

Potential Role of Social Impact Bond and Socially Responsible Investment *Sukuk* as Financial Tools that Can Help Address Issues of Poverty and Socio-Economic Insecurity

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Abstract: The purpose of this paper is to highlight the potential of Social Impact Bond (SIB) and Socially Responsible Investment (SRI) *sukuk* as financial models that can be used to help alleviate the social problem of poverty and also potentially provide economic security for the society. From the review of literature, this paper takes case studies of SIB programmes and SRI *sukuk*, and relates them as programmes that can be used to address the issue of poverty and economic insecurity. The paper finds that there is a growing global interest in innovative financial tools such as SIB and SRI *sukuk*. Furthermore, the paper explicates that SIB and SRI *sukuk* models embody the spirit of social responsibility, which is one of the major essence that is currently missing in the Islamic finance industry practice. This paper is conceptual and exploratory in nature. Therefore, further empirical research can be done to provide better understanding and knowledge. Findings from this paper can be used as a reference to understand the concepts and mechanisms involved in SIB and SRI *sukuk* models. This paper contributes to the awareness of the emerging global interest in SIB and SRI. In addition, it highlights SIB and SRI *sukuks*' potential contribution towards Islamic finance. Although SIB and SRI *sukuk* is gaining interest worldwide, it has not caught much attention of researchers and practitioners involved with Islamic finance. Therefore, this paper offers insight towards SIB and SRI *sukuk*, which is relatively unknown to academics and Islamic finance industry practitioners.

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Abstrak: Tujuan kertas kerja ini adalah untuk mengetengahkan potensi Bon Impak Sosial (SIB) dan *Sukuk* Pelaburan Mampan dan Bertanggungjawab (SRI) sebagai model kewangan yang boleh digunakan untuk membantu mengurangkan masalah sosial seperti kemiskinan dan juga berpotensi menyediakan kesejahteraan ekonomi untuk masyarakat. Daripada kajian literatur, kertas kerja ini mengambil contoh kes-kes program SIB dan *sukuk* SRI sebagai program-program yang boleh digunakan untuk menangani isu-isu seperti kemiskinan dan ketidaksejahteraan ekonomi. Kertas kerja ini mendapati bahawa terdapat minat global yang semakin meningkat terhadap model kewangan yang inovatif seperti SIB dan *sukuk* SRI. Kertas kerja ini juga menerangkan bahawa model SIB dan *sukuk* SRI mengandungi semangat tanggungjawab sosial - salah satu intipati utama yang semakin luput dalam amalan industri kewangan Islam. Kertas kerja ini berkonsepkan penerokaan awal di bidang ini. Oleh itu, penyelidikan lanjut berbentuk empirikal boleh dilakukan untuk memberi kefahaman dan pengetahuan yang lebih baik. Isi kertas kerja ini boleh digunakan sebagai rujukan untuk memahami konsep dan mekanisme yang terlibat di dalam SIB dan model *sukuk* SRI. Ia secara tidak langsung menyumbang kepada minat global yang semakin meningkat terhadap SIB dan SRI. Di samping itu, ia menonjolkan potensi SIB dan *sukuk* SRI untuk industri kewangan Islam. Walaupun minat terhadap SIB dan *sukuk* SRI semakin meningkat di seluruh dunia, ia tidak mendapat banyak perhatian penyelidik dan pengamal yang terlibat dengan kewangan Islam. Oleh itu, kertas kerja ini turut membincangkan wawasan SIB dan *sukuk* SRI agar lebih diketahui ahli akademik dan pengamal industri kewangan Islam.

Kata Kunci: bon impak sosial, pelaburan mampan dan bertanggungjawab (SRI), pengurangan kemiskinan, kesejahteraan sosio-ekonomi, kewangan Islam, tanggungjawab sosial

1. Introduction

From the early 1970s, the Islamic finance industry has grown significantly from institutions that merely manage hajj funds and focus on *Shari'ah*-compliant banking towards a more comprehensive industry that we see today which encompasses banking, Islamic capital market, and *takaful* products. According to IFSB (2015) the Islamic finance industry has assets estimated to be worth USD2 trillion and has grown consistently with a compound annual growth rate (CAGR) of 17% from 2009 to

2013. With this trend, the assets can grow up to approximately USD 5 trillion by 2020. The growth of the industry comes from robust and comprehensive infrastructure, a wide range of customer and issuer base, as well as international cross-border dealings (MIFC, 2015).

However, despite this encouraging growth, the full objective of the Islamic finance industry is yet to be realised. It has been found that the objectives of Islamic banks mostly focus on profit-orientation rather than social-orientation (Mohammad & Shahwan, 2013). Therefore there have been calls for Islamic financial institutions to bridge the gap of Islamic finance theory and practice and put more effort on social responsibility (Ng, Mirakhor, & Ibrahim, 2015). Furthermore, there are criticisms aimed at institutions that handle *zakat* funds, whereby studies have found them to be incompetent, inefficient, and contaminated with unnecessary bureaucracy as stated by Hamizul (as cited in Hamid, 2013). Additionally, there have been cases of *zakat* funds being stolen and misappropriated, as the study of *zakat* institutions in Malaysia by Wahab (2013) shows. Hence it comes as no surprise that people would prefer paying *zakat* directly to recipients rather than to *zakat* institutions since they do not have the confidence in the credibility of *zakat* institutions (Mustaffha, 2007).

Based on the above premise, there needs to be an improvement within the Islamic finance industry in order to reach its full potential. Islamic financial institutions are expected to run their business beyond just managing funds to provide sufficient effort to help alleviate poverty and provide socio-economic security to the people. The emergence of the Socially Responsible Investment (SRI) sphere within the financial industry may provide the avenue for this to be realised. Among the financial tools that have been developed with SRI strategies are Social Impact Bonds (SIBs) and Sustainable and Responsible Investment (SRI) *sukuk*, which will be discussed in this paper. SIB and SRI *sukuk* is argued to be financial models that can be used to help alleviate the social problem of poverty and also help provide economic security for society. These relatively new tools can be the new frontier of Islamic finance instruments and provide the much needed social impact that is arguably lacking in the Islamic finance industry practice.

As a result of its socially driven objective, the SIB model can be said to fall into the gambit of the SRI sphere. At the same time,

the SRI *sukuk* is said to be a form of SIB that is modelled using the *Shari'ah* based contracts. This is because of their similarities in terms of result-based approach as well as paying returns based on the success of the programmes. Furthermore, there are similarities in terms of their commitments towards better social outcomes. The fact that SIB does not have a standard definition also allows for flexibility in terms of defining SRI *sukuk* as a subset of SIB (RAM ratings, 2015).

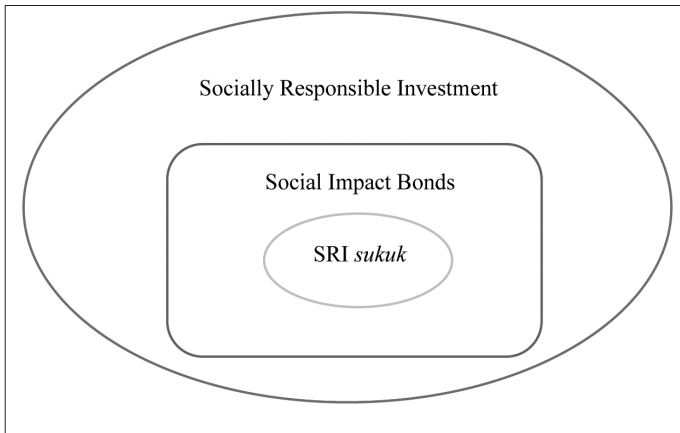


Figure 1. General SRI ecosystem

Source: Authors' Construction

This paper will discuss the conceptual nature of SIB and SRI *sukuk* through case studies of their implementation. Although conceptual, it may provide relevance to practitioners and academicians of Islamic finance especially towards understanding the concepts and mechanisms involved in the SIB and SRI *sukuk* models. Furthermore, there is a scarcity of academic papers on SIB and SRI *sukuk*. Therefore, this paper also helps fill a huge gap in academia. The structure of this paper is as follows: Section 2 explains the concept, mechanisms, and trend of SIB before we look at case studies of SIB and SRI *sukuk* programmes that are already in implementation in Section 3. These case studies will be used as a reference as to how SIBs and SRI *sukuk* can potentially be implemented to help alleviate poverty and provide socio-economic security, which will be elaborated in Section 4. In Section 5, the paper explains the relation of SIB and SRI *sukuk* to Islamic finance. A conclusion together with several suggestions is provided in Section 6.

2. Social Impact Bond (SIB)

2.1. Definition

The SIB model is a series of pay-for-performance contracts, whereby the government agrees to pay for improved social outcomes, delivered by intervention programmes that tackle the root causes (rather than remedial treatment), with the potential of downstream savings for the government (So & Jagelewski, 2013). On the basis of these contracts, funds are raised from socially-motivated investors and used to pay for a range of interventions to help improve social outcomes. If the programme succeeds in improving the outcomes, the investors will receive their capital, plus additional returns depending on the degree of success in which outcomes improved (Social Finance, 2011). The term “Social Impact Bond” is widely used in the UK and Canada, while in the US, “Pay for Success Bonds” and “Human Capital Performance Bond” are used, whilst in Australia the term commonly used is “Social Benefits Bond” (Nicholls & Tomkinson, 2013). Based on the more common usage, the term “Social Impact Bond” is used in this paper.

2.2. SIB Stakeholders

The SIB model involves the public, private, and social sector by encompassing a multi-stakeholder partnership approach. According to So and Jagelewski (2013), the model involves five principal stakeholders:

- i. Governments or commissioners, who provide the payments to investors, if the SIB programme succeeds in achieving its target. The payment values are dependent on the degree of success.
- ii. SIB delivery organisations or intermediaries, who play various roles, including brokering relationships between stakeholders, sourcing capitals, lead deal negotiations and constructions, manage the performance of programmes, and identify and select service providers.
- iii. Investors who provide the upfront capital needed to fund the programme. They also bear some or all of the financial risk.
- iv. Service providers who deliver the social intervention to the target population.
- v. Third-party evaluators, who conduct independent evaluations on the achievements of SIB programmes.

2.3. SIB Structure

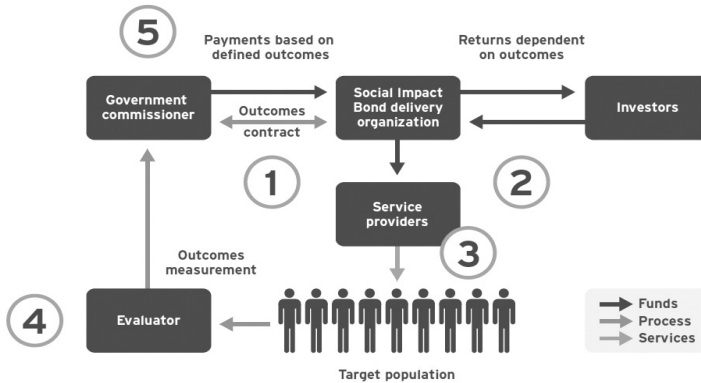


Figure 2. General structure of SIB model

Source: So and Jagelewski (2013)

As shown in Figure 2, there are a number of stakeholders involved in a SIB model. The model functions as follows:

- i. A contract is negotiated between the government and other stakeholders where outcomes and payment mechanisms are agreed upon.
- ii. Based on the contract, the SIB delivery organisation issues “bonds” to raise funds from investors. The funds are used to provide upfront capital for the intervention programme.
- iii. The social service provider receives the funds and delivers the services to the target population in order to address the social issue.
- iv. The outcomes are then evaluated by an independent, third-party evaluator that provides the necessary reports to the government/commissioner.
- v. If the agreed outcomes are achieved, the government makes payments to the investors. These payments repay the principal plus a financial return, depending on the degree of success.

Since the first SIB in 2010, there have been numerous variations to the basic SIB model, and applied to various social issues. This shows the flexibility and adaptability of SIB. However, it must be noted that despite the term “bond” in its name, the SIB model is different from a conventional bond. Generally, a conventional bond has a guarantee on

capital and rate of return, while the capital and return of a SIB are not guaranteed and are dependent on the success of the SIB programme. SIBs are also said to share features of both equity and debt – in the sense that SIB has a fixed term and capped upside, but similar to an equity, the returns depend on the outcome of the programme or project, and the investments are not secured by cash flows or real assets (Hughes & Scherer, 2014). While according to Reeder, Khalid, Bohlender, and Kamil (2014), SIB is a form of composite of loan, equity, and a fixed-income instrument. This is because there may be a risk of total loss seen in an investment; returns based on outcome of programme as seen in dividends of equity; and returns based on pegged rates as seen in fixed-income instruments. This makes the SIB model a very unique form of financial tool that provides a social impact.

2.4. Global trends

SIB was pioneered in the UK in 2010, where the first SIB was launched to address the issue of recidivism (reoffending). The programme raised a £5 million investment from private investors and charities and focused on reducing reconviction rates of short term prisoners in Her Majesty's Prison (HMP) Peterborough (Disley et al., 2011). An assessment report in 2014 show that the programme succeeded in reducing reoffending by 8.4% from its first cohort of 1000 prisoners (Ministry of Justice, 2014). Based on the latest data, the UK has launched approximately 30 other SIB projects addressing various social issues such as homelessness and youth unemployment (Finance For Good, 2016).

While in the US, the Office of Social Innovation and Civic Participation was established to develop grant programmes that assists Non-Profit Organisations (NPOs) to scale up their effective programmes. The White House endorsed the Pay-for-Success (PFS) scheme in 2011, which encourages government agencies to look into innovative funding schemes such as SIBs. Congress was asked for \$100 million to implement the PFS scheme at the state and city level. In 2014, the Obama administration again asked the Congress for \$195 million discretionary funds to be used for SIB market development. The administration also proposed a \$300 million PFS incentive fund within the Department of Treasury to pilot projects for areas such as housing, training, education, and incentive funds for local governments (Shah & Costa, 2013). The Harvard Kennedy School also established a

SIB Technical Assistance Lab, which offers assistance to governments considering the SIB model. In 2012, Goldman Sachs, the City of New York, Bloomberg Philanthropies, and MDRC partnered together to launch the first SIB in the US, which raised \$10 million. The SIB focused on reducing juvenile recidivism at Rikers Island correctional facility (Ng et al., 2015). In California, there are various projects underway for a health-impact SIB that addresses the issue of chronic asthma and the reduction of children’s hospital visits related to the disease. According to Finance For Good (2016), currently there are 7 SIB projects in the USA and the interest is growing further.

In Australia, two SIBs were launched in 2013, focusing on the area of foster care and child protection. Other areas addressing recidivism and family are also being looked at for SIB implementation. The SIB tracker by Finance For Good (2016) reports that there are currently 50 SIB programmes from around the world, including Portugal, Germany, Belgium, Ireland, the Netherlands and India. They estimate that the total size of SIB contracts currently in implementation to be CAD190 million (USD143 million). The figure below illustrates the social areas of SIB currently in implementation and their respective values.

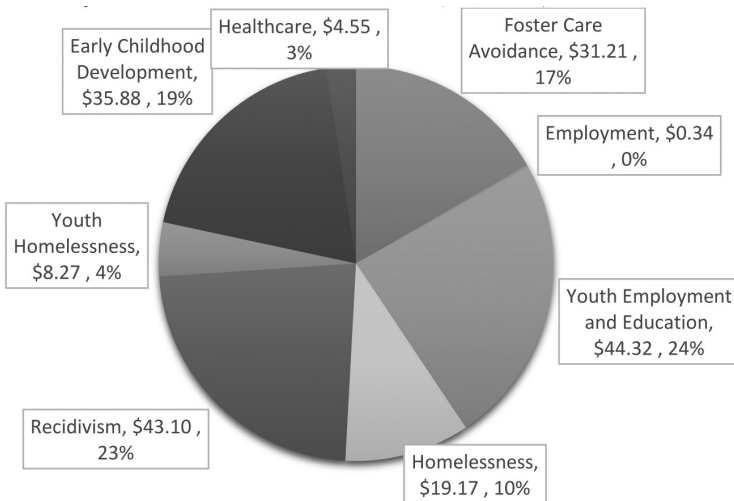


Figure 3. Value of SIB market and Social Areas (CAD mn)

Source: Finance For Good (2016)

Initial outcomes from SIBs in implementation show extremely positive results and appear to suggest that the SIB model is an effective way to drive positive social outcomes. The interest for SIBs are also growing which comes to no surprise since the social and economic benefits of SIBs are theoretically very promising (Burpee, n.d.). However, the SIB model has yet to gain similar interest from Islamic or Muslim-majority countries despite its promising fund raising capabilities and social impact. Nevertheless, there are encouraging developments in the form of SRI *sukuk* which will be discussed in later sections.

3. Case studies

3.1. Case study 1: London Homelessness SIB

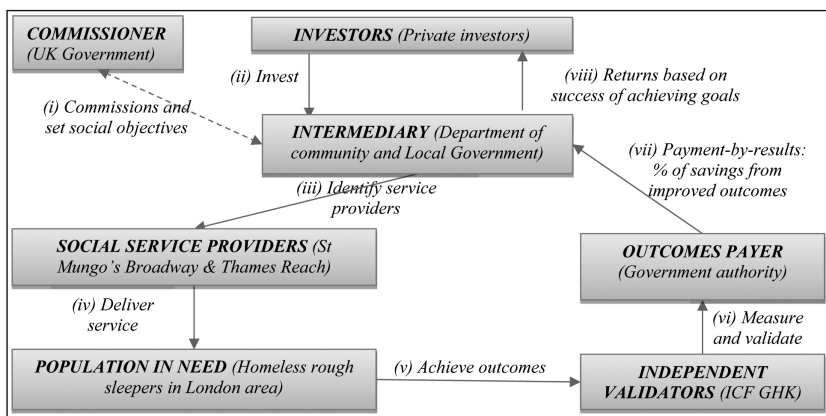


Figure 4. London Homelessness SIB General Structure

Adapted and modified from Hughes and Scherer (2014)

The London Homelessness SIB is a three-year programme, which was implemented in November 2012. It is an innovative programme that focuses on providing support for entrenched rough sleepers who are not targeted by or their needs not met by existing intervention programmes. The programme covers a fixed cohort of 831 rough sleepers who were identified through a national database, whereby they have been seen sleeping rough and/or stayed in London’s rough sleeping hostel during a certain period of time. The programme targets rough sleepers as they are amongst the most vulnerable people in society. The database showed that 48% of them had problems with alcohol; 29% with substance misuse; and 44% needed mental health support. 49% were non-UK residents (Department for Communities and Local Government, 2014).

Two organisations were selected to provide the necessary services to the target population. The services were based on the “Navigator model” whereby a caretaker (navigator) provides personalised approach and acts as a single contact for the client (rough sleeper), and helps them to address their needs through the landscape of existing provisions. These provisions include outreach, day centres, beds, hostel beds, employment, training and education, healthcare, drug and alcohol services, as well as counselling. The service providers were assigned to achieve five major goals. The report by Department for Communities and Local Government (2015) summarises these goals, together with their outcomes, payment mechanism, and proportion of allocated funding as shown in the table below:

Table 1. London homelessness SIB objectives and funding summary

Goal	Metric	Payment Mechanism	Funding proportion
1. Reduced rough sleeping	Reduced number of individuals rough sleeping each quarter.	Payments according to progress beyond a baseline of expected reduction.	25%
2. Sustained stable accommodation	Confirmed entry to non-hostel tenancy, and sustained for 12 and 18 months (with allowance for occasional rough sleeping).	Payment on entry to accommodation, and at 12 and 18 month points.	40%
3. Sustained reconnection	Confirmed reconnection outside of the UK.	Payment on reconnection and at 6 month point.	25%

Goal	Metric	Payment Mechanism	Funding proportion
4. Employability and employment	Sustained full-time employment. Sustained part time employment. Sustained volunteering. Level 2 qualification achieved.	Payments when employment or volunteering sustained for 13 and 26 weeks. Payment for achievement.	5%
5. Better managed health	Reduction in accident and emergency episodes.	Payments for reduction in episodes against baseline.	5%

The latest qualitative evaluation report by the Department for Communities and Local Government (2015) released in March 2015 showed that the SIB programme has successfully reduced rough sleeping despite not yet achieving the targeted baseline (Goal 1). For sustained stable accommodation (Goal 2), the programme has exceeded their targets with strong performance. Progress for sustained reconnection (Goal 3) has improved, but has not yet reached its target. As for employment (Goal 4), overall the providers are happy with their performance, despite not reaching its target. This is because of complex needs and skills of each client which are key challenges that can be improved. While for health (Goal 5), the data is not currently available due to data protection concerns, which is to be resolved with ongoing discussions with the Health and Social Care Information Centre. Nonetheless, the service providers are confident that the targeted outcomes will be achieved.

The objectives of the programmes, which not only aims to reduce homelessness, but goes beyond that by providing employment assistance and health management, may also reduce instances of poverty and provide economic security towards the target population. Overall, the London homeless SIB programme seems to incentivise delivery of service as intended and there has been no evidence of perverse incentives. Lessons learnt from the SIB have also provided valuable learning experience on the issue at hand. The early report shows encouraging results that can potentially reach its targeted outcome and bring benefit to society.

3.2. Case study 2: Youth employment and education SIB in the UK

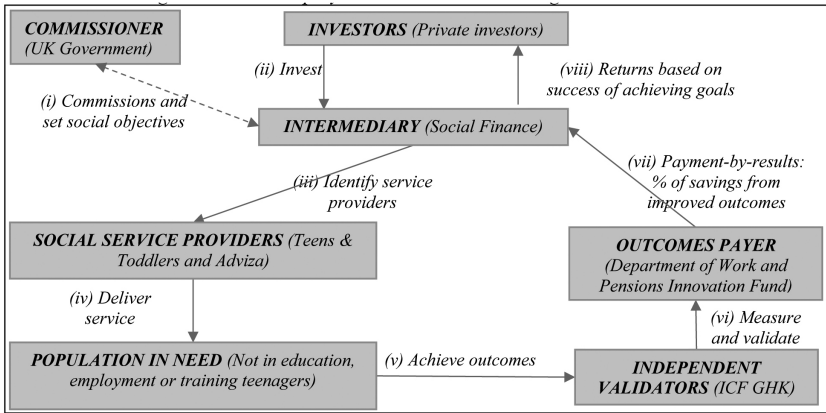


Figure 5. Youth employment and education SIB general structure

Adapted and Modified from Hughes and Scherer (2014)

The UK government developed an “innovation fund” to address the social area of Youth employment and education in the UK. The fund aims to develop SIBs for programmes to support the disadvantaged and those at risk of being disadvantaged young people aged 14 and above. The programme acts as a preventative measure, which aims to re-engage these young people to Education, Training, and Employment. In this SIB structure, the Department of Work and Pensions (DWP) acts as the commissioners and will pay the investors if the outcomes are achieved.

There are three main outcomes targeted for this SIB (HM Government, n.d.) :

- i. To deliver support to help young people who are disadvantaged or at risk of disadvantage, helping them participate and succeed in education or training and thereby improve their employability, reducing their longer term dependency on benefits.
- ii. Test the extent to which we generate benefit savings, other wider fiscal and social benefits, and deliver Social Return on Investment.
- iii. Support the development of the social investment market, the capacity building of smaller delivery organisations and generate a credible evidence base which supports social investment arrangements.

From the innovation fund, 10 SIBs were launched in the UK in 2012. Among them were: Teens & Toddlers SIB and Energise Adviza SIB, both worth £7 million to fund positive social outcomes for young people. These programmes seek to address the root cause of young people becoming “Not in Education, Employment or Training” (NEET). The target population were 14-15 year olds who were identified as having NEET indicators that include: poor school attendance; disruptive or antisocial behaviour; family or mental health issues; and low educational results. There were a number of defined target outcomes, including improved attitude, behaviour and school attendance, educational and life skills qualifications and employment.

The Teens and Toddlers SIB programme provides support for vulnerable young people with goals to reduce risky behaviours, such as joining gangs and getting pregnant. It helps young people to improve their attitude and behaviour, school attendance, and overall academic achievement. They were matched with a toddler in nurseries for over an 18-week period, and they were also given on-going support for their General Certificate of Secondary Education (GCSE). Results show that 75% of the target population received an entry-level qualification at the end of the intervention and outcomes for improved attitude and behaviour were attained. The programme also successfully enhanced the level of support to participants in the run up to exams through tuition.

The Energise SIB programme was delivered by the Adviza Partnership. It addressed young people from 42 schools. The programme offers mentoring services combined with structured activity and residential courses that are designed to nurture re-engagement with school, as well as build confidence and resilience. The programme introduced a “Job Coach” service for the target population looking for employment by helping with CV drafting, job applications, recruitment fairs and interviews. Results show that the programme has outperformed targets on attitude, behaviour, educational qualifications and employment outcomes.

In July 2015, it was announced that the two SIBs have performed above expectation and delivered the outcomes that are sufficient to return investor capital earlier than expected (Social Finance, 2015). The full result will be published in 2016 once the tenure of the programme ends.

The success of these SIBs, which provide intervention before the problem occurs, can serve as good examples of tackling societal ills at the root of its cause. By providing at-risk youth the necessary help they need in terms of their education, their attitude, and mental health, this can help reduce social problems once they graduate from school. Lower education level and mental health problems can potentially lead to higher instances of poverty as well as socio-economic insecurity.

Case study 3: SRI sukuk (Vaccine sukuk and Ihsan sukuk)

According to Moghul and Safar-Aly (2014), “Sustainable and Responsible Investment (SRI)” is a generic terminology which includes any type of investment process that combines the investors’ financial objectives together with their concerns towards issues of environment, society, and governance (ESG). It is also often known as “Socially Responsible Investment”. Innovative SRI financial tools not only provide financial returns, but also positive social impact towards society.

The potential benefits of SRI tools have led the likes of supranational organisations such as the European Commission (EU) and the World Bank to issue green and socially responsible bonds since 2008. In September 2015, figures have shown that the World Bank have issued Green Bonds worth around USD8.5 billion (World Bank, n.d.).

In December 2014, the World Bank together with the International Finance Facility for Immunization (IFFIm) issued the debut Vaccine *sukuk* worth USD500 million. This marked the first SRI *sukuk* that provided both economic and social returns where it paid a competitive rate of return while supporting the immunization of more children in developing parts of the world. The success of the inaugural transaction led IFFIm and the World Bank to issue the second SRI Vaccine *sukuk* in September 2015, worth another USD200 million (Bennet, 2015).

The developments in SIB and SRI space have also caught the interest of Malaysia, the largest *sukuk* market in the world. In August 2014, the Securities Commission of Malaysia introduced the SRI Framework to facilitate the financing of sustainable and responsible investment initiatives (Securities Commission Malaysia, 2014b). Pursuant to this, in May 2015, the first SRI *sukuk* (Ihsan *sukuk*) was launched in Malaysia by Khazanah Malaysia Berhad (Khazanah). The Ihsan *sukuk* programme has a nominal value of RM1 billion with a 25-

year tenure. Its first issuance of RM100 million was fully subscribed in June 2015. The issuance was rated as AAA(s) by RAM Rating Service Berhad (RAM), reflecting Khazanah’s role as credit obligor under the SRI *sukuk* (Khazanah Nasional, 2015). This SRI has a 4.3% return per annum over a 7-year period (*The Star Online*, 2015). CIMB Islamic Bank Berhad and Amanie Advisors Sdn Bhd. were selected as joint *Shari’ah* Advisors, while CIMB Investment Bank Berhad was assigned as the lead arranger of the *sukuk*. The *sukuk* was structured based on the Islamic principle of *Wakalah Bi Al-Istithmar* (investment agency), as provided in the *sukuk* guideline by the Securities Commission Malaysia (2014a). Independent assessors will be selected either from Ernst & Young, KPMG, PricewaterhouseCoopers or Deloitte (CIMB, 2015). The figure below illustrates the SRI *sukuk* structure:

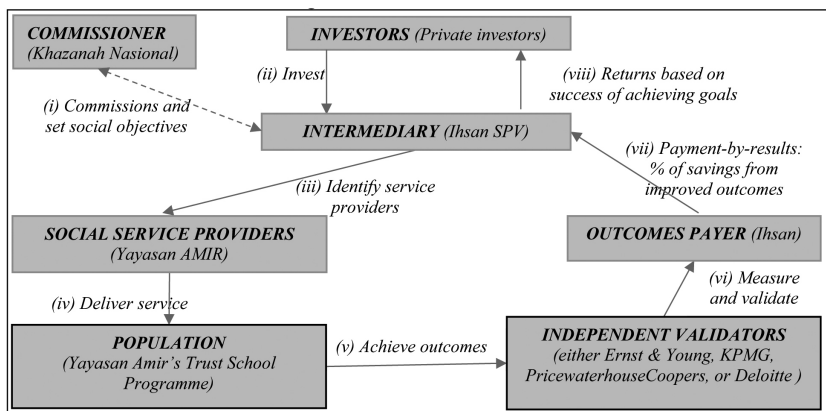


Figure 6: Ihsan Sukuk structure

Adapted and Modified from Hughes and Scherer (2014) and (CIMB, 2015)

Funds raised from the *sukuk* are channelled to a Non-Profit Organisation (NPO) called Yayasan AMIR, which manages Khazanah’s Trust School programme. This programme is a form of public-private partnership with the government to improve the accessibility of quality education in Malaysia. The SRI *sukuk* programme follows a pay for success model with a unique step-down profit feature, where impact is measured through several Key Performance Indicators (KPIs) during a course of 5-year period. The KPIs for this SRI *sukuk* are as follows (CIMB, 2015):

- i. A minimum of 20 schools are selected under Yayasan AMIR's Trust Schools Programme for a five (5)-year intervention period.
- ii. At least 50% of the teachers of the Identified Schools are rated at the Establishing level or above in their observations after the end of their Intervention Period.
- iii. At least 50% of the senior leadership of the Identified Schools are rated at the Establishing level or above in their observations after the end of their Intervention Period.

According to RAM ratings (2015) this Ihsan SRI *sukuk* programme has several strategic goals which include developing high quality leadership and management; improving the quality of learning and teaching, maximising student achievement and potential, as well as strengthening the engagement of parents, community and other stakeholders. The *sukuk* programme is still new and does not have any empirical reports yet. Nonetheless, the programme looks very promising in terms of attracting funds from socially-motivated investors as well as providing social impact on society.

By funding SIB programmes to improve health (vaccine *sukuk*) and the quality of education (Ihsan *sukuk*), better socio-economic security can be provided, especially towards the lower-income of the population who have less access to good healthcare and education facilities. This can contribute towards ending the poverty cycle and raising their standard of living.

4. The potential of SIB to help address the issue of poverty and provide socio-economic security

The case studies offer a glimpse of how SIBs can be used to structure intervention programmes that can have a positive social impact. Similar intervention programmes can potentially help in addressing issues of poverty and socio-economic insecurity. Although SIBs in case studies do not address poverty directly, their target area of homelessness, youth education and employment, as well as improving the quality of education, are somewhat related to the root-causes or symptoms of poverty and socio-economic insecurity. The areas that they address are associated either to the symptoms, causes or impact of poverty and socio-economic insecurity (Gregorio & Lee, 2002; Sosin, 1988; Strauss, 2012),

Firstly, homelessness is often seen as a result of poverty as well as a form of socio-economic insecurity. It can also be the cause of someone going into poverty (Sosin, 1988). As shown in the first case study, rough sleepers (homeless people) often have problems with alcoholism, drug abuse and mental health – which are social illnesses frequently associated with people who come from the lower-income group. There are implicit costs from homelessness where the government (taxpayers) would have to pay for the effects of homelessness such as the overall cost of crime that homeless people commit because of the problems mentioned earlier. This cost of crime may include prison cost, hospital care cost, rehabilitation cost, damages to public property, and injuries to others. By addressing the issue of homelessness through SIB, the government can effectively save money as they would only have to pay for programmes that are successful in solving homelessness. Subsequently, the savings can be used for other programmes that directly address poverty. Based on case study, there are also programmes that help the homeless through job training, housing, and employment. By doing so, a homeless person who initially was without any income could now get wages. This helps him get out of poverty, and have a certain level of socio-economic security, which would allow him to contribute back to society.

Secondly, youth who are not in education, training, and employment can also be said to be contributing towards incidences of poverty. As mentioned in the second case study, these youths have poor school attendance; disruptive or antisocial behaviour; family or mental health issues; low educational results; and have negative attitude towards education. If these issues are not addressed early on, there might be a high probability of an increase in the level of poverty in society later on. SIB programmes that provide training, motivation, counselling and help change the attitudes and confidence of these teenagers, will help the future adults of society to have a certain level of socio-economic security. This is proven in a case study where the teenagers have shown positive results in improving their socio-economic status.

Thirdly, various studies have shown the correlation and causation that links education with socio-economic status in society (Sirin, 2005; White, 1982, in Caro, 2009; Gregorio & Lee, 2002; Strauss, 2012). Therefore, SIBs or SRI *sukuk* that help improve the quality of education in general as shown in the third case study may also help reduce poverty levels and provide socio-economic security for future generations.

However, as with other case studies, this can be supported by further empirical research in the future.

Hence, to reiterate - the application of SIBs that address the issues of homelessness, youth employment and quality of education, can help address the issues of poverty and provide socio-economic security. Although the results may not come in the short-term, in the long run it may bear fruit, especially for future generations. Other types of social intervention areas can also be ventured into such programmes that focus directly towards poverty alleviation and improvement of socio-economic security. These social areas can cover matters such as: microfinancing; provision of affordable homes; rehabilitation of bankrupt or insolvent individuals or businesses; creation of business opportunities or community projects for the low-income group; and improvement of food security and access to basic amenities. These initiatives can also tap new sources of funding, such as *zakat* and *waqf* funds, in addition to funds provided by socially responsible investors.

5. SIB, SRI *Sukuk* and Islamic Finance

SIB, SRI *sukuk* and Islamic finance use funds in a way that conforms to high morals and ethics. This is opposite to mainstream conventional finance practice that is mainly driven by the aim to maximise risk adjusted returns. This is not to say that SIB and Islamic finance practice ignore the effort to achieve profits, rather they consider not only economic returns, but also social returns from the practice that is compliant with their beliefs and ethical values.

Looking at the objectives of SIB, we can clearly see that it is a socially-responsible financial tool that embodies the Islamic concepts of *Maqasid al-Shari'ah* (higher objectives of the *Shari'ah*) and *Maslahah* (public interest) (Dusuki, 2005; RAM ratings, 2015). The preservation of life of homeless people and improvement of their quality of life shown in the first case study, and the preservation and promotion of the mind/intellect of youth shown in the second and third case studies relate directly to the *dharruriyat* (necessities) within the *Maqasid al-Shari'ah*. The SIBs in these case studies also denote principles that promote socio-economic justice, the repulsion of harm, as well as the practice of ethics and morality in financial practice. Furthermore, the involvement of the public, private, and the third sector in the SIB structure encourages better distribution of risk in a more comprehensive manner among a

wider range of people, which is a practice that has been argued to be lacking in current Islamic Finance practice.

Hence, it is high time for Islamic financial institutions to bridge the gap between the Islamic finance theory and practice by developing and utilising tools that embody principles of Islamic finance such as SIBs and SRI *sukuk*.

6. Conclusions and Recommendations

We have seen the tremendous growth of the Islamic finance industry over the past decades. Yet, there are various parties who argue that the Islamic finance industry has not yet realised its full potential as it focuses primarily on profit and often neglect social objectives. Islamic financial institutions are called to put the theory of Islamic finance into practice and raise their efforts in improving the society by addressing issues such as poverty and socio-economic insecurity. The emergence of innovative financial tools such as SIBs and SRI *sukuk* that promote social impact on top of financial returns may become an avenue for Islamic financial institutions to improve in this aspect. Case studies of SIB and SRI *sukuk* programmes that seek to overcome social problems such as homelessness and youth unemployment, as well as improve the quality of education, do relate to the issue of poverty alleviation and enhancement of socio-economic security. By developing or participating in such SIBs and SRI *sukuk*, not only can Islamic financial institutions diversify their financial portfolio, they can also contribute towards social impact and fulfil principles of *Maqasid al-Shari'ah* and *Maslahah*. However, much more effort is needed from Islamic finance industry stakeholders in order to facilitate the development of SIB or similar financial tools such as SRI *sukuk*. The ideas and objectives of SIBs and SRI *sukuk* need to be promoted further in order to create greater awareness and attract more interest in the market. Further research can also be done as academic research in the area of *Shari'ah*-compliant SIB is still very scarce.

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