

# ISLAMIC SOCIAL FINANCE: RELEVANCE AND RECOGNITION WITH RESPONSIBILITY

The consistent growth of the global Islamic banking and finance has provided a niche market with solutions and financial inclusion through a well-defined Islamic ethos. Unfortunately, Islamic finance has been criticized for having diverted from its core principles of socio-economic empowerment and upliftment. As in mainstream interest-based finance, Islamic financing and advances rely on the customers' credit-worthiness and the ability to repay, inevitably supporting those with good credit standing to improve their financial status. But how has Islamic finance improved the lot of the downtrodden? What about the ethical, socio-economic tenets that Islamic finance has so vociferously espoused? We are perhaps at the brink of a new era in Islamic finance, driven by a global appetite for socially responsible and ethical investment created by the hype from the UNPRI 6<sup>1</sup> and the more recent UNSDG 17<sup>2</sup>.

Rising income inequality and mass migrations due to natural disasters, war and political crises have increased substantially over the last decade. Reports by the World Economic Forum in 2011 and 'SRIs & the case for Islamic Investment Funds'<sup>3</sup> in 2015, indicate that a paradigm shift in investment mindset is observable through divestments from fossil fuels to the funding of ethical, sustainable and good governance corporations.



*Dr Ziyaad Mahomed*

*Asst. Prof, School of  
Professional Studies,  
INCEIF*

<sup>1</sup> The Six United Nations Principles for Responsible Investing

<sup>2</sup> The Seventeen United Nations Sustainable Development Goals

<sup>3</sup> Published by the Centre for Islamic Asset and Wealth Management at INCEIF





Islamic finance has advocated the narrative of a sharing economy through risk-sharing, more equitable distribution of wealth and fairness and justice in all transactions.

Between 2012 and 2014 alone, responsible investment grew by 76% in the United States, to approximately USD6.57 trillion or +20% of all assets under management. Doing 'good' seems to be the new investment mantra, where community investment is also on the increase (54% growth observed between 2010 and 2014 in the US).

As a model, Islamic finance has advocated the narrative of a sharing economy through risk-sharing, more equitable distribution of wealth and fairness and justice in all transactions. As an economic system, it encourages entrepreneurship, promotes real economic development and supports the principles of long-term sustainability. However, the growth of Islamic finance has

been witnessed primarily in wealthy nations, supporting the premise that the current Islamic finance system improves the lives of the wealthy without equally impacting those that are less fortunate. It would perhaps not be incorrect to suggest that Islamic finance has not provided the necessary impact in socio-economic development as its lofty ideals maintain. However, this is about to change as Islamic social finance applications are gaining momentum through a resurgence of primary Islamic social instruments to be implemented through collaboration and strategic deployment of capital.

This resurgence can be attributed to the global drive towards the oft clichéd 'better world' through the UNSDG 17. Islamic finance is based on Islamic law. The







Islamic finance objectives and the rest of the UN SDG 17.

Additional links include SDG 6, 7, 9 and 11 that intend to provide clean water and sanitation, affordable energy, infrastructure and shelter for all. A significant portion of those being addressed in these goals are in predominantly Muslim-populated countries. Islamic finance becomes an impactful method through innovative instruments such as SRI Sukuk and infrastructure Sukuk that can support these initiatives. Examples of these over the last 2 years include the GAVI Sukuk (funding vaccines) and the Khazanah SRI Sukuk (funding schools in Malaysia). The most recent Green SRI Sukuk Tadau issued by China-owned Edra Power Holdings unit Tadau Energy, is considered a breakthrough in a short list of renewable energy Sukuk (50 MW of solar power plant in Kudat, Sabah to the value of RM250 million) and is also certified by the Center for International Climate and Environmental Research – Oslo, Norway (Cicero). This suggests that the era of the 'Green' Sukuk is upon us, with many more social impact Sukuk issuances expected soon.

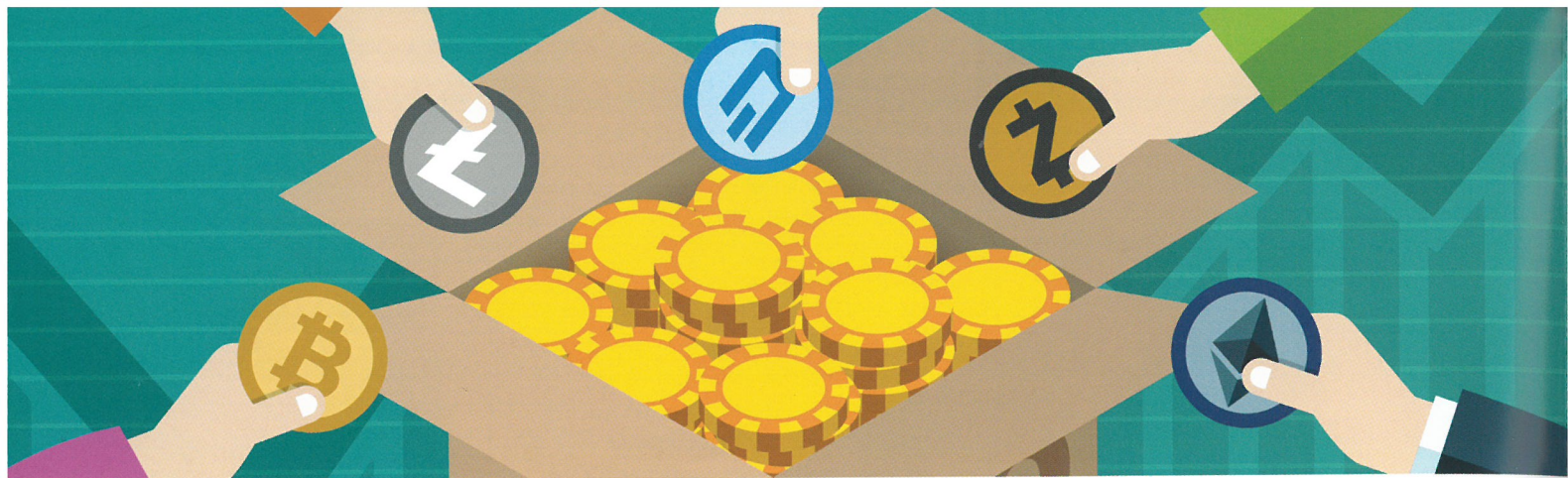
The most recent Green SRI Sukuk Tadau issued by China-owned Edra Power Holdings unit Tadau Energy, is considered a breakthrough in a short list of renewable energy Sukuk (50 MW of solar power plant in Kudat, Sabah to the value of RM250 million) and is also certified by the Center for International Climate and Environmental Research – Oslo, Norway (Cicero).

overarching objectives (Maqasid) of the law are concerned with the protection of religious freedoms, family rights, the promotion of intellectual thought & reasoning and of course, the protection and preservation of wealth. A brief review of the UN SDG indicate that the Maqasid support the UN SDG 17 in achieving this 'better world'. For example, Islamic finance objectives promote shared prosperity with, and financial inclusion of those that were either too poor to play a meaningful role in the economy or opted out due to their religious convictions. These objectives support SDG 1, 2, 3, 5, 6 and 16 on ending poverty, achieving food security, ensuring healthy lives, achieving gender equality and promoting a peaceful and inclusive society. Like that, it is easy to map the links between

The more traditional methods of Islamic social finance have a long history of contributing to the development of Islamic nations. Zakat (alms-giving), waqf (endowment) and sadaqah (voluntary charity) have been used to provide for the basic means of livelihood for the poor and destitute albeit in a mostly informal structure. However, it is envisaged that the future application of these instruments will be exceedingly sophisticated, addressing the existing challenges of problems in calculation, poor collection mechanisms and inefficient distribution channels. The skepticism that zakat payers







Then using token technology, payees would be linked via unique IDs to the system, with potential to verify that ownership has been transferred (a requirement in zakat) and that the funds have been disbursed correctly.

and waqf donors justifiably emphasize can be dealt with using advances in technology or the buzz of this period : blockchain. It is now not difficult to imagine that zakat payment for example, can be calculated and made using smart apps that would present options to payers based on their personal preferences. For example, a zakat payer that would like to see his/ her funds being utilized for specific projects, emergency relief or water and sanitation may be presented with several initiatives from various reputable NGOs, together with an independently assessed benefit or efficiency rating. Then using token technology, payees would be linked via unique IDs to the system, with potential to verify that ownership has been transferred (a requirement in zakat) and that the funds have been disbursed correctly. This has the potential of reducing bottle-necks in zakat distribution and ensures that the deserving recipients benefit from these contributions. It also encourages NGOs to enhance the efficiency of their projects as they too have an objective of increased impact.

International organizations such as the IFRC (International Federation of Red Cross and Red Crescent Societies) and UNDP (United Nations Development Program) are also actively considering Islamic finance solutions to reduce the funding gap for social development and emergency relief. With regards to research and thought leadership, the International Centre for Education in Islamic Finance based in

Malaysia (INCEIF), has embarked on a strategy to encourage policy change and to directly impact social well-being by utilizing Islamic finance techniques. A dedicated Social Finance unit has been initiated at INCEIF with the following key objectives:

- To provide Islamic Social Finance critique and offer potential solutions in academic and professional research;
- To conduct analysis, implementation and monitoring of Islamic Social finance pilot projects;
- To provide Islamic financial modelling techniques to deal with social challenges, utilising sustainable methodology through application of zakat, sadaqah, waqf and hybrid solutions;
- To increase Islamic finance literacy, promoting the understanding of Islamic finance concepts and how they can improve socio-economic well-being;
- To promote financial inclusion.

It is time that formal Islamic finance goes back to its core ideals, extending its impact over the entire landscape of economic development. The recent global drive towards a more equitable existence is acting as catalyst for the resurgence of formal Islamic social finance. We hope that this can significantly contribute towards a more unified approach to reducing the global income inequality gap and move into a paradigm of human excellence rather than human survival.

