Zainal Abidin, Nor Alwani Omar, (2024))

Criterion	Inclusion	Exclusion
Language	English	Non-English
Timeline	2000 – 2022	-
Literature type	Journal (Article), Conference Proceeding Book, Review	-
Publication Stage	Final	In Press

### Eligibility

The researchers manually examined the remaining papers to see if they satisfied the requirements for inclusion (either by reading the title, abstract, or entire paper). During the title and abstract screening phase, three articles were dropped. At this point, three articles were removed since they did not focus on nanocredit and nanofinance, and their methodology sections were unclear. Correspondingly, eleven articles were ultimately evaluated for quality (Figure 2).



**Figure 2. Flow diagram of the proposed search study.** (Source: Moher, Liberati, and Tetzlaff, 2009)

### Quality Appraisal

The remaining articles underwent two professional evaluations to ensure the calibre of their content. According to Petticrew and Robert, the evaluation of the article's quality should be divided into three quality categories: high, moderate, and low (Petticrew & Roberts, 2008). They contend that only articles with a high or moderate rating should be reviewed. Therefore, the researchers must concur that the article's quality is at least moderate to be considered for the review. The methodology will also be a key factor in the experts' assessment of the article's quality. Moreover, any differences of opinion in this regard were discussed before the inclusion or exclusion of the articles for the review was decided. In conjunction with this, this study developed themes in four categories. It validated these themes to see their relevance to the research questions, which the quality assessment criteria were inspired by Downes et al (Downes et al., 2016). Three ratio scales are in use: YES, NO, and DO NOT KNOW. Following this process, eleven articles were rated as YES, making all the articles eligible for review (Table 3).

**Table 3. The final AXIS tool follows consensus on all components by the Delphi panel. Development of a critical appraisal tool to assess the quality of cross-sectional studies (AXIS).** (Source: Downes et al., 2016)

Question	Yes	No	Do not know/ comment
<b>Introduction</b>			
1. Were the aims/objectives of the study clear?			
2. Was the study design appropriate for the stated aim(s)?			
3. Was the sample size justified?			
4. Was the target/reference population clearly defined? (is it clear who the research was about?)			
5. Was the sample frame taken from an appropriate population base so that it closely represented the target/reference population under investigation?			
6. Was the selection process likely to select subjects/participants that were representative of the target/reference population under investigation?			
7. Were measures undertaken to address and categorise non-responders?			
8. Were the risk factors and outcome variables measured appropriate to the aims of the study?			
9. Were the risk factor and outcome variables measured correctly using instruments/measurements that had been trialled, piloted or published previously?			
10. Is it clear what was used to determine statistical significance and/or precision estimates? (eg. P values, cIs)			
11. Were the methods (including statistical methods) sufficiently described to enable them to be repeated?			
<b>Result</b>			
1. Were the basic data adequately described?			
2. Does the response rate raise concerns about non-response bias?			
3. If appropriate, was information about non-responders described?			
4. Were the results internally consistent?			
5. Were the results of the analyses described in the methods, presented?			
<b>Discussion</b>			
1. Were the authors' discussions and conclusions justified by the results?			
2. Were the limitations of the study discussed?			
<b>Other</b>			
1. Were there any funding sources or conflicts of interest that may affect the authors' interpretation of the result?			
2. Was ethical approval or consent of participants attained?			

### Data Extraction and Analysis

The objective of data extraction is to obtain standardised findings that can be utilised to respond to the research questions. A data extraction form is necessary to accurately and objectively record the information extracted from the chosen articles during the data extraction process. In addition, due to the review relying on various research designs, the articles will be thematically analysed, presenting the most effective methods of integrating the differences through qualitative synthesis (Whittemore & Knafl, 2005). Flemming et al suggested the approach used in this review which highlighted the usefulness of thematic synthesis for synthesising data from various research designs due to its adaptability (Flemming et al., 2019). Note that the thematic analysis looks for patterns in existing studies and reports them by finding any relationships or similarities in the data at hand (Braun & Clarke, 2019). Meanwhile, Kiger and Varpio suggested steps that served as the foundation for this thematic synthesis review (Kiger & Varpio, 2020). The researchers initially familiarised themselves with the entire dataset through active and repeated readings. Through this process, the researchers gained valuable insight into the unprocessed data, which also served as the foundation for all later steps.

The second procedure involved creating initial codes. Here, the researchers have organised the data at a detailed and specific level. In other words, the researchers will read the selected articles and extract any data relevant to the primary

research questions. On the other hand, the third step involved developing themes from the coded data. In this step, the researchers used inductive coding frameworks to look for patterns, similarities, and connections among the extracted data. According to Braun and Clarke, the themes were related to the original data and were representative of the entire data set (Braun & Clarke, 2019). They were developed from the coded data using an inductive coding framework. For this study, three main themes were created throughout this process. The created themes needed to be reviewed in the next step. Moreover, the chosen articles/materials may therefore be evaluated by authors and co-authors, which is in line with Charrois, stating two or more people must complete the evaluation Charrois (2015). Here, the researchers used the idea of mutual agreement to assess the themes' applicability. A discussion will be held to try to reach a consensus if the evaluators disagree with some evaluations.

However, if this process also fails, they will seek a second opinion (Kraus et al., 2020). Three main themes emerged as a result of this process. The themes were then validated by two qualitative syntheses and community development experts. In addition, both experts were questioned about the themes' relevance to the research questions. Following this method, all three themes were retained.

## RESULT AND DISCUSSION

Eleven articles were discovered and reviewed using a specific search technique. Consequently, all these articles were reviewed by the researchers to discuss the previously stated objectives, which are:

- to describe the nano credit institutions in Thailand, Indonesia and India;
- to describe the sources of funding for these nano credit institutions;
- to describe the nano credit contract between the provider and borrower for these nano credit institutions;
- to discuss that nano credit scheme is an innovative and reliable financial inclusion for the poor.

### ***Nanocredit institutions in India, Indonesia, and Thailand***

Evidence in the literature indicates that the practice of nanocredit has been established in several countries, such as India, Indonesia, and Thailand. In India, the country with the highest number of poor people, a new concept of nanocredit institutions emerged in 2007. The pioneer, Mahanti, established a nanocredit institute, Amara Biswas, in 2007, intending to discourage women from becoming money lenders and assisting them in times of need (Mahanti, 2008). Accordingly, the establishment of this organisation is due to a vast number of individuals do not have access to small loans for their emergency needs (small business expansion, education, illness, death, and weddings, for example), and some of these people turn to money lenders for a loan. In fact, according to the author, the establishment of this Nanofinance Institution (NFI) is meant to complement rather than compete with Microfinance Institutions (MFIs). The goal is precise and does not intend to make these women financially rich. However, it allows them to fulfil their most basic needs. The concept is simple: women who are unable to obtain assistance (loans) from MFI will be helped by NFI for their emergency needs, where a very small loan is offered with no interest to women who need funds for personal reasons, with a one-year payback period. As a result, they would be less likely to seek out a money lender with a higher interest rate. The organisation aims to make these women self-sufficient and provide them with the basic necessities of life, such as a safe place to live, enough food for their families, a basic education, and health care.

Another nanocredit alternative in India is Sarvodaya Nanofinance Limited (SNFL), promoted by the Association for Sarva Seva Farms (ASSEFA), a Gandhian-inspired organisation. In the late 1980s, ASSEFA established activity groups to encourage rural poor people to save. ASSEFA was a forerunner in forming women's Self-Help Groups (SHG) in Tamil Nadu. SHGs' savings pool was used to fund its members' credit needs. Note that external credit was required to meet the growing demand of members, which led to the formation of SNFL. It was established in 2003 under the Companies Act of 1956. SNFL is a one-of-a-kind NBFC established solely to meet the credit needs of women in rural and semi-rural areas through federations known as Sarvodaya Mutual Benefit Trusts (SMBTs). SMBTs are self-contained, for-profit entities that pay taxes and own approximately 74% of SNFL. SHGs are SMBT members. Furthermore, SMBTs pool contributions from individual SHGs and then transfer these funds to SNFL as equity. Aside from that, SMBTs' excess funds and income are invested as share capital in SNFL. SNFL obtained external loans for on-lending from mainstream financial institutions using this share capital. Since 2012, SNFL has made direct loans to individuals (Akhileshwar & Sriram, 2004).

Meanwhile, in Jember, Indonesia, the practice of nanocredit is operated by the Bank for Poor Families or Bank Keluarga Miskin (Bank Gakin). Each branch of Bank Gakin will provide nanocredit for a maximum of 200 poor people, 90% of whom are women. In 2014, the bank had 454 branches with a total membership of 29,410 people. Meanwhile, a study by Musari

revealed that Bank Gakin had demonstrated proven success with positive responses among poor people as the banks offered them easy access to loans Musari (2019). Bank Gakin was founded on the model of Bangladesh's Grameen Bank. The bank's operation is identical to that of Indian SGHs, in which a group of five to ten people apply for a business loan between IDR 50 thousand to IDR 1 million with a repayment period of 10 weeks at a rate of interest 0.5%. Interestingly, those interested in applying for a loan may submit a proposal without having to present it. After the loan has been applied, the funds will be disbursed immediately after a proposal survey is completed.

Other than that, in 2017, the Indonesian central government established Kredit Ultra Mikro (UMI) through the Ministry of Cooperatives and Small and Medium Enterprises (Kemenkop and UKM) Musari (2017). The UMI was established to provide financial services to all parties, particularly those with difficulty accessing banking services. Here, clients are offered IDR 10 million and less without collateral through UMI. Following the ideas of nanocredit in Indonesia, it can be observed that the financial service of nanocredit is highlighted as a chance for those in need of money, particularly the poor. Hence, the funds obtained can assist these people in supporting not only their livelihoods but also the welfare of their families.

Meanwhile, the government of Thailand has provided opportunities for non-bank institutions and the private sector to participate in a government-supported nanofinance project. The government of Thailand believes that nanofinance is an alternative mechanism of lending to be offered to those who do not have access to financial institutions (Musari, 2019). Moreover, the Bank of Thailand (BOT) sees nanofinance as a way to address the issue of borrowers seeking loans from unregulated sources outside the financial system. By offering smaller loans through formal channels, nanofinance can provide fairness, transparency, and clarity while promoting the development of micro-loans. Furthermore, it would also enhance financial stability by educating people about interest rates. The credit line is offered to each consumer in an amount not exceeding THB 100,000 and is based on the consumer's ability to repay. In addition, financial institutions may collect from consumers interest on outstanding debt or interest on defaulting debt, service charges, or a penalty fee for late payment in an amount that does not exceed 36% when totalled (effective rate). Accordingly, nanocredit is established to encourage access to finance for businesses and individuals and alleviate debt issues in the formal sector.

#### ***Sources of funding for these nano credit institutions***

In the search for nano credit and funding sources, it is essential to investigate numerous avenues and possibilities. Expanding this search and considering various options can increase the recipient's chances of obtaining the necessary and right financial assistance. Each source may empower individuals and businesses with limited financial resources, fostering entrepreneurship and economic growth. In relation to this, Musari suggested that the sources of funds may come from grants, donations, Corporate Social Responsibility (CSR), philanthropy institutions, crowdfunding, infaq, shadaqa, waqf and waqf-sukuk Musari (2020). These suggested sources of funds enable recipients to get small loans without interest with minimal cost. On the other hand, according to Martinez et al., the source of funds may originate from crowdfunding, peer-to-peer lending and business angel investment, as well as self-financing groups form community-based associations that act as small savings and loan cooperatives of individuals Martinez et al. (2021). In another article in Indonesia, MFIs offer nanofinance for the poor, initiated by the Department of Cooperative and Micro Small Medium Enterprises (MSMEs) in 2005 Musari (2019). In Jember, the term MFI for the society is usually called the Bank for Poor Families or Gakin or Bank Gakin. Bank Gakin in Jember operates like India's SHGs and has its own fund. At the same time, Pathak and Sriram discussed how SHGs obtain funds from commercial banks and specialised MFI lenders Pathak and Sriram (2004). For instance, most SHGs participating in the International Fund for Agriculture and Development (IFAD) programme received grants totalling INR 15 thousand each for capital development.

Meanwhile, The government decided to use state-owned banks or financial institutions as tools to address the issues of unlawful lending Chonlaworn and Pongpirodorn (2015). For instance, the Government Savings Bank (GSB) launched the "People Bank Project" to offer cash or revolving money for work-related investments, living expenses, or paying off other loans. In addition, Sarma mentioned that the source of funds is from government projects, investors and commercial banks Sarma (2020). According to Musari and Fathorrazi, the socioeconomic development of Islamic culture has benefited greatly from Islamic social finance Musari and Fathorrazi (2021). For instance, ZISW, or zakat, infaq, shadaqa, and waqf, have evolved as alternatives for reducing poverty. Lastly, Medias et al. remarked on the waqf's contribution to the socioeconomic growth of Organization of the Islamic Cooperations (OIC) nations Medias et al. (2022). Waqf acted as a means of reducing poverty, making soft loans to the community, and increasing access to entrepreneurship and education.

#### ***The nano credit contract between the provider and borrower for these nano credit institutions***

Musari and Fathorrazi strongly urged the applying the contract of Qard al-Hasan to ensure fairness and effectiveness, especially for the recipients Musari and Fathorrazi (2021). Aligned with this, Medias et al also insisted on considering waqf

using the Qard al-Hasan contract Medias et al. (2022). Thus, the Qard al-Hasan contract is significant for the implementation. This is also in conjunction with the Musari study that proposed a contract based on Qard al-Hasan (0% interest rate) for emergency needs (for sustenance, medical care, education, death, wedding, and daily necessities, livelihood, small and micro businesses) Musari (2020). Moreover, the author added that recipients do not necessitate paperwork or adherence to rigid rules and regulations to obtain small financing for emergency requirements. For commercial purposes, individuals can be presented orally. After conducting a quick business-focused analysis, funds can be treated as liquid funds immediately.

In addition to this also, Musari, the author noted that the MFIs contract in Indonesia and the BOT. In Indonesia, under the MFIs, for business loans, a group of 5-10 individuals can apply between IDR 50 thousand to IDR 1 million Musari (2019). People who apply for credit do not have to submit business proposals. Note that the proposals can be presented orally. Whereas in Thailand, under the BOT, the maximum amount of nanofinance is up to Bt100 thousand with the interest rate not exceeding 36% p.a. for 2-3 years. Furthermore, the similarity between the two nanocredit schemes for both countries is that there is no collateral requirement (Musari, 2019; Suktam, 2018). Meanwhile, referring to Mahanti, small loans from USD 10 thousand to USD 20 thousand are offered by Aamara Biswas, and they may be repaid in a year Mahanti (2014). Moreover, this small loan is merely for women, it involves minimal paperwork, and the waiting time is also short. Nevertheless, recipients must meet one condition: they have no prior loans with Aamara Biswas that are still unpaid. There should be no intermediary in the loan negotiations. For instance, for 2013-2014, the Biswas has an amount of USD 15 thousand for nanocredit.

On another note, Musari highlighted the significance of utilising the Qard al-Hasan contract for emergency necessities such as food and medical care Musari (2019). This contract provides a secure and moral alternative to illegal loans and loan sharks. In addition, Musari suggested considering musharakah/mudarabah contracts for small businesses. In addition, Suktam also mentioned similar notes on Musari on the nanocredit policy in Thailand. The contract involves an interest rate of less than 36% per annum (Musari, 2019; Suktam, 2018). The maximum loan amount is THB 100,000 with an interest penalty. Additionally, businesses may apply for this loan, and it must be either a limited or public capital with a business licence from the Ministry of Finance. Table 4, extracted from Chonlaworn and Pongpirodom's study, presents the nanocredit contracts that can be considered by Chonlaworn and Pongpirodom (2015).

**Table 4. Nanofinance Contracts.** (Source: Chonlaworn & Pongpirodom, 2015)

Items	Nanofinance Descriptions
Interest Rate	<ul style="list-style-type: none"> <li>Not exceeding 36% per year</li> </ul>
Interest Calculation	<ul style="list-style-type: none"> <li>Effective Interest Rate</li> </ul>
Loan Issuance amount per person	<ul style="list-style-type: none"> <li>Maximum of 100,000 baht</li> </ul>
Loan Targets	<ul style="list-style-type: none"> <li>Promote better access to capital</li> <li>Increase occupational opportunities</li> <li>Alleviate illegal lending</li> </ul>
Target Group	<ul style="list-style-type: none"> <li>New business owners that may not have a constant income, monthly paycheck, or limited financial history.</li> <li>Low-income groups/individuals that do not meet financial institutions' borrowing criterion</li> </ul>
Requirements for borrowers	<ul style="list-style-type: none"> <li>Individuals capable of repaying debts</li> </ul>
Collateral	<ul style="list-style-type: none"> <li>No collateral required</li> </ul>
Debt Collection Method	<ul style="list-style-type: none"> <li>A lender issues an invoice to notify the borrower of the amount and time the repayment is due or directly credits monthly payments from a bank account according to the agreement term between the lender and the borrower. Debt collection methods, however, must comply with BOT regulations and related legislation.</li> </ul>
Disadvantages	<ul style="list-style-type: none"> <li>Interest rates may be as high as 36% per year</li> <li>Credit scores, as recorded by the Credit Bureau, are affected if no repayment is made</li> </ul>

On the other hand, Martinez et al have proposed a contract using Agent-Based Simulation-Self-Financing Groups (ABS-SFG) (Martinez et al., 2021). Note that this contract consists of four algorithms. Algorithm 1 is to create an artificial community of agents with three demographic characteristics: age (a), gender (g), and the number of dependent household

members (i.e., children and the elderly, h). The second algorithm establishes a self-financing group by selecting its members. In Algorithm 3, Agent-based simulation of self-financing groups and social capital formation. In the final algorithm, Algorithm 4, agents use the social capital and debt capital obtained from self-financing to launch a joint business venture. Furthermore, it is assumed that the group members initiate a business together; this is a direct result of homophily and tends to be prevalent in low-income groups of women, such as those served by self-financing groups. The diagram below, Figure 3, is the proposed ABS-SFG.

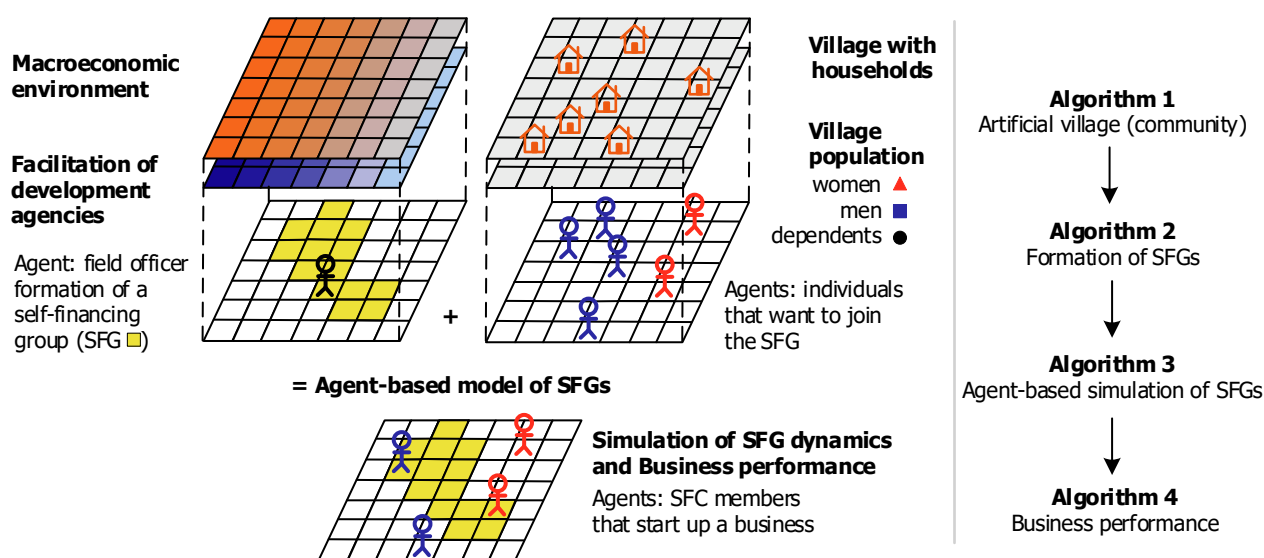


Figure 3. Agent-Based Simulation: Self-Financing Groups (ABS-SFG). (Source: Martinez et al., 2021)

### Nano credit scheme is an innovative and reliable financial inclusion for the poor

Financial inclusion is merely a financial services access based on equal rights and obligations provided to the impoverished society. The majority of them are left out when it comes to financial offerings due to their poor creditworthiness. Therefore, an instrument such as a nanocredit is a solution to ensure that poor society can access financial services at a reasonable cost. As was already noted, nanocredit was developed to address the limitations of microfinance. The basic goal of various programmes is to provide loan access to those who need money to maintain their living standards. The participants in the schemes will not make them wealthy. However, they will have the chance to take care of their most basic necessities.

In keeping with its objective to help people in need, nanocredit is believed to be the solution to ending loan sharking among the poor. Musari stated that since they do not have access to institutional funding sources, most low-income micro-entrepreneurs rely on hugely costly informal loans offered by loan sharks (Musari, 2019).

Indirectly, nanocredit can also get rid of an epidemic of suicide cases which was apparent in India. It was reported that several farmers committed suicide due to their inability to pay the debt is no secret within society (Maity, 2016; Musari, 2019). Therefore, nanocredit innovations, such as those evidenced in Thailand, Indonesia and India, can be replicated by other countries in reducing the social problems associated with illegal loan schemes. Below are the nanocredit schemes, the type of loan and their benefits (Table 5).

Table 5. Nanocredit scheme, type and benefit. (Source: Musari, 2019)

Country	Scheme	Loan Type	Benefit
India	Nanofinance Institution (NFI)	A very small loan with no interest offered to women with a year payback period	To create financially independent women and provide them with basic necessities (safe place, enough food, basic education and health care).
Indonesia	Kredit Ultra Mikro (UMI).	A low-cost credit that is offered by the cooperation of cooperatives and the non-bank financial industry.	To accommodate the financial needs of those who lack the capacity and capability to meet banking requirements.
Thailand	Nanofinance Project	A small loan with no collateral offered to people is categorised as a higher risk in accessing loans from the banks.	To provide easy loan access to poor people and to eradicate loan shark activities within the poor society.

To further explain, developed countries such as Thailand, Indonesia and India had their share of hardship in trying to eradicate poverty in their countries. These countries produced microfinance as an initiative to assist the impoverished. However, the microfinance programs did not achieve the intended outcome. As such, nanocredit was introduced; Amara Biswas-India, UMI-Indonesia and Nanofinance Project-Thailand. All these nanofinances have the same objective; to offer small loans to poor people. This is with the aim that they can provide for basic needs such as food and shelter, including emergency needs ranging from business expansion, education, illness, death, and weddings.

Through Aamara-Biswas, women in India were able to live comfortably where small loans were provided, enabling them to live comfortably. One woman flourished in her business, and a number of women were able to have more savings. All of these were achieved in less than three years. Prior to the existence of nanocredit, these women were reluctant to come out from their hardship since they were afraid of their husbands, and there was no means of assistance being offered to them. In addition, most financial institutions were rigid in their lending procedures. Even when microfinance was available, not all of these poor women were given the fund assistance to start a better living. Hence, with Aamara-Biswas, some of the Indian women were able to improve their standard of living.

In Indonesia, the establishment of UMI successfully matched those small groups denied access to banking facilities. This nanocredit was made possible by collaborating cooperatives and non-bank financial institutions. The same story was evidenced by the success of the nanocredit project in Thailand, where individuals and small businesses successfully had access to fund assistance without any collateral.

Nevertheless, the provision of this nanocredit is not without issues. Some of the issues include coordinators who were dissatisfied over low pay and not trustworthy. Another issue was that the manual system of recording information may be lost due to a staff change. Part and parcel, these issues have hindered the successful progression of Aamara-Biswas (Mahanti, 2014). Additionally, borrowers may be subject to problems in credit rating due to prepayment of a high ceiling interest rate (Musari, 2019).

In line with its objective to provide financial services to low-income people in developing or underdeveloped areas, giving accessibility and affordability of financial products, nanocredit seeks to close the financial inclusion gap. Furthermore, different funding sources for nanocredit institutions may be available depending on the specific organisation and its structure. Given the available literature, there are a few typical funding sources for nanocredit, such as zakat, infaq, shadaqa, waqf, cooperatives schemes, government/Islamic institutions and commercial/local banks. Depending on the region, regulatory environment, institutional structure, and particular focus of the nanocredit institution, the availability and mix of funding sources can change. Moreover, each institution uses a unique set of tactics to raise money, ensure the longevity of its operations, and carry out its social mission of helping those in need of financial assistance.

In the nonexpert's understanding, nanocredit refers to the provision of financial services to low-income individuals and companies with limited resources. It seeks to address the lack of financial inclusion by providing small-scale financial products and services tailored to underserved populations' needs. Typically, nanocredit provides nanocredit, savings, insurance, microinsurance, and other fundamental financial services. These services are intended to be accessible, affordable, and convenient, frequently utilising mobile technology and digital platforms to reach a greater number of customers. Additionally, providers of nanocredit prioritise serving underserved communities, such as rural populations, small-scale entrepreneurs, and individuals without access to conventional banking services. A contract refers to the agreement between the financial service provider and the client in the context of nanofinance. These contracts detail the terms and conditions of the offered financial product or service, including interest rates, repayment schedules, fees, and any other pertinent clauses.

Furthermore, contracts in nanofinance are typically designed to be straightforward, comprehensible, and simple for individuals with limited financial literacy. In some instances, nanocredit institutions may tailor their contract structures and terms to their target clients' specific needs and capabilities. This adaptability may involve streamlined contract formats, group lending contracts, or community-based guarantee systems. Contracts in nanocredit provide the framework for establishing clear and equitable relationships between the institution and the client, ensuring that financial services are provided responsibly and transparently. Thus, based on the nanocredit programmes discussed in the previous section, we propose the following model for funding sources and contracts of nanocredit in Table 6.

**Table 6. Proposed Sources of Funds and Contract.**

Items	Descriptions
Funding Sources	Zakat, infaq, shadaqa, waqf; cooperatives scheme; overnment /Islamic institutions; commercial/local banks
Contract	Qard al-Hasan: In a Qard al-Hasan transaction, the borrower pays back the loan's principal amount with no markup, interest, or ownership stake in the company. This financial service complies with the Sharia's ban on riba.
Interest Rate	Free interest rate
Service Fee	Minimal Service Fee
Loan Issuance amount per person	Maximum of RM3,000
Loan Targets	Better access to capital More job opportunities Access to education Reduction in illegal lending (i.e., Ahlong)
Target Group	Groups or individuals with low income who do not fit the financial institutions' criteria for borrowing. New micro and small business owners might not have a regular source of income, a monthly paycheck, or much financial experience.
Requirements for borrowers	Individuals capable of repaying debts
Collateral	No collateral required
Debt Collection Method	According to the terms of the agreement between the lender and the borrower, the lender either directly credits monthly payments from a bank account or issues an invoice to the borrower notifying them of the amount and time the repayment is due. However, the debt collection strategy must adhere to stipulated terms, conditions, and relevant laws.

As previously mentioned, nanocredit is to supplement the existence of microcredit. Before the innovation of nanocredit, the empowerment of women in eradicating poverty under the microcredit program was a success. Success stories of underprivileged women improving their quality of life through entrepreneurship programs are often flashed to the public. These women used the microcredit scheme/program to participate in income-generating activities. Albeit to this, Hassan, Shalhoob and Falattah established that there should be an enhancement to the microcredit programs to ensure that the benefits of credit offerings will cover all types of beneficiaries (Hassan et al., 2020). Thus, nanocredit, being quite new in the lending industry, is starting to capture the interest of many people, especially poor women who encounter difficulties getting loans. Furthermore, women are vulnerable and are less expected to make decisions independently. They are being neglected in comparison to men in getting loans due to society's existing norms, cultures and values. Hence, a mechanism that can close the gap between financial and real sectors and equal distribution of wealth in creating distribution justice is needed to eliminate these sentiments.

## CONCLUSIONS

This study employs a distinctive approach to thoroughly evaluate the literature on the development of nano credit to address the innovative and reliable tools that provide dependable financial inclusion for the poor. In some underdeveloped and developing countries exists a micro-society comprising extremely poor and low-income individuals and micro-entrepreneurs who lack access to bank financing and are compelled to borrow from loan sharks. Banks are unable to accommodate the need for a micro-society to procure financing. Therefore, the recent emergence of MFIs enables the extremely poor, those with low incomes, and microenterprises to access financial services through what they term nano credit.

Countries such as India, Indonesia and Thailand have introduced nanocredit programs, which have seen successful implementation and benefit their poor society. The benefits of nano credit include socioeconomic development and personal empowerment, assisting individuals and entrepreneurs in launching their businesses, creating employment, and earning more money, eminently increased economic activity and improved living standards of the poor society. Thus, proper mechanisms of nano credit such as sources of funds, consisting of zakat, infaq, shadaqa, and waqf, as well as other nano credit in the form of cooperatives schemes, government institutions and commercial/local banks, can further enhance the existing nano credits in benefiting all intended participants.

For source of funding, most nanocredit, the main sources of funding for nanocredit institutions include grants, contributions, Corporate Social Responsibility (CSR), charity organizations, crowdsourcing, infaq, shadaqa, waqf, and waqf-sukuk. Other sources come from self-financing groups, which are community-based organizations that function as little savings

and lending cooperatives of individuals, as well as peer-to-peer lending, business angel investing, and crowdfunding. Certain institutions receive funding from specialized MFI lenders and commercial banks in addition to their own money.

The study's findings also indicated that Qard al-Hasan contracts, which offer a safe and ethical substitute for illicit loans and loan sharks, may be used for urgent needs like food and medical attention. For small firms, musharakah/mudarabah contracts provide additional options for use. These agreements are more accommodating and less restrictive for people who require help.

In addition, in an attempt to address the issue of financial inclusion, nanocredit provides small-scale financial products and services that are tailored to the requirements of underrepresented groups. Savings, insurance, microinsurance, nanocredit, and other fundamental financial services are typically provided by nanocredit. These services are designed to be widely accessible, affordably priced, and convenient; to reach a wider audience, they frequently utilize mobile and internet platforms. Thus, nanocredit provides the framework for establishing equitable and clear relationships between the customer and the organization, ensuring that financial services are provided in a morally and publicly responsible way.

Nonetheless, the government and concerned parties need to address some issues that may hinder the successful implementation of nanocredit. Some of these issues include the management of the nanocredit, a proper trail of the nanocredit activities, and the availability of policy to safeguard the borrowers' credit rating. The solutions that may help ease these issues include hiring a person in charge with good pay, installing software to record nanocredit activities properly and having a separate policy governing non-payment of nanocredit loans.

Several potential areas for prospects for further research into nanocredit programs may include assessing their long-term socioeconomic impacts, comparing their effectiveness to other financial inclusion tools, and studying differences between nanocredit and microcredit. Researchers should also explore aligning nanocredit with Islamic finance principles and integrating Islamic philanthropic funds. The role of digital platforms, fintech, and blockchain in improving nano credit management and transparency warrants examination, as does the impact of policy and regulatory frameworks on these programs. Additionally, understanding socio-cultural factors, addressing challenges faced by providers and borrowers, and evaluating the macroeconomic and environmental impacts are crucial. Gender perspectives and the potential for promoting sustainable practices among low-income communities are also significant areas for future research. These investigations can enhance strategies for financial inclusion and poverty alleviation.

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## ADDITIONAL INFORMATION

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### AUTHOR CONTRIBUTIONS

*All authors have contributed equally.*

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### CONFLICT OF INTEREST

*The Authors declare that there is no conflict of interest.*

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## НАНОКРЕДИТ ДЛЯ РОЗШИРЕННЯ ПРАВ І МОЖЛИВОСТЕЙ ЗНЕДОЛЕНИХ: КОМПЛЕКСНИЙ СИСТЕМНИЙ ОГЛЯД

Бідність – це універсальна реальність, яка набуває різних форм у всьому світі. Її вважають найбільш згубною економічною та соціальною проблемою, оскільки вона є першопричиною порушень прав людини через руйнівний вплив на особу та суспільство. У сучасну епоху бідність стала серйозною глобальною проблемою, що перешкоджає економічному та людському розвитку й призводить до позбавлення добробуту. Будь-який тип кредиту, мікро- або нанокредитування, повинен бути добре реалізований, щоб допомогти бідним. Останнім часом з'явився інтерес до нанокредитування. Незважаючи на те, що існує обмежена кількість досліджень щодо нанокредитування, були деякі спроби переглянути цю тему. На відміну від інших досліджень, у цій статті використана інша методологія для ретельного огляду літератури з розвитку нанокредитування, щоб розглянути інноваційні та надійні інструменти, які є надійною фінансовою інклюзією для малозабезпечених верств населення. Це дослідження проводиться з метою всебічного огляду та аналізу поточних досліджень у сфері нанокредитування. Scopus, Web of Science (WoS), Emerald Insights та Google Scholar індексують оглядову літературу з 2000 по 2022 рік для доступу до опублікованих статей. Дослідження показали, що нанокредитування – це нова парадигма в кредитній індустрії з меншими вимогами та бюрократією. Незважаючи на те, що йому все ще бракує повної відповідності нормам шаріату, нанокредитування є рятівником для бідних у підвищенні якості їхнього життя. У простому розумінні нанокредитування має стати мостом, який з'єднає ісламські фінанси та ісламську філантропію.

**Ключові слова:** нанокредитування, бідність, контракт, джерела, ісламські фінанси, неможливі

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