Social Innovations in Islamic Finance: Mobilizing Capital for Maximum Impact on Poverty

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Abstract

In 2002, the United Nations set the targets for its millennium development goals (MDG). This is required more capital for the achievement of these goals, i.e., eradication of poverty, decreasing the degree of hunger, improvement in the state of health, upgradation of the environment and the promotion of sustainable development. However, after putting a lot of efforts it was realized that still there is a need of more capital for achieving these targets. There is still a lot of gap in between the required and available funds from public sources as well as from philanthropy organizations. Therefore, after 16 years it is realized that top priority should be given to the innovative finance. According to Richard Wilcox, a special adviser to the U.N. World Food Program that innovative finance is a huge enterprise. Therefore in 2006, UN introduced the concept of socially responsible investment (SRI) and the principles for responsible investment (PRI) to promote awareness of environmental, social and governance (ESG) issues.

Keywords: United Nations, Millennium Development Goals (MDG), Environmental, Social and Governance, Socially Responsible Investment(SRI).

It is reported by Innovative Finance Foundation (A Geneva Based Non-Profit organization) that plentiful funds are available from the private and philanthropic sector for innovative financing but the issue is how they could be tapped and mobilized to achieve the above mentioned targets. According to Bernasconi, associate director of the Rockefeller Foundation that there is no shortage of money the only thing is to know the trick that how "to create something investable". This is the point where we have to think about the innovative finance. Innovative finance built the new mechanisms and approaches to make a connection of private capital with the key social problems of the world particularly to the underdeveloped countries. Georgia Keohane, the author of "Capital and Common Goods: How Innovative Finance is Tackling Some of the World's Most Urgent Problems" said that how money is spent in the better way is more complex than raising the money. There are number of ways for the innovative financing, for example tax on airlines tickets for compensating the pharmaceutical companies to donate their patents of generic medicines for low income countries, or tax on the industries for producing the vitamins rather than giving the money to NGOs for reducing the malnutrition or may be innovative financing is suitable to that point where we came across with the market failure. The Muslim scholars always claiming that Islam gives that system which is very close to the nature. Therefore, Islam gives priorities to all those goals which are mentioned above. Islam emphasizes on philanthropy. It was also observed that a huge amount is collected in the Muslim countries in the form of philanthropy. However, one cannot able to see the significant impact of this amount. Only the reason is that how to use it and how to invest it in the better way. Instead of distributing among the needy members of the society it should be invested in the different projects which has a significant impact on the whole society and also on the needy members of the community.

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Keeping that in view in this current study we will try to develop a model for the innovative financing under the umbrella of *shari'ah*. It will be seen that how many new ways can be explored for the Islamic innovative financing? Also we will highlight that how the barriers can be removed in the Islamic financial market for innovative financing? This study will also discuss that how social venture financing is helpful in achieving these goals at large scale.

The current study will be organized in the following manner. After introduction, 1st section will explain the importance of social services under the umbrella of Islam, 2nd section will explain the importance of social innovation. Section 3rd will discuss about the current state of Islamic banks in relation to their services towards social services. Section 4th will discuss innovative financing in the Islamic framework. This section will explore that how the model of Islamic innovative financing will be developed and how we will be able to remove or minimize the barriers for innovative financing and how private capital will be able to participate aggressively for innovative financing. In the last section some suggestions will be given with the conclusion and summary of the study.

1. Importance of Social Services in Islamic Framework:

In the system of Islam, every social and economic agent has the same rights and duties, it does not matter it is individual or institution. As Iqbal and Mirakhor (2003:58) said: "In Islam, expected behavior of the state would not be any different from the expected behavior of any other member of the society"[1]. The same was discussed by Azid et.al. (2007) and argued that in the Islamic framework, it is must that institutions have to follow the same Islamic teachings as follows by an individual Muslim. In this system, the delivery of social services has its own significance. As Allah (swt) says in *Surah al Baqarah* as:

"It is not righteousness that you turn your faces towards East or West; but it is righteousness to believe in Allah and the Last Day and the Angels and the Book and the Messengers; to spend of your substance out of love for Him, for your kin, for orphans, for the needy, for the wayfarer, for those who ask; and for the ransom of slaves; to be steadfast in prayers and practice regular charity; to fulfill the contracts which you made; and to be firm and patient in pain (or suffering) and adversity and throughout all periods of panic. Such are the people of truth, the God fearing" (Quran 2: 177).

It is clear from the above verse that if someone claims that he is a Muslim then he has to believe on Allah, last day of judgement, angels, holy books, messengers of Allah and on the other hand he has to deliver moral and financial social services to the community. This is a complementary set, without delivering these social services, the worships and faith of someone is not completed. The same will be applicable to the Islamic Financial Institutions (IFIs). If IFIs are offering those products and services which are *shari'ah*compliant but their substance is not matching with the Islamic teachings then it is not appreciable, i.e. there should be matching in between forms and substance. If for example, the businesses of IFIs are

[1]"Ahmad, Khurshid. "Islamic Approach to Development: Some Policy Implications,", 1994, 63.

not involved in the interest, gambling and production process of haram goods, it means their form is according the rules of *shari'ah* but on the other hand if they are failure to provide social services then their substance is not able to achieve the objective of *shari'ah*. The objective *shari'ah* is to maintain the values of justice, equity, equitable distribution of wealth, protection of environment, delivery of the social goods, risk sharing and etc.

2. Social Innovations:

In a current scenario, "Social innovation" is becoming the nucleus of discussion among the policy makers, experts, and management of NGOs, philanthropic organizations, and entrepreneurs. They focused on the issues of poverty reduction, homelessness and degradation of environment. They apply the approach of triple bottom line which means they focus on social and environment issues as they do on profit, i.e. people are first on their preference order, then planet and profit comes at the end.

However still there is not an established definition of "Social innovation". It covers new services and products, innovative processes, and modification of the rules and regulation which are supportive for the fulfilment of the social needs, i.e. reducing the degree of poverty as well number of homeless people, providing the education to the children of poorest segment of the society, food to the hungers and providing the health facility to the lower segment of the economy. These all are supportive for sustaining the economy. It is also worth to mention that the target of social innovation is the whole society rather than a particular individual. Another aspect of the social innovation is that this investment is also producing profit for the investors. However, there is continuous discussion in the academic circles on the concept and definition of social innovation. However, still it is not on the priority list of the developing countries. Even they have not taken any significant step towards the appreciation and encouragement of the social innovation.

Keeping the above in view, the Nippon foundation in 2016 constructed a social innovation index. For this purpose, Nippon foundation covers the 45 countries, i.e. G20, OECD nations and some selected developing countries were examined in this survey. Among them only seven Muslim countries are included which are significantly focusing on the social innovation, i.e. Saudi Arab (33.5) Turkey(40.9), Malaysia (49.5), Indonesia (39.5), Nigeria (33.2) and Bangladesh (32.6). Whereas overall score varies from 80.3 to 31.4. The index was constructed based on four pillars, i.e." institutional and policy framework", "the availability of financing", "their level of entrepreneurialism" and "the depth of their civil society networks". Table 1 depicts the rank and scores of some selected countries of the Muslim world in terms of their social innovation index. This table shows the poor performance of the Muslim countries, particularly those are putting some significant efforts in this area. So one can guess about the performance of those Muslim countries which have insignificant progress in this direction. It is also argued in the literature that for social innovation we have to opt the bottom up approach instead of top down approach, e.g. the best example is the city of Seoul with open data, open communication (open for the suggestion for improvements). However, in general in most of the developing countries (we have to note that most of the Muslim countries are underdeveloped) are lacking about the awareness of social innovation, funding and overall cohesive strategies.

Table 1 Social innovation index

Overall Score	POLICY AND INSTITUTIONAL FRAMEWORK	FINANCING	ENTEPRENEURSHIP	SOCIETY
Rank Country Score	Rank Country Score	Rank Country Score	Rank Country Score	Rank Country Score
01 United States 79.4	02 United States 84.6	02 United States 80.4	01 United States 76.2	11 United States 68.4
24 Malaysia 47.5	22 Malaysia 48.3	25 Malaysia 44.3	32 Malaysia 54.9	30 Malaysia 43.1
37 Indonesia 36.8	37 Indonesia 29.9	43 Indonesia 18.4	29 Indonesia 57.4	18 Indonesia 58.9
38 Turkey 36.2	35 Turkey 30.9	35 Turkey 36.9	11 Turkey 64.9	44 Turkey 24.5
41 Nigeria 33.0	42 Nigeria 21.3	39 Nigeria 28.5	14 Nigeria 62.8	34 Nigeria 42.4
42 Bangladesh 30.6	40 Bangladesh 27.9	40 Bangladesh 27.7	45 Bangladesh 39.3	41 Bangladesh 33.6
43 Saudi Arabia 30.2	45 Saudi Arabia 13.7	41 Saudi Arabia 27.3	07 Saudi Arabia 67.8	29 Saudi Arabia 43.2

Source:Line, D. and Jonathan Hopfner (2017) Old problems, new solutions: Measuring the capacity for social innovation across the world (Social Innovation Index 2016), Economist Intelligent Unit.

It is consensus among the experts that policies around the data transparency is the main tool for the social innovation especially when it is related to the delivery of the social goods. Through this the confusion which is expected to be observed is removed as well as it gives legal protection to the management and encouraging the social entrepreneurs. The governments recognized the importance of the social innovations and social enterprises, particularly the developed countries are allowing the taxcredit to the social entrepreneurs, and also providing the funds to the social enterprises, e.g. in Canada Community and College Social Innovation Fund, Ontario's Social Enterprise Demonstration Fund and Nova Scotia's Community Economic Development Investment Funds.

Sometimes, the experts are worried about the funding process of these activities, because it has been observed that funding is becoming more important than addressing the social issues. It is also observed that most of the time, the social enterprises are following the priorities of the "financial backers". In this situation, the social enterprises are trying to save the cost of the public authorities, or giving the priorities to the returns of the investors, so consequently they are setting higher returns than the other social programs which are directly paid[2].Entrepreneurs those are producing profit and simultaneously achieving the social goals are the major source of social innovations. It is also worthwhile to note if market does not exist then NGOs and government can play a significant role. However, on the other side where market exists such as health and education sectors, the entrepreneurs are becoming more sensitive about their intellectual property and could not be able to achieve the optimal level of social innovation. In the developed and relatively wealthier societies individual enterprises are not generally focusing themselves on the social innovation but large corporations or sometimes group the of the civil society organizations are delivering the social innovations. It shows that participatory approach is more suitable for the social innovation. It is consensus among the experts that for the of development of social innovation following are the main ingredients:

i. The subset of policy and institutional framework are existence of national policy on social innovation, social innovation research and impact, legal framework for social enterprises, effectiveness of system in policy implementation and rule of law
ii. Other set is financing and its subsets are availability of government financing to promote socialinnovation, ease of getting credit and total public social expenditure
iii. Third one is entrepreneurship and its subsets are risk-taking mindset, citizen's attitude towards entrepreneurship, ease of starting a business and development of clusters
iv. Last one is society and its subsets are culture of volunteerism, political participation, civil society engagement, trust in society and press freedom

Islam is giving the more importance to the delivery of social services and appreciating the social innovations. However, it is not an automatic phenomenon, it needs a media through social services will deliver. In the current scenario, one can conclude that for developing the "social innovations" IFIs are more suitable and public has the trust on them.

3. A Road Less Travelled:

As it is observed from Table 1 that in most of the Muslim world, the concept of'social innovation' is not on their priority list. However, in most of the developed as well as in some developing countries the social businesses are focusing on the triple bottom line and supporting in reducing the process of poverty, improving the life of the society and upgrading the state of environment simultaneously producing the profit. It is also observed from the data of the social businesses and social entrepreneurs that pioneers in this area had observed a very difficult time even they faced the opposition from their potential customers and from other

[2] Alchian, Armen, and Harold Demsetz. "Theory of the Firm, Management and Stakeholders: An Islamic Perspective." The Economic Nature of the Firm: A Reader, Third Edition, July, 2007, 173–96. https://doi.org/10.1017/CBO9780511817410.015.

social agents. They are observing a lot of constraints and among them the most important is to achieve the targets of financing because of expensive loans, lack of personal collateral, the behavior of conventional financial institutions, etc. Besides of financing, social entrepreneurs are not completely successful in finding the new customers for their innovative products and services, technical know-how and to retain their technical and well qualified staff. It is especially very difficult to handle the social areas like healthcare, education, safe water, clean energy and environment because of the issue of awareness.

We learnt from the Islamic history that social entrepreneur has more value whereas venture philanthropy, impact investing and support to the social business are the norm of the Islamic system, e.g.well of Uthman ibn Affan (ra), and on the occasion of BattleTabuk, Uthman(ra) spent one thousand dinars on the force known as the brigade of distress or Jaish al-Usr, the Prophet (saw) invoked Gods blessings for him. Umar Ibn Khtab(ra) bring half of his property whereas Abu Bakar (ra) brought all of his property, which amounted to four thousand *dirhams* of silver to the Prophet. Even the non-financial support to the provision of social goods is also very much appreciated[3].

It is also observed that in most of the Muslim countries, venture philanthropy is not the norm of their business organizations, not part of their culture even a sufficient amount of philanthropy exists in these countries, so much so the successful business corporation are not ready to develop the new ideas in this sphere. It is a well-known phenomenon that social impact is the key element of the social entrepreneurship whereas conventional banks are not appreciating it, even sometimes looking it as a negative activity. It is also observed that social enterprises are considered more risky and less rewarding in money terms. Therefore, social enterprises have not too much attraction for the talented and efficient employees which leads a high per unit cost as compared to the traditional for-profit business organization. It is also observed that youth entrepreneurship is less financial rewarding than the wage employment (OECD 2017). It is recommended in the Islamic framework that business corporation should also emphasized on the social mission and seek the profit for their shareholders. Particularly the interaction of philanthropic institutions and financial institutions is helpful in the sustainable growth of these charities and also impact on the society. In this way they are creating social investment market, consequently, their investment can achieve social as well as financial returns (BSC 2016).

3.1 Social Failure of Islamic Finance:

Qur'an and practices of Profit (saw) providing the guidance for the welfare of human being. As it has been observed that conventional economic systems are not able to develop it in a proper way. This is consensus among the Muslim economists and sociologists that the Islamic Moral Economy (IME) is the solution for upgrading the welfare of the human being

[3] Asutay, Mehmet. "A Political Economy Approach to Islamic Economics: Systemic Understanding for an Alternative Economic System." Kyoto Bulletin of Islamic Area Studies, 2007a. 1 (2). https://durham-repository.worktribe.com/output/1530374.

(Asutay 2007a, 2007b). Islamic economic system provides those norms, values and principles which lead to the human development and well-being. Which ultimately produces the 'social-welfare' or 'social good' developmentalist paradigm (Asutay 2012). The nucleus of this system consists of justice and right[4]. The requirement of the tazkiya (purification) process is to reduce the conflict in between individual and society. However, voluntary actions are not sufficient for the solution of this conflict, therefore certain deliberately and institutional actions are required which should be the part of the mandatory policy of IME. Muslim as an individual is a vicegerent of Allah (swt), so responsible to increase the welfare of the human being. The objective of the *shari'ah* is to realize the universal set of "human well-being", i.e. in this life and life hereafter. It means that one has to maximize the well-being in this world and hereafter as well. It is also worthwhile to note that financial chaos of every time is not due to the financial mismanagement or recklessness, it is due to the greediness of the bankers and financiers (Asutay 2012). Similarly the Islamic financial system is not only locked in to interest and gambling free but it also has a larger objective for the achievement of the human well-being through the solution of larger setof economic and social issues. Therefore, if the form of the product and services provide by IFIs is according to the rules and regulations of fiqh but if its substance does not fulfill the objective of shari'ah that must not be approved by their *shari'ah* boards of IFIs. Only avoidance of interest and gambling is not considered as pure Islamic, no doubt it is a necessary condition but not sufficient. If it covers the Islamic moral values then we can maximize the human well-being. So the main objective of IFIs is to serve the community not the market. It is not only to earn the profit for the shareholders but also to fulfill the objective to maintain the justice and ihsan (Ahmad, K. 1994). Islamic financial institutions are not like the conventional banks, they should consider both of their dimensions, i.e. efficiency as well as equity. It is necessary to differentiate in between *shari'ah* compliant finance and Islamic based finance. However, generally most of IFIs are imitating the conventional financial system for launching their products. Due to this reason their contribution in the incremental process of human well-being is almost negligible. A number of studies depict that IFIs are relatively more efficient and have more stability then the conventional financial institutions but on the other hand they are not successful in providing the social services to the community at significant level. It is observed from the literature that the aim of IFIs is not to priorities the provision of social goods. The only objective is to increase the return of their shareholders, i.e. to maximize the monetary profit instead of ethical profit. In the language of *shari'ah* they are giving the priority to the 'form' of the product instead to its 'substance'.

Ibn Qayyam, the student of Ibn Tayymiyah warned many centuries ago that the interest free products will give more harm if they are not according to the Islamic moral values. Asutay (2012) is right when he said that IFIs are delivering the new capitalism in

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[4] Asutay, Mehmet. "Conceptualisation of the Second Best Solution in Overcoming the Social Failure of Islamic Finance: Examining the Overpowering of Homoislamicus by Homoeconomicus." Journal of Economics and Management 15(2): 167-195.Accessed October 22, 2007b., 2024. https://papers.ssrn.com/abstract=1693608.

the Islamic world. Keeping the above in view, it is the responsibility of the clients of IFIs as a true believer to express their demand for the ethical investment. And if the current IFIs are not able to perform their duties according to the objective of *shari'ah* and basic norms of the Islamic moral economy then stakeholders should demand for the new types of social and ethical Islamic financial institutions(El-Gamal 2006; Asutay 2007b). It is worthwhile to note that currently there is a sufficient funds for the Islamic ethical investment. As it is observed Financier worldwide, "By offering ethical, non-haram forms of finance to its almost 2 billion strong marketplace, Islamic finance has become a genuine force in the financial services industry."[5]

In the following section we will try to discuss that how IFIs will become the social enterprises, and how they are able to play this role from pure business entity to social provider enterprises.

3.2 Social Enterprises (SEs):

In the literature the social enterprises are considered as if they are identifying the disadvantaged population and why they are excluded, also to identify the opportunities which are supportive to change the state of this disadvantaged population, and they can achieve the superior equilibrium (create a new better state for the disadvantaged people). In general, there are three types of social enterprises, non-profit, hybrid (combination of profit and non-profit organizations) and social businesses (which are trying to become financially sustainable less relying on donations and charities while achieving the social goals). Furthermore British Columbia Centre for Social Enterprise defines as: "SEs have two goals: to make social, cultural, communal and/or environmental changes, and to achieve profits and SEs are revenue-generating businesses with a twist". BCCSE further commented that there is not too much difference in between SEs and commercial enterprises except SEs are reinvesting their profits on social projects and providing the training to those who are not able to participate actively in the labor market and in resultant generating the impact within the community. Whereas MaRS Discovery District Social in Canada added that profit should be reinvest for further business activities. And simultaneously they also target those sectors and activities which are really deprived and put more efforts to innovate the solutions and penetrate in the untapped markets.

According to BCCSE (2016) that we have three types of enterprises, i.e. Embracive[6], Restrictive[7] and Rejectionist[8]. However, a culture which is not in the favor of sharing information is the main hurdle in the development of SEs[9].

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[5]ASUTAY, Mehmet. "Conceptualizing and Locating the Social Failure of Islamic Finance: Aspirations of Islamic Moral Economy vs the Realities of Islamic Finance." Asian and African Area Studies, 11 (2): 2012, 93–113. https://doi.org/10.14956/ASAFAS.11.93.

[6]Azid, Toseef, Osamah Al Rawashdeh, and Muhammad Omer Chaudhry."Formation of Tangible Capital from Intangible Capital and Venture Philanthropy : An Innovation in Islamic Finance." The Growth of Islamic Finance and Banking, August, 2019, 262–80. https://doi.org/10.4324/9780429262432-18.

Institutional philanthropy[10] and how Islamic bank can be supportive is an important issue. After so many experimentists are realized that there should be an institution which has a capacity to look after the hard and soft infrastructure[11]of philanthropy as a "Support organization" because infrastructure of philanthropic organizations is weaker and underdeveloped especially in the developing economies and particular to the Muslim countries where the funds are sufficient but infrastructure is not strong and well developed. As it is discussed by Azid et al. (2019) that for the superior equilibrium it is best for the IFIs to involve in the venture philanthropy. Through this we can achieve the sustainability of the infrastructure of philanthropy, i.e. proper evaluation, properly utilized the funds in an organized manner, build the strong infrastructure, prioritize the needs which are most required, create a reasonable sustainable environment and build an effective partnership for the efficient allocation of the funds. The interaction in between the institutional philanthropy and IFIs will provide the space for the social innovation. On the other hand, IFIs also play the role of advisor, convener, collaborator, promoter, etc. Because of their expertise and resources and over and above the objective of *shari'ah* enables IFIs to become the resource builders, have the opportunity to build the skills, knowledge, relationships, reputation, recognition and influence through 4Ps and 4Cs[12].

3.3. Mobilizing Capital for Maximum Impact:

In this era of advanced technology, every mechanism has a new set-up and design. Similarly the financial mechanism has also changed its lay out and structure. It is assumed that we have to develop those strategies which are helpful in channeling the revenue stream from those mechanisms which are not based on the financial instruments. It is consensus among the leaders of finance and development that for the developmental purposes the innovative finance should be on the top priority. Lorenzo Bernasconi, associate director of The Rockefeller Foundation said, "We need a step change in financing to address the biggest challenges." However, it is not a smooth or an easy task, there are number of constraints, for

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[7] Brobjer, Thomas. "A Political Economy Approach to Islamic Economics: Systemic Understanding for an Alternative Economic System." Nietzsche's Thus Spoke Zarathustra: Before Sunrise, January, 2007, 29–46. https://doi.org/10.5040/9781472547187.CH-002.

[8] Elasrag, Hussein. 2019. "Blockchains for Islamic Finance: Obstacles & Challenges." MPRA Paper No. 92676, posted 12 March 2019 08:52 UTC (available at Online at https://mpra.ub.uni-muenchen.de/92676/).

[9]El-Gamal, Mahmoud A. "Islamic Finance : Law, Economics, and Practice," (New York: Cambridge University Press, . 2006).

[10] "Institutional philanthropy – defined as 'the accumulation of private wealth dispersed for public benefit10. https://doi.org/10.7312/COLUMBIA/9780231178020.001.0001. '"

[11] Iqbal, Munawar, and Philip Molyneux. 2005. "Thirty Years of Islamic Banking." Thirty Years of Islamic Banking. https://doi.org/10.1007/978-0-230-50322-9.

[12]Keizer, Arjan, Audrey Stikkers, Hagar Heijmans, Robert Carsouw, and Wouter Van Aanholt. "Scaling the Impact of the Social Enterprise Sector." McKinsey and Company, 2016.

example, "fiduciary constraints", "attitudinal impediments", "lack of know-how" and "institutional barriers". Practically IFIs have the capacity to be involved in many innovations in the equity, bonds, guarantee and insurance. According the worldwide financial statistics and UNCTAD that ample funds are available for the social goods and services. This is the promising aspect that these are growing every year even in the developing countries but the most important point is that how these are employed towards the right direction. In this context Bernasconi says as: "The system is not set up to create the solutions we need. Once you get something investable, there's plenty of money. The trick is to create something investable." And Georgia LevensonKeohane, a senior fellow at New America says, "It is as much about creating incentives to make sure that money is spent better as about raising more money," And this is innovative finance, i.e. create a mechanism to attract the capital of the private for solving the economic, social and environmental issues. Adam Connaker, a program associate at The Rockefeller Foundation says, "It's not financial innovation in the way Wall Street would think of it; it's the innovative use of finance,". So IFIs can create and issue a number of bonds and certificates like SIB, green bonds, catastrophe (Cat) bonds and so on. However, they must be *shari'ah* complaints. However, sometimes there is not a clear cut difference in between the innovative actions or reconstructing the existing one. However, innovative actions are required when the market mechanism is not working properly and market failure persists.

IFIs are interested in the Masalah (welfare) and through this innovative finance they can mobilize more funds, they can effectively use these funds and also efficiently and effectively they can achieve the social and development goals. Because of the ethical structure of Islamic banks, the investors have the trust on them and they generally assume that there is less probability of moral hazards and asymmetric information. Moreover, a number of studies gave the evidence that during the financial chaos of 2008, Islamic banks became more efficient and resilient. One can assume that because their ethical structure, Islamic Banks can become the leader of the market, it has a spillover effect due to good externalities. As Qur'an has given the value of those goods and services which are monetized in the commercial world. However, now world is monetizing those products and services for which the value was not assigned or they were undervalued, for example forest, archeological places and etc.[13] It is interesting to note that through forest restoration we can upgrade the environment, mitigate the future cost and increase the returns. So forest resilience bonds which generates the funds to decrease the burn severity and increase the water for the utilities. IFIs can become the broker in between the private and social sector[14]. Later on these will also generate the returns and revenues through the renewable resources.

[13] Keohane, Georgia Levenson."Capital and the Common Good: How Innovative Finance Is Tackling the World's Most Urgent Problems". (New York: United States, Columbia University Press), 2016.

[14] Knight, Barry, and Pamela Ribeiro. 2016. "A NEW GLOBAL PICTURE OF ORGANIZATIONS SERVING PHILANTHROPY GROWING AND STRENGTHENING THE FIELD." Worldwide Initiatives for Grantmaker Support (WINGS).

Innovative finance has a significant impact on the behavior of developed world, in resultant the public departments are becoming more receptive to innovations, it also creates a significant understanding in between the public and private sectors. Both of these sectors are appreciating the difference of their "cultures, incentives and risk". It will be possible that through these innovations the banks, philanthropic institutions and individuals have incentive to interact and produce those social goods which are the necessity of the society. That part of private capital which was initially ignored by the IFIs, through innovations it will become the regular part of their transactions. It has been observed that in most of the Muslim countries there is no shortage of capital but the notable point is that there is not sufficient awareness about the social investment. IFIs can perform this job because of it has sufficient resources and have trained and intelligent staff. IFIs can play the role of deal makers.

It is also observed that in some Muslim countries likewise in Egypt, still government does not allow financial institutions to play the dual role, i.e. for-profit and non-profit institutes. If government allows then IFIs for the betterment of the humanity can issue the unconventional bonds and also can participate in the unconventional investment like as Catastrophe bonds, green bonds, diasporas bonds and microfinance (to fulfill the *maqasad-i-Shari'ah*). Moreover, the donors can give the guarantee to the investors about their principal amount which reduces the risk of the social investors.

Apparently the above mentioned products which are launched by IFIs are similar to the products of conventional banks but their nature is different and they are following the teachings of *Qur'an* and *Sunnah*. Also Islamic social investors have the different intentions, they are seeking the falah in this world and life hereafter so they want to get the reward from Allah (swt). However, there is no any restriction if these funds are also used for earning the profit, provided that investment should be only on the permitted goods, not bearing the interest and gambling, and this should be an ethical investment in the periphery of *Maqasad-i-Shari'ah*.It is also noted that Islamic finance and social finance are approximately have the same objective and there is a little difference in terms of their wider perspective and objectives. Both have the ethical foundations and excluding those products which are not ethical such as alcohol, gambling, tobacco, etc. However, Islamic banking is also not dealing those transactions which are based on interest and gambling or not allowed by Islamic jurisprudence.

At this point, we will examine that how Islamic financial institutions are playing the role of social enterprises and how they are creating the social investment market. It will also be discussed that what product they can launch in the social investment market.

Social Impact Bonds (SIB):

These bonds are special in their nature. Their contract is based on "payment-by-result (PbR), these are based on social motivated private finance. Whereas social organizations work together because of market failure and supply the social/public goods together. These bonds are not yet well recognized in the social investment market. The service receiver is paying to the service provider if the outcome is realized, for example, "an unemployed person attends a training course and the provider is paid if they get a job within a set time period". However, on contrary this model is different than that model where service receiver is paying to the service provider, it does not matter that output is realized or not. It has been observed that most of PbR contracts are offered and delivered by very large corporations. Generally the cost of the services is paid by the socially minded investors or social investors[15] for return on the success of the venture or some time not for return. It is also interesting to note that if the venture is unsuccessful or organization is failed to provide the social services then the risk of failure is transferred to the investors rather than to the delivery organizations. However, either only one institution issue these bonds or a group of the Islamic banks issue these bonds together, however, in the group form the risk will be distributed and minimized. Or may be with the collaboration of any philanthropic organization, or with the interaction of any government (local, regional or federal), or international body for providing the already existing or new services. In addition to providing and managing the funds, the Islamic bank can also play the role of creator (from special purpose vehicle to cover the SIB contract) and manager for SIB, collecting the funds from the different individuals, philanthropic organizations and social investors and observing the performance of the contracts. It is also realized from the experience of different countries that governments are also willing to subsidizing if government is realizing that these institutions are providing the social/public goods in a proper way.

Diaspora Bonds:

As we know that world becomes a global village**.** After the second world war the process of rebuilt was started. People from the developing and poor countries started to migrate towards developed and rich countries and participated in the process of rebuilding. As usual immigrant put a lot of efforts and contributed a lot in the development process of their country of residence. However still they have good feelings and affections for their country of birth. So they also want to contribute in the development process of their home country. The same phenomenon was occurred in the Muslim countries. One can see quite a number of Pakistanis are in UK and Norway, Turkish in Germany and Austria, Algerian in France and Lebanese in Australia, etc. IFIs can take the advantage of this number of immigrants and their intention to contribute in the development process of their home country. These social investors will be confident if they know that these funds would be used for the purposes which they are provided these funds. As Robert Masumbuko of the African Development Bank says as: "These bonds could be attractive if donors were confident that their investments would be used for the purposes for which they were intended."This huge population of Muslim in these countries has the trust on the IFIs and they will feel no hesitation to supply their funds for social investment. Keeping that in view, IFIs can issue the Diaspora bonds and through these bonds can mobilize the capital. These donors are not interested in the return but they are interested in the proper utilization of their funds. This is the duty of the IFIs to

[15] MaRS."Social Enterprise Business Models - MaRS Startup Toolkit." n.d. Accessed October 22, 2009, 2024. https://learn.marsdd.com/article/social-enterprise-business-models/.

motivate them and provide the full information about the utilization of their funds and the benefit which are accrued from their investment.

Green Bonds:

It is observed all over the world that people are now becoming more sensitive towards the clean environment. They want to donate their funds if they are sure that their funds are properly used for the purpose which they intend. IFIs also can issue the green bonds either they dark green or light green. People are interested in the clean environment. So these infrastructure bonds have a lot of attraction for the environmental friendly people or charity institutes. Georgia Levenson Keohane, senior fellow at New America and the author of a forthcoming book on innovative finance says, “They can be used for any environmentally friendly project, however that’s defined. So, it’s basically an infrastructure bond.”

Catastrophe Bonds:

These bonds are hybrid in their nature, i.e. bonds and insurance. IFIs also can issue these bonds especially takaful companies are more suitable for these bonds. However, the most part of the investment is from the social minded investors and the charity organizations. In the state of disaster, the investors are losing their principle amount and this amount is paying for the recovering the losses which are occurred due to this disaster. For Muslim community it is considered as *sadaqah*. In the Islamic history we have a number of cases when the philanthropist gave the donations for the recovery of the losses, the best example is the support of the Madinah people to those who migrated from Macca to Madinah which is known as *Muwakhat* (brotherhood). However, if there is not any disaster then the return on investment will be paid to the investors. It has been also observed that returns on these bonds are relatively high. (Keohane,2016; WSII, Bellagio 2015 Report). Keohane (2016) expressed as: “Maybe philanthropy and government need to address the people at the bottom of the bottom of the pyramid.” It means that the innovation finance should be for serving the people and planet. John McArthur, a senior fellow in the Global Economy and Development program at The Brookings Institution says that key element of innovation is the cross fertilization of experts. IFIs have the potential, capacity and have major objective for developing the networks among the experts and also for the cross fertilization for the innovation. However, there are other instrument which can be applied the IFIs, like as agricultural value chain financing, different types of impact investing, etc.

Application of FinTech:

The application of digital financial services is not alien to the IFIs. “The Islamic finance market is embracing both fintech and robo-advisors as it continues its growth into 2017,” says Imam Qazi, a partner at Foot Anstey LLP. Islamic finance institutions are embracing robo-advisory methods through access to Shariah-compliant portfolio management using fully automated real-time software to analyse thousands of global securities and pinpoint those with the highest growth potential"[16]. And Nilish Chadha, co-founder of Wahed Invest Inc. says, "We believe that this is the future of the wealth management and ethical finance industry. We have developed our technology to combine Wall Street-level portfolio management with socially responsible track records and investment principles, to create a new niche in the industry of ethical finance".[17] Among other instruments, crowd funding is getting more importance, i.e. Humancrescent.org and GlobalSadaqah.com are the example amongst others. As we have mentioned above that people have the trust on the IFIs and they know that IFIs have the ability to use their funds properly and achieving the objective of the donors. Crowd funding is not only for one corporation or not for a particular one donor, in contrast a number of donors and individuals can take part in the activities of social finance. Everyone can participate and deposit his funds through online no matter what is the value of those funds. Through this crowd funding the banks can invest in the social projects. In the Muslim society the individuals are paying zakat and if the payer has the confident on IFIs then they can deposit their zakat and charity through crowd funding. The depositors have to mention that it is zakat or charity because zakat can only spent on eight items which are mentioned in the Qur'an whereas charity or *sadaqah* can spend whatever is recommended by *shari'ah* (in the way of Allah). However, the important issue which we have already mentioned above that is related to the disclosure of the information and transparency in the publishing the data. The traditional religious institutes are very much helpful and supportive in creating the awareness about Social and Finance innovation among the members of the Islamic society.[18]

Conclusion:

From the above discussion one can conclude that there are number of Islamic ethical products which IFIs can launch in the social market, e.g. SIB bonds, green bonds, microfinance, diaspora bonds, crowd funding and etc. Their clients have the trust on the therefore they are willing to invest on these products. They are ready to invest in the social and ethical market even without considering the return on their investment. Similarly, the philanthropic organization, if they have the trust on IFIs are ready to start the venture philanthropy as discussed by Azid et al (2019). It is also recommended that there should be matching in between the form and substance of the products which are launching by IFIs. The working of IFIs should be Islamic based finance instead of *shari'ah* compliant finance.

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[16] OECD."Unlocking the Potential of Youth Entrepreneurship in Developing Countries." 2017, Development Centre Studies, , June. https://doi.org/10.1787/9789264277830-EN.

[17] Salway, Mark."Social Investment. As a New Charity Finance Tool: Using Both Head and Heart." Cass Centre for Charity Effectiveness, no. May, 2017, http://www.cass.city.ac.uk/faculties-and-research/centres/cce/key activities/sustainability-and-social-finance.

[18] Wharton Social Impact Initiative (WSII) of the University of Pennsylvania. 2015. "Bringing Innovation Back to Innovative Finance". Bellagio 2015 | Final Report.