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Islamic Social Finance and Sustainable Development Goals: Issues and Challenges

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Abstract

Islamic finance is an important driver to support the implementation of sustainable development goals. Theoretically, the core principle of Islamic finance aligns with the sustainable development goals. Moreover, the application of Islamic social finance instruments especially zakat, waqf, and sadaqah can be managed efficiently and effectively to support the specific sustainable development goals. However, there are many issues and challenges in the understanding and application of Islamic social finance, and some perceptions of the sustainable development goals agenda from the Islamic perspective. This study firstly discussed the concept of Islamic social finance and discusses each Islamic social finance instrument. Then, a qualitative research method based on Focus Group Discussion was employed to investigate the issues and challenges of Islamic social finance to support the sustainable development goals. The findings include an investigation and discussion on the important themes which are on: (1) the definition of Islamic social finance; (2) the relation of *Maqasid* Shariah and sustainable development goals in Islamic social finance; (3) The application of Islamic social finance in eliminating poverty; and (4) the issues and concern in the utilization of Islamic social finance to improve socio-economic well-being. The study suggests a more focused definition of Islamic social finance as a subset of Islamic finance; and the findings may enhance the policy implication, especially on the application of Islamic social finance instruments due to their unique characteristics as compared to the widely use Islamic financial instruments.

Keywords: *Islamic social finance, Sustainable Development Goals, Poverty, Zakat, Waqf, Sadaqah*

1. Introduction

Islamic finance has received a lot of attention in the academic area. The researchers' concentrations are mainly on banking issues from theoretical and practical aspects (Kuanova et al., 2021). However, Islamic economics' other elements, especially Islamic social finance, received less attention (Belouafi and Belabes, 2016). Many past researchers have provided the definitions of social finance. A social finance ecosystem is composed of four main parties which are social welfare initiators, social finance providers, social ecosystem coordinators and beneficiaries (Tahiri Jouti, 2019). Doulatramani and Raje (2020) expand on the general idea of social finance as allocating capital and financing that generates economic gain together with social impact and environmental protection. Thus, any proceeds generated from the social financing and investment are used to address major socio-economic problems such as healthcare, education, house ownership and others. They further argue that social finance somehow is not only a philanthropic or charitable activity but also acts as a step forward toward behavioural finance instead of the existing practice of traditional finance. In addition, Rexhepi (2016) further argues that the sole dependence of the charity fund from the donor cannot afford to address the issues of poverty globally. Thus, social finance may act as one of the effective economic mechanisms to solve this issue to meet one of the sustainable development goals (SDGs) which is to end

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poverty in all its forms everywhere (i.e., SDG1).

Besides, social entrepreneurship is also important as it reflects the combination of the business and the economic contract design which create the social values. Moreover, in implementing the social goals, it considers different participating agents such as the government, non-profit organisation, and private investors (Rexhepi, 2016). Since the economic crisis of 2008, many organisations and institutions have raised high interest and concern for the social orientation in their operations and business, especially the banking and financial institutions which may act as the intermediaries in delivering social impact. Accordingly, banking and financial institutions play an important role in extending access to financial services as to alleviate the issues of poverty. Hence, the financial products ought to be socially responsible to sustain the social, environmental, and economic well-being. There are common tools of the conventional social finance includes: (1) micro-financing; (2) socially responsible investing; (3) social impact investing; (4) social impact bond; (5) environmental, social and governance (ESG) bond or investing; and (6) ethical investing (Mitic and Rakic, 2017).

In contrast with the nature of the financial institutions which are profit-oriented, there are some encounters facing the conventional financial institutions in fully utilising their social financial tools. Rexhepi (2016) points out there are three (3) arguments towards social finance of which: (1) social finance should not be seen as a substitute but rather as a complement to the government funding; (2) the social finance approach should not be seen as identical to other private social services; and (3) social finance faces similar challenges as other enterprises with no guarantee of success.

Despite the wide discussion on the definition and operation of social finance in general, studies specifically on the background and landscape of Islamic social finance are still very few. Tahiri Jouti (2019) presents a conceptual framework based on case studies and literature review describing the necessary steps to build sustainable social finance ecosystem and found that the impact of building social finance ecosystem can tackle social issues. Accordingly, an Islamic social finance ecosystem has its specific instruments in terms of both funding and investment which are in line with Shariah principles. However, Islamic social finance has not been defined well and currently, there is no specific definition of Islamic social finance. This may be due to the absence of a clear distinction between Islamic finance and Islamic social finance terms. However, Islamic social finance is currently receiving a lot of attention, especially during the Covid-19 pandemic where Islamic social finance instruments have supported the economic well-being of the people, especially the poor. Hence, the objectives of this paper are: (1) to discuss the definition of Islamic social finance; (2) to examine the interrelation among Islamic social finance, *Maqasid* Shariah, and sustainable development goals; and (3) to discuss the issues and challenges for Islamic social finance in eradicating poverty i.e., SDG1.

The next section discusses the selected Islamic social finance instruments which are zakat, sadaqah, waqf and Islamic microfinance. Also, the issues and challenges on SDGs and the impact of Islamic social finance and SDG1 are examined further.

2. Literature Review

The focal point of *Maqasid* Shariah and SDGs is sustainable and inclusive development (Abdullah, 2018). Islamic social finance may fill the gaps and address the challenges facing the society in addressing some of the recent socio-economic problems plaguing the world economy, such as high rate of poverty, inequality, deficiency, and environmental destruction (Odeduntan, 2016). The Value-Based Intermediation (VBI) strategy document of Bank Negara Malaysia is essential to Islamic financial institutions from the point of view of Islamic financial institutions. The document highlighted that VBI aims to deliver the intended outcomes of Shariah through practices, conducts and offerings that generate positive and sustainable impact to the economy, community, and environment, consistent with the shareholders' sustainable returns and long-term interests (BNM, 2017). Islamic social finance may have a similar approach to social finance, targeting to have a social, environmental, and economic impact. Islamic social finance is akin to the conventional social finance, but it is subjected to the established principles of Shariah (Zain and Ali, 2017). However, since the principle of Islamic social finance is value-oriented, Islamic social finance is well-guided by the principles of Shariah that emphasises behavioural ethics and humanity. Thus, Islamic social finance through its various instruments may provide a wide opportunity in delivering the social and environmental impact. Among the Islamic social instruments that are widely adopted are zakat, sadaqah (donation), waqf, *qard hassan* (benevolent loan) and Islamic microfinance.

Zakat and sadaqah are social instruments in Islam to alleviate poverty. Zakat is one of the pillars of Islam. It is a charitable pay-out to re-distribute the wealth among the rich to the poor. Zakat is obligatory for all the Muslims who fulfill certain requirements. Zakat plays an important role as part of the Islamic socio-economic system and is said to be one of the financial tools to alleviate poverty apart from micro financing and micro credit (Razin and Rosman, 2021). Zakat funds will then be distributed to the eight (8) categories of zakat recipients (i.e., asnaf), as mentioned by Allah in Quran (9:60);

"Zakat expenditures are only for the poor and for the needy and for those employed to collect [zakat] and for bringing hearts together [for Islam] and for freeing captives [or slaves] and for those in debt and for the cause of Allah and for the [stranded] traveller - an obligation [imposed] by Allah. And Allah is Knowing and Wise."

In contrast, sadaqah is a voluntary charitable act towards others. Both instruments may address many of the society's problems for wealth circulation and sustain the balance in the economy. As such, the proceeds generated are fully utilised in assisting the less privileged people such as the poor, widow, and orphan whether in a one-off assistance or by providing resources for their economic activities. Also, the fund can be used to support community-based activities such as supporting education, providing health care, assisting the debtors by offsetting their debts and many other difficulties prevailing in the community (Odeduntan, 2016). Furthermore, Ilahi and Akhbar (2022) state that zakat plays a crucial role in the recirculation of the stagnant wealth of the rich, enabling it to be injected back into the economy to the poor, not only allowing the poor to survive but also ensuring that the most are made from that money.

Another common Islamic social finance instrument is waqf. Waqf means devoting something for the cause of Allah (Md Kamdari et al., 2017). Waqf which is a charitable endowment is one of the important financial instruments in preventing poverty among the community and generating economic well-being of people (Khairi et al., 2014). Looking into its potential benefit to the socio-economic system, waqf can assemble additional resources to address the socio-economic problem in various sectors of education, healthcare and in the creation of employment (Odendutan, 2016). Moreover, waqf is more flexible than zakat and hence can be optimized in any productive and strategic sector, for instance, agriculture, tourism, and food security (Listina and Mutmainah, 2022).

Another Islamic social finance instrument is *qard* (loan). *Qard* refers to a contract of money lending by a lender to a borrower where the latter is bound to repay an equivalent replacement amount to the lender (BNM, 2018). While *qard hassan* is the act of granting the lender the debt to the debtor with no interest needed to be paid back from the money borrowed (Sadr, 2015). Generally, the concept of the *qard hassan* is grounded on the principle of Islam which is based on brotherhood and cooperation. The provision of the *qard hassan* is to encourage the rich people to help the needy people and to establish a positive relationship among them. Thus, *qard* is an instrument to achieve the long-term goals of 1) circulating the wealth among the community, 2) eradicating all the discrimination that existed in the community, 3) encouragement of the good deeds, 4) creating the employment by using the loan to do some business or ventures and 5) reinforcing the national economy (Odeduntan, 2016).

Finally, Islamic microfinance is among the common Islamic social finance instruments that have been widely adopted by financial institutions. Becoming the major answer to socio-economic problems, microfinance may provide short term financing with some flexibility as compared to common financing provided by financial institutions to support small and medium enterprises (SMEs). Islamic microfinancing may become an alternative source for the SMEs to obtain financing from the financial institutions. In addition, microfinance has become an effective tool to alleviate poverty by improving financial inclusion, especially for SMEs.

To utilize the Islamic social finance instruments, there is a need for coordination and planning to address the socio-economic problems in the respective countries. For example, collaboration among non-government organisations and private institutions can be made to support the sustainable development goals agenda. Tahiri Jouti (2019) in his research paper assesses the integrated approach to attain sustainability in the Islamic social finance ecosystem. By using the qualitative study, the conceptual framework on creating and maintaining sustainable Islamic social finance ecosystem was built based on the past case studies and literature reviews.

The finding shows the positive relationship between sustainable Islamic social finance ecosystem and the tackling of both socio-economic and environmental issues. Accordingly, the author suggests that there is a need of involvement of different parties ranging from the government to businesses with integrated initiatives to provide Shariah-compliant funding in achieving the sustainable development goals.

The literature shows that there are gaps and issues to be addressed in relation to Islamic social finance especially on its application to support sustainable development goals. Among the pertinent issues include the definition of Islamic social finance, the interrelation between *Maqasid* Shariah and Sustainable Development Goals, and the application of Islamic social finance instruments to improve the poor and asnaf (zakat recipients) well-being. The next section briefly explains the methods adopted to achieve the research objectives.

3. Research Method and Respondents

The study adopted a qualitative research method. The qualitative method attempts to dig up more comprehensive and extensive information from various sources. Moreover, qualitative studies are flexible, and they attempt at explaining and analysing patterns. This approach allows a vast exploration of the theory and practice of Islamic social finance as well as towards its achievement of the SDGs. The data collection approach adopted for this study is a Focus Group Discussion which contains a similar concept of *syura* (discussion) (Mokhtar and Mohd Ismath, 2020). According to Tiraieyari et al. (2017), qualitative research is suitable for gathering information that cannot be quantified, such as the experiences of participants. Ten interviewed participants were selected for this research. All of them are either academicians or practitioners, and they were chosen because of their involvement in Islamic social finance. The participants were experienced practitioners in this field for more than 10 years and the longest is 33 years. This allows the researchers to communicate rich knowledge about the topic of this study. In relation to the number of participants selected, Dworkin (2012) states that there are an extremely large number of articles suggest anywhere from 5 to 50 participants as adequate. In addition, some experts in qualitative research avoid of “how many” interviews “are enough”, when there is indeed variability in what is suggested as a minimum (Dworkin, 2012). This approach is considered apt as the method entails gathering experts on the subject matter to share their ideas and opinions towards a better understanding of Islamic social finance as practiced in our community.

The main questions for the Focus Group Discussion include the following:

1. What is the definition of Islamic social finance?
2. What are the differences between Islamic finance and Islamic social finance?
3. Are there any contradictory elements between sustainable development goals and *Maqasid* Shariah?
4. What are the differences between value-based intermediation and social banking institutions?
5. Can Islamic social finance and value-based intermediations improve B40 community and asnaf well-being?
6. How to prioritise between asnaf and B40 community?

Details of the respondents of the Focus Group Discussion are in Table 1 as follows:

Table 1: Details of respondents

Respondent	Academician / Industry Expert	Area of expertise	Working experiences (years)
Respondent 1	Academician	Islamic Economics and Finance	18 years
Respondent 2	Industry Expert	Islamic banking, takaful and Shariah governance	11 years
Respondent 3	Industry Expert	Financial Literacy	18 years
Respondent 4	Academician	Shariah and Islamic Banking and Finance	23 years
Respondent 5	Industry Expert	Microfinance, Islamic Social Finance and Financial Inclusion	16 years

Respondent 6	Industry Expert	Treasury, Islamic Banking, Shariah Review and Shariah Research	11 years
Respondent 7	Industry Expert	Islamic Capital Market, Islamic Banking and Finance	13 years
Respondent 8	Academician	Islamic Financial Planning and Wealth Management	28 years
Respondent 9	Academician	Islamic Banking Product and Operation	33 years
Respondent 10	Industry Expert	Islamic (Waqf and Zakat) Socio Economics or Social Finance, Islamic Political Economy and Public Administration	25 years

The next section explains the main findings from the data analysis of the Focus Group Discussion. The qualitative analysis addresses the issues found and group them to several themes accordingly.

4. Findings and Discussion

This section summarises the findings based on the questions that were asked and discussed during the Focus Group Discussion. The findings have been categorised into the four (4) important themes as follows:

1. Definition, background, and landscape of Islamic social finance.
2. Interrelation among Islamic social finance, *Maqasid* Shariah and Sustainable Development Goals.
3. Application of Islamic social finance to help the B40 group in eliminating poverty and achieving SDG1; and
4. Issues and concerns in utilising Islamic social finance tools in improving the socio-economic well-being of B40 in Malaysia.

Theme 1: Definition, background, and landscape of Islamic social finance

The idea was to ascertain the expert's view on the 'Islamic social finance' and its function. Indeed, all respondents posited that the ultimate objective of Islamic social finance is predominantly philanthropy-based and not-for-profit for the benefit of the poor, needy and the destitute in the society. Islamic social finance facilitates a fair and just financial system, that is to protect the poor and needy by reducing the income gaps and provide sustainable financial support for them. One of the respondents remarked the following:

> *"So, basically, it is an Islamic financial instrument that complies with the Shariah principle and then it is designed basically to provide financial access to all that include underserved and poor. It is based on the idea of "كَيْ لَا يَكُونَ دُولَةً بَيْنَ الْأَغْنِيَاءِ مِنكُمْ"", So that the wealth is not distributed only among the wealthy people. So, the end result of this Islamic social finance is basically financial inclusion. And I can say that Islamic social finance is part of the instrument to support financial inclusion." (Respondent 2).*

However, one of the respondents raised the need to lay out the landscape and definitions of Islamic social finance while expanding the scope of Islamic social finance from Islamic finance to be beyond just zakat, waqf, sadaqah and microfinance. Respondent 1 remarks the following:

> *"…. I think the missing part is more on the background of social finance because the focus has been more on banking and finance. Apart from the words of social finance is mentioned, for example, research on zakat, waqf, and other areas has been mentioned repeatedly with more recent the things like Socially Responsible Investing (SRI)." (Respondent 1).*

Regarding the operational definitions of Islamic social finance, most of the respondents believe that none of the literature available can provide a strong and comprehensive definition, as most of them are limited the specific kinds of tools. Some of the literature on Islamic social finance are confined only to waqf, sadaqah and zakat. Some even extend into microfinance. They also include even *qard* or other charitable contracts such as *tabaru'* (donation). One of the respondents pointed out that:

> *"From the Shariah, we have those three components: fiqh, Ibadah and muamalah. So, Islamic finance falls under the muamalah matter. And basically, Islamic finance can be further divided into two types, into two components. One is Islamic commercial finance. The second one is Islamic social finance. In Arabic term, we used to call the Tijari aspect that refer to Islamic commercial finance, and then the ijtimai' aspect refers to Islamic social finance. But currently, the term Islamic finance is confined by meaning that include by the practitioners and academician to only cover Islamic commercial finance, to the exclusion of Islamic social finance." (Respondent 2).*

Respondent 5 quoted further that the potential of Islamic social finance should be beyond normal Islamic financial instruments:

> *"…. the definition of social finance is something challenging because we cannot find the standardized definition of social finance or even Islamic social finance. If we form people to fund Islamic social finance, it only can fund to the key instruments, which is waqf, zakat, and sadaqah. Why? Actually, when we further explore in terms of the potential of the Islamic social finance, it's actually more than that. It's beyond than these 3 instruments, and actually from the banking perspectives, for example, we can unlock more potential of the normal Islamic financial instrument." (Respondent 5).*

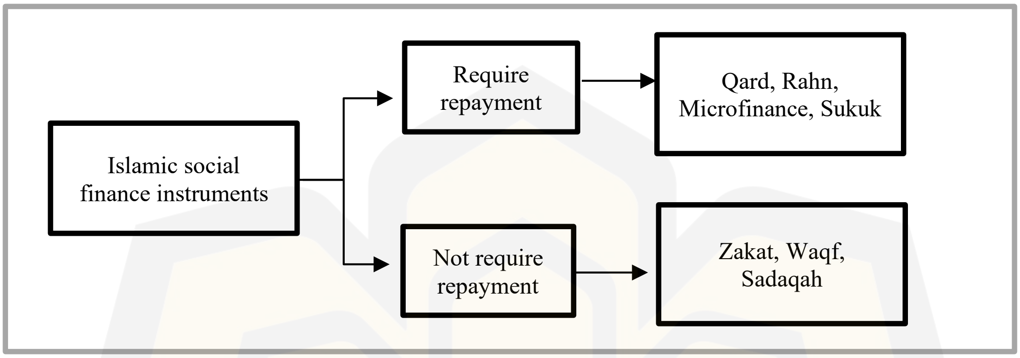
It is important to note that the concept of zakat, infaq, sadaqah and waqf which form the core fundamentals of Islamic social finance can be traced to over 1400 years ago, and that firmly rooted in the Quran and the teachings of Prophet Muhammad (ﷺ). This shows that the principle of redistribution of wealth for the benefit of the poor and needy in society is a huge part of the Islamic economic system and the Islamic financial system. Most of the respondents were in consensus that both Islamic finance and Islamic social finance are not different from the more recent concept of social finance and sustainable finance, as the intended outcome of all these concepts are towards achieving a better quality of life for the present generation and to preserve the environment and system for the future generations. One of the respondents pointed out that:

> *"That's why we cannot say that we must separate between Islamic finance and social finance because it embedded in the Islamic finance itself." (Respondent 4).*

However, the fact that the principles of Islamic social finance need to be rediscovered in very recent times shows that the Islamic financial sectors have perhaps unintentionally excluded the Islamic social and philanthropy-driven segments of the Islamic economy in pursuit of profit maximisation and shareholder-centric goals. That made one of the respondents questioned the framing of Islamic social finance. He questioned the following *"So, what makes Islamic social finance different from Islamic finance?"* He further continued, *"I think we failed to understand that basically Islamic social finance is an integral part of Islamic finance, which is in the social (Ijtimai') sector."* According to him, even if the Islamic financial sector is to serve society by nature, social finance itself should have a specific definition, that is different from Islamic commercial finance (*tijari)* sectors. He suggested that the instruments of Islamic social finance should be classified into two (as indicated in Figure 1); the first part, instruments that require repayment and not for profit-making or commercial motives such as *qard* and *rahn* (pledge), and the second part is basically an instrument offered to the people, especially the low-income segment which does not require repayments such as zakat, waqf and sadaqah. Clearly, these two components of the Islamic financial industry must converge to achieve greater social and economic prosperity towards achieving sustainable development and growth.

In summary, all respondents have attempted to shed light on the various concepts of Islamic finance and Islamic social finance. Obviously, it is just a drop in the ocean of information and knowledge regarding this vast subject matter. Moving forward, in highlighting the landscape of Islamic social finance which may help in the definition, there are three aspects that can be questioned. First, 'to what extent the 'charity' is in Islamic social finance?'. Secondly, 'how much profit are you able to compromise for the sake of the society?', and the third aspect which is the most important in Islamic social finance is 'what are the targeted areas that will give bigger social impacts?' Figure 1 illustrates the types of Islamic social finance instruments.

Figure 1: Types of Islamic social finance instruments



Theme 2: Relation of Islamic social finance with SDG and Maqasid Shariah
In general, most of the respondents were in consensus that Islamic social finance pursues the same direction as the recent SDGs that is to help the society. However, some of the respondents posited that the introduction of SDGs and value-based intermediation (VBI) have posed a challenge to the financial services sector. This is because financing the SDGs is a complex task as it requires an unprecedented coordination between private institutions and the public sector, and a reform of global financial regulations and consequential commitment from all financial institutions. One of the respondents posited as follows:

> *Now coming to SDG, I think when all so-called world the countries and leaders, they meant to discuss SDG, one of the countries has say, the implementation will be 'localized'. So that means, whatever we put is not necessarily applicable to Malaysia, or applicable to Sudan. (Respondent 1).*

The ideas behind SDGs are to highlight a need for consideration for people, planet, and purpose that can be considered in the context of Islamic finance. With the step-change proact by Bank Negara Malaysia (BNM) towards Islamic financial institutions to adopt SDGs and VBI. Regarding the SDGs implementations, all the institutions have tried to understand and define their role in delivering the SDGs whilst making a commercial return. Although momentum has been built in the conventional finance sector, there is still a lack of knowledge and understanding of the adoption of the SDGs among Islamic financial institutions. It would appear to be a natural alignment in many areas with the concept of Islamic social finance and *Maqasid* Shariah. On the other hand, although BNM recognises the ideas of VBIs, some respondents commented that it would need more resources and time for adoption. One of the respondents posited as follows:

> *"Why do they need to embrace VBI when all of these while they have been practising is actually VBI? So, some banks have said that embracing VBI is wasting their time. They are wasting their time doing so many things Bank Negara required to prepare a report. Whereas we should focus on competing with the conventional bank." (Respondent 4).*

Islamic social finance, which aims to achieve global economic, social, governance and environmental goals, is embedded in SDGs and VBIs. The respondents were in consensus that it is time to move from words to action and start focusing on practical solutions to unlock the achievement of the SDGs in the Islamic social finance.

One of the respondents pointed out the following issues:

> *"And why don't we think about how the product itself should provide to the variant of people. For example, in Islamic Home Financing, it should be really affordable enough and different from how the conventional banking doing their finance. Of course, it's not easy. I also previously was from the bank, so I understand the risk management perspective and all that. for example, the act of the bank to option house, which is criticize by some of Shariah scholars that we should be more 'human' in dealing with people that has problematic situation. Yeah, we should do that as well. And in regards of whether the social finance can improve the situation, yea, definitely. If we able to look and refine it further, it can definitely help and improve the wellbeing of b40 and asnaf together" (Respondent 8).*

However, some of the respondents posited that SDGs have potential implication as most financial institutions are witnessing an unprecedented increase in the prominence of this agenda. It is even more critical when the SDGs need to be aligned with the *Maqasid* Shariah. Respondent 1 highlighted the following:

> *"Using SDG to achieve Maqasid, I think we have to be very careful. Because these 17 variables (i.e. SDG goals) origin from Western, which perhaps to some extend neglect the Shariah part. For example, on the goal number 5, gender equality. This variable is inconsistent with the Maqasid" (Respondent 2).*

In general, the respondents believed that most of the 17 goals of SDGs could fit under *Maqasid* Shariah with certain conditions. One of the respondents posited that *Maqasid* Shariah is more extensive because it stands before SDGs, and in fact, it has been unchanging. While the concept of Islamic social finance and *Maqasid* Shariah are broad and already existed long ago, the idea of development is constantly changing. SDGs can sometimes be confused in its meaning of 'sustainable'. In this concept, sustainability often appears under various thematic such as Corporate Social Responsibility (CSR), Responsible and Sustainable Finance and Investing, Environmental, Social and Governance (ESG) screening, and Green or Socially Responsible Investing (SRI) themes.

On the other hand, *Maqasid* Shariah will remain forever. That is why the alignment of both concepts needs a thorough revision. A respondent suggested the following:

"I think the relationship here is how do we map this under the five pillars of Maqasid and my suggestion is that those mapping should not be linear in the sense that we don't just map one to one, or two to one. Because they can be a kind of enclosed, when we map, we should look at those multiple dimensions. For example, the concept of property in Maqasid Shariah could relate to wealth, to nafs, and to religion in conjunction with the hadith from Prophet ﷺ, so those mappings are very important in terms of SDG." (Respondent 1)

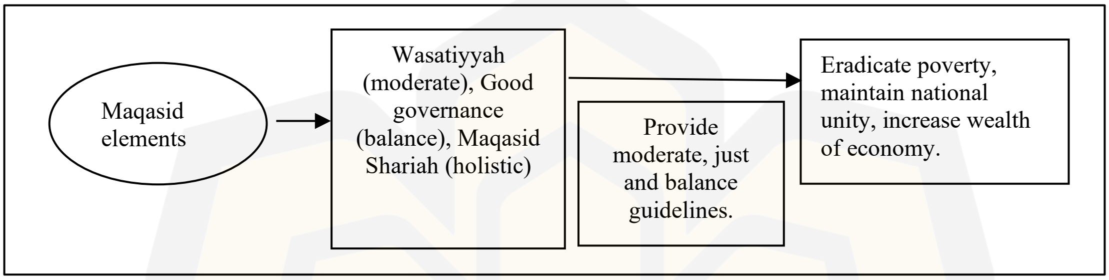
Focusing on Islamic social finance, all respondents agreed to look in-depth into the reality of Islamic social finance and its crucial role in preserving *Maqasid* Shariah. This is because such analysis could help discover the relationship between Islamic social finance and the definitions of *Maqasid* Shariah. One of the respondents believes that the definitions of *Maqasid* Shariah itself justified the concept of sustainability as the focus of *Maqasid* Shariah. He remarked the following:

> *"And even Maqasid, by definition itself is (meaning) sustainable because they use the word Hifz (which mean 'preserve). Hifz In Arabic has two components. That means 'you preserve it so that it doesn't get back' and 'then you sustain its existent'. (This is) based of view on the meaning of Maqasid. And I agree with what the scholar said. It does not only look at Maqasid dunya, but also Maqasid in akhirah. I agree, the missing of (components of Maqasid) that I mentioned earlier in SDG is that part". (Respondent 1).*

Accordingly, the respondent also suggested that to align the means of *Maqasid* Shariah with social enterprise, the scopes of *Maqasid* Shariah should be widened. He stressed the importance of identifying the means and areas in *Maqasid* Shariah into social enterprise. This is because the traditional framework of

Maqasid is perceived to be inflexible in the hybrid model of corporate entities in social entrepreneurship that is more profit oriented. That is only through the achievement of profits they could serve the society. Nowadays, this could be perceived in the Islamic banks. The elements of *Maqasid* Shariah can be measured to certain dimensions suggested by the respondent: good governance, *Maqasid* Shariah and *Wasatiyyah* (moderation) Theoretically, good governance with *Wasatiyyah* and *Maqasid* Shariah approaches allows all the social enterprises to perform better. This could be formulated based on Figure 2 below, on *Maqasid* elements that may eradicate poverty, maintain national unity, and increase wealth of economy.

Figure 2: *Maqasid* elements in eradicating poverty, maintaining national unity, and increasing economic wealth



In summary, the *Maqasid* Shariah, which underpins Islamic finance, makes the sector capable of leading in promoting the SDGs to achieve global economic and social justice. Nowadays, the success of implementing sustainable finance that is in line with the SDGs, VBI and *Maqasid* Shariah hinges deeply on the adoption of technology-based solutions. This will enable the allocation of financial resources to the high-impact economic segments so that the nations can achieve financial inclusions far more efficiently and effectively.

Theme 3: Application of Islamic social finance to help the B40 group in eliminating poverty and achieving SDG1

In general, most of the respondents agree that Islamic social finance is intended for social benefit and is done through various approaches permissible by the Islamic law. Among the main methods in Islamic social finance are philanthropic tools such as zakat, waqf, sadaqah, microfinance and sukuk.

According to the respondents, innovative investments in humanity through Islamic social finance tools will lead to long-term social improvements, resilience, and adaptive capacity-building for society at risk. Such investments will inspire communities to recover more significantly from financial shocks and facilitate social and economic inclusion within their populations.

However, some respondents remarked that Islamic banking practices should adhere to the true nature of Islamic social finance that is intended for philanthropic driven and not for profit maximization. When utilizing philanthropic tools such as microfinance and *rahn* that require repayment, the focus should be on how it will help the people, especially B40 communities and not on profit-making, especially when some fees are posed in the financing. For example, the *wakalah* (agency) fees should be low. Respondent 7 mentioned some of the challenges faced by the B40 in taking up Islamic financing whereby the charges are high. This may be due to the general expectation of people who expect Islamic banks that operate Islamically should offer much lower rate that their conventional counterpart. Th respondent did suggest that Islamic banks could lower the charges.

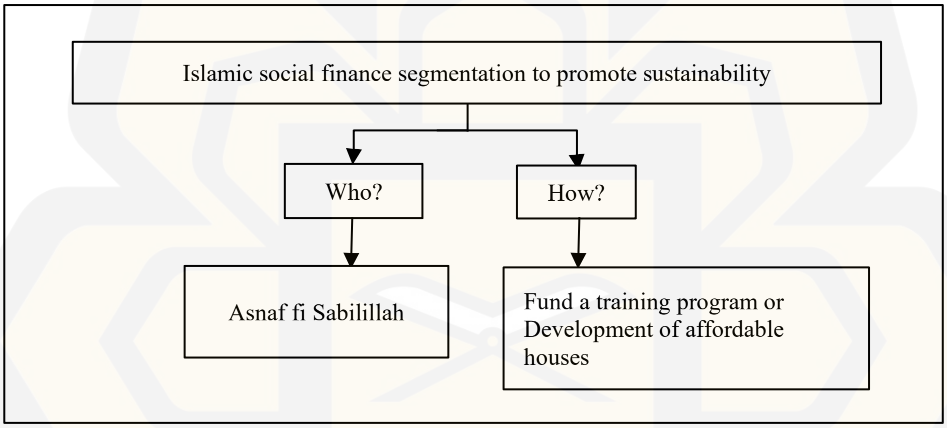
Some respondents also posited that it is also important to investigate segmentation in financing that would be more beneficial for B40 groups. While the role of Islamic social finance tools is to provide financial assistance to targeted groups with no expectation of profit from the transactions. Rather than focusing on a 'one-off' manner, sustainability could be achieved by looking into more significant perspectives that would benefit them in the long term. For example, Islamic CSR can be channelled to fund vocational training such as training the beneficiaries to run a small business or to support the development of affordable houses. Respondent 8 explained:

> *"If we cater on a house (development for them), rather than we go to CSR to distributing foods for the asnaf, it means we only able to cater for the short-term period. We also can give them monthly income,*

> *for example Rm300/month, it surely can resolve any hunger and any poverty issues. If we try to look into building a house (using the CSR fund), then we can give them at least a shelter. So maybe we can propose at our end as a banking institution, that is rather than focus only for the small CSR, but also for the long-term impact for B40 and asnaf as well". (Respondent 6)*

Most of the respondents unanimously said that the assistance in the form of zakat should be given according to the fixed beneficiaries. However, a respondent highlighted that although the beneficiaries of zakat in Shariah are fixed, the application could be different. Nowadays, there are uncontrollable issues whereby many of them are still reluctant to improve their lives towards a better quality of life despite various efforts taken such as capital assistance. Therefore, the priority should be on who among the asnaf would benefit the society more. The respondent suggests that the fund will be more beneficial for the long-term if it is distributed for the asnaf *fi sabilillah* (in the cause of Allah). In summary, the segmentation in Islamic social finance to promote sustainability can be postulated in Figure 3.

Figure 3: Islamic social finance segmentation to promote sustainability



Theme 4: Issues and concerns in utilising Islamic social finance tools in improving the socio-economic well-being of B40 in Malaysia

In general, the respondents agree that the failure of Islamic social finance tools in eradicating poverty among the B40 group is not because of the instruments themselves. Among others, it can be from internal factors related to the individual himself or external factors such as regulation constraints and inefficient management. The findings of the Focus Group Discussion on the issues of utilising Islamic social finance tools in Malaysia can be explained as follows:

The first issue is the readiness of the individuals; that is both from the demand side such as the B40 communities, and the supply side including industry players, regulators, or policymakers. According to the respondents, the internal factors from the demand side include lack of education, skills, and attitudes. One of the respondents stated that most customers seeking financial advice from debt management institution lack financial literacy. The lack of understanding caused the people to be in unmanageable debt, eventually leading to bad credit rating results.

> *"Most of the people that came to us and seek for our financial advice are those who cannot pay their debts because they don't aware on the planning part. So, they didn't plan well during taking out loans. And taking also from my personal experience when I deal with the bank, there's no such bankers that explain on planning financial; "you have to do this, so this, you know?" (Respondent 3)*

Accordingly, the respondents also highlighted the roles of educators to educate the asnaf on managing their wealth. This is important as without proper financial education or literacy, the recipients cannot manage the contribution that they received well:

> *"Maybe I can add on the roles of educators. We can educate properly on the asnaf on how to manage their wealth and money. Because rather than we give monthly zakat contribution to them, without the financial planning education, they would not be able to manage their money properly" (Respondent 7)*

Besides, from the external factor's perspective, the respondents in consensus that even though Bank Negara ascertained the idea of VBIs, specific departments in Bank Negara face some challenges in procuring the balance between VBIs idea well as the financial stability requirements. Accordingly, Islamic financial institutions would also face some risk management problems. A respondent remarks that the bank is always going for risk aversion. Most banks will prompt joint ventures with other institutions and participate in risk-sharing ventures that guarantee capital protection to lower the risk.

Secondly, there is the issue of innovation capability. A respondent remarked that innovation capability is about the supply side's (i.e., the bank) readiness for innovation to go beyond traditional banking. The financial institutions' lack of innovation in crafting the financial instruments and products that could impact society. As indicated by Respondent 5.

> *"It is about how they want to create a product and create a financial instrument that gives impact to the society. It is about how the personal financing department can craft a new product so that it can give an impact for the social" (Respondent 5)*

The third issue is the unorganized initiative and inefficiency in applying Islamic social finance. The practice of *qard* and *rahn* funds varies in different Islamic banks. Some Islamic banks provide it to poor local students and the financially weaker group of the society. In contrast, some other banks fund through a third party to small businesses, producers, and farmers who do not have access to the formal financial services. Although these charitable activities can reduce some types of poverty, the efficiency is questionable because the societies are barely improved. Therefore, the respondent suggested that there must be a central charity body that collects and invests in Islamic social enterprises to grow the funds. He implied that the large funds accumulated from different Islamic financial institutions in the central charity body would surely be sufficient to be invested in Islamic social enterprises. Moreover, if the funds are collectively invested in Islamic social enterprise, it will be a more sustainable and efficient process for poverty eradication.

The fourth is the lack of synergy with third sectors that facilitate the instruments, such as charitable institutions, zakat authorities, and the State Islamic Religious Council (SIRC) that governs zakat and waqf. Accordingly, the fund could be efficiently channelled to the recipients if they have good governance of social impact initiatives and charitable activities.

5. Conclusion

In conclusion, Islamic social finance is important to support the society and achieve sustainable development goals. The definition of Islamic social finance can be further refined to ensure the operational definition is well understood. The application of Islamic finance may perhaps unintentionally exclude the Islamic social and philanthropy-driven area in pursuit of profit maximization goals. However, the recent development of value-based intermediation has supported the application of Islamic social finance by Islamic financial institutions. The application of common Islamic social finance instruments especially zakat, waqf, and sadaqah needs to be enhanced in supporting the sustainable development goals.

Among the pertinent issues and challenges discussed there are other internal and external factors such as inefficient management and the attitude of the recipients themselves as the reason for the ineffectiveness of the application of Islamic social finance to reduce poverty and support SDG1. Not only that but new innovative investments through Islamic social finance are also needed to support long-term social improvements and sustainability that will enhance the socio-economic well-being of the community. Also, from an institutional perspective, the Islamic banking practices should adhere to the nature of Islamic social finance in achieving *Maqasid* Shariah and not only for profit maximization. Hence, the *Maqasid* Shariah, which underpins Islamic finance, makes the institutions become the example in promoting the SDGs in attaining a global economic and equitable financial system. These findings may contribute to the improvement of the policy especially about

Islamic social finance instruments due to their unique nature as compared to the widely use Islamic financial instruments.

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