ISLAMIC SOCIAL FINANCE ECOSYSTEM AND THE ROLE OF CROWDFUNDING: A PROPOSED MODEL

ABIDULLAH KHAN
Department of Business Administration, Sukkur IBA University, Sukkur, Sindh, Pakistan
Email: abidullah@iba-suk.edu.pk

RADITYA SUKMANA
Faculty of Economics and Business
Universitas Airlangga, Surabaya, Indonesia
Email: raditya-s@feb.unair.ac.id

ABID MAHMOOD
Department of Business Administration
Sukkur IBA University, Sukkur, Sindh, Pakistan
Email: amahmood@iba-suk.edu.pk

Received on: 18-08-23 Accepted on: 08-10-23

https://doi.org/10.57144/hi.v46i3.876

Abstract

Social finance is a naïve concept in the mainstream of social entrepreneurial and finance literature. Particularly, in Islamic finance environment it could not attract significant attention from the researchers, academicians, and practitioners. Though, some studies have discussed the tools of Islamic social finance, however, the focus on developing a practicable conceptual framework remained least attentive in recent studies. This study aims to fill this gap and attract the attention of all stakeholders to augment the Islamic Social finance theory and provide grounds for practitioners and academicians to implement technological tools to enhance its social impact. This study uses a qualitative library research approach to develop the spectrum of Islamic social finance and identify the issues faced by the key players within the spectrum. Likewise, technological advancement in the form of crowdfunding is exclusively proposed for the Islamic social finance spectrum in order to overcome all related issues and meet the objectives of *Sharīʻah* i.e., *Maqāṣid al Sharīʻah* which are embedded in its CSR values. This study is envisioned to open the doors of debate for academicians to further enhance the general theory of Islamic

Social finance. Moreover, this study also expects to pave the way for practitioners to further improve the suggested model through blockchain technology.

Keywords: *Zakat, Waqf, Ṣadaqah, Islamic Social Finance Spectrum, Crowdfunding*

1. Introduction

In the capitalist economy, mainly, rules are implemented to protect the interests of the rich which results in the rise of income disparity among the masses. The free-market theory has limited its scope to the concept of profit maximization as the primary aspect of human nature. The proponents of this theory consider the profit-making as the ultimate goal of life, decline the mess created by this system and generally put the blame on market failures. The neo-liberal approach captures only a single dimension of human nature i.e., profit-oriented business leaders while ignoring the other perspectives of life such as religiosity, emotion, moral and ethical values, and political and social views[1]. However, Islam categorically rejects profit maximisation in the capitalist sense particularly when the result is super-normal profits.

In Islam, humans are directed to perform multi-dimensional tasks which should be reflected in their character. The values for righteous living that Islam propagates permeate all sectors of human activity. Action in every field of human activity, including economics, finance and others, is spiritual, provided it is in line with the objectives and values of Islam. The primary portion of the objectives of *Sharīʻah* (*Maqāṣid al Sharīʻah*) focuses on the preservation of the public good (*maṣlaḥah*). The concept of *maṣlaḥah* itself is broad and multi-dimensional which paves the way for a better and useful life for the believers. Therefore, a believer must have a multipurpose nature, specifically, in the context of profit maximisation the focus must be on several factors such as caring for the interests of others, environmental protection, and attaining societal benefits through social investment. Social investment is a broader term which includes human capital, social capital, and financial capital[2], nevertheless, in this study we focus on the financial perspective.

According to Silvana et. al. (2020), "Investment of capital for social and financial creation has ancient roots[3]. Cooperatives, religious institutions, credit unions and mutual societies have been managing capital for social projects for many years. However, in recent times, new ways of managing finance for achieving positive social impacts have emerged, which have been classified under the term "*Social Finance*" (SF)."

When we talk about *social finance*, the first thing that comes to our minds is helping the poor through financial means. However, the concept of social finance is broader in its connotation which refers to the investment and financial activities that are deeply rooted with social purpose. Apart from assisting the poor, one needs to look at the social and environmental impact of financial assistance. Grameen Bank is a distinguished example that laid an exemplary foundation by providing *solar financing* facilities to low-income households. This financing facility not only provided a cheap source of electricity for lower-income class but also helped in reducing the environmental harms[4]. Islamic social finance works on the same parameters besides having complete compliance with the *Sharīʻah* rulings.

Despite its importance, Islamic social finance has been paid insignificant attention[5] by scholars, researchers, and practitioners. On the same note, a study clearly highlights the need of research in the field by stating that "many researchers argue that Islamic finance is socially responsible and based on the relationship of moral and ethical principles, however, there are no studies that measure or assess these social components of Islamic finance.[6]" This is because of the lack of clarity in defining and structuring Islamic Social Finance activities unlike literature on conventional social finance which has clearly identified the activities and institutions that falls under the umbrella of social finance. Afterward, they were able to develop techniques to measure social impact[7] however Islamic social finance still lacks in this area. To fill this gap, in this study, we aim to build an understanding of Islamic Social finance and vividly draw a line between pure to profit-oriented social finance institutions. This study also emphasizes the existing issues in the operation of social finance instruments.

In the context of Islamic Social Finance many studies have focused on *waqf, zakāt,* and microfinance as tools of poverty alleviation[8] [9] [10]but not explicitly as tools for building the concept of Islamic Social Finance. However, the exceptional work of Ahmed (2019) is an exclusive attempt to develop a comprehensive Islamic social finance ecosystem[11]. Likewise, the need for extensive research regarding the inclusion of financial technologies such as crowdfunding platforms and blockchain technology which influence the development and widespread Islamic social finance process[10]. There are some studies on Islamic social finance that highlight the importance of blockchain, however, the focus is either on *zakāt*[12] or *waqf*[13] rather than the potential of Islamic social finance as a whole. Therefore, to fill this gap, this study aims to build a framework that connects the key players of Islamic social finance through crowdfunding platform which can act as a moderator between the players of the Islamic Social finance ecosystem to resolve the prevailing issues.

2. Islamic Social Finance

To understand the concept of Islamic social finance, we first need to develop an understanding of social finance. Social finance according to Michele-Lee, Frances, and Tim (2012) refers to the utilization of financial resources primarily for social and environmental returns, and in some cases, a financial return. Financial returns are easy to evaluate as compared to social and environmental returns[14]. However, we have limited the scope of this study to financial and social returns.
In traditional social finance, the key players are charity institutions, Non-Governmental Organizations (NGOs), and Microfinance institutions. However, this area has been extended to include for-profit enterprises with the aim of generating profit as well as creating social and environmental impact. The portfolio managers of such types of enterprises establish conventional strategies to optimize the portfolio to provide returns up to or beyond the risk-adjusted market rate. The inclusion of such players in the social finance sphere gave rise to 'impact investing' – the models that encourage enterprises/organizations to create social or environmental impact as well as return on the invested capital to the investors[2].

Islamic social finance works on the same principle while aligning with *Sharī'ah* principles[15]. Accordingly, Kuanova et. al. (2021) mention that all Islamic finance principles represent a coherent financial activities system that aims to create wealth and achieve prosperity for the community [6]. In addition, Islamic finance promotes socioeconomic empowerment through social tools, *zakāt* (alms-giving), *ṣadaqah* (voluntary), *waqf* (endowment) and Islamic microfinance, which have been adopted and applied even outside the Islamic world. These tools of Islamic social finance are associated with philanthropic giving but have different forms and definitions.

Based on the above discussion, Islamic social finance can be classified into three categories (see Figure 1). Traditional Islamic social finance revolves around philanthropy (*zakāt, waqf, ṣadaqah*), and cooperatives (*qarḍ* and *kafālah*) [8]. These types of institutions are only concerned with the social impact of their investments. Not-for-profit Islamic microfinance is also part of the contemporary Islamic social finance sphere [6 16 17 18]. This type of institution has social value creation as a primary objective and financial value as a secondary. We categorize these institutions under the umbrella of revenue-oriented institutions. Such institutions generate revenues from social activities to cover their costs only. The third type of institution is those with the primary objective of financial value first and social value later. This category includes for-profit microfinance institutors, Islamic Banks, Takaful, Islamic mutual funds, and corporations. These institutions may align their investment strategies in such a way that the financial value creation and social value creation objectives are achieved.

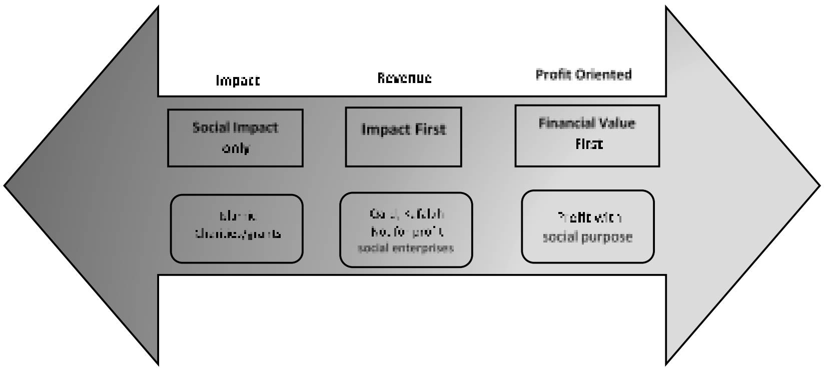

Figure 1: The Spectrum of Islamic Social Finance
Source: Alex Nicholls and Jed Emerson (2014) & authors generated

It can be seen from Figure 1 that the colour shifts from darker to light as the orientation shifts from pure impact to profit first. It shows the shift from pure social finance activities to profit-oriented blended activities.

2.1. Impact-oriented Institutions

Impact-oriented institutions are inspired by the philosophy of philanthropy. The main objective of such type of institutions is to resolve social tribulations through charities, and thus they typically rely on charities and grants. In Islam, charity commonly known as *ṣadaqah* is one of the greatest acts of virtues and a mode of worship that is highly rewarded in this world and the hereafter. It is a way to pay gratitude to Allah Almighty Who has bestowed the human with worldly benevolence. Islam demands and encourages its believers to do charity. In Islam, charity or *ṣadaqah* can be divided into three categories, compulsory *ṣadaqah* such as *Zakāt*, voluntary *ṣadaqah* such as donations to charitable organizations etc. and *waqf*. The institutions in this study are termed as not-for-profit-and-revenue enterprises where their business model is to create social value for free. These three types of charities are briefly explained below:

- *Voluntary Ṣadaqah:* It is a concept of voluntary charity-giving. The believers do *ṣadaqah* to seek the pleasure of Allah Almighty. This type of charity is also collected by not-for-profit-and-revenue enterprises from the public.
- *Compulsory Ṣadaqah (Zakāt)*: It is an Islamic wealth tax imposed on believers having 90 grams of gold or 630 grams of silver or equivalent cash and not in use for a year. There are 8 categories of beneficiaries of *zakāt* identified in surah tauba verse 60.

> The Sadaqat (prescribed alms) are (meant) only to be given to the poor, the needy, to those employed to collect them, to those whose hearts are to be won, in the cause of the slaves and those encumbered with debt, in the way of Allah and to a wayfarer. This is an obligation prescribed by Allah. Allah is All-Knowing, Wise.[19]

- *Waqf*: Waqf is an inalienable trust in which the founder of the *waqf* (*wāqif*) makes the guidelines or principles for the property's revenue and allocates the profit, usufruct or yields of the property to a specific person or institution. Such property is then given in the possession of the fiduciary (*wali* or *mutawalli*) who oversees the trust for the benefit of a third party [20] [21] [22]. *Waqf* can be categorized into immovable – an asset's usufruct is endowed for a specific purpose and movable – such as cash, shares etc. Most of the contemporary literature focuses on cash *waqf* due to its diversified benefits to the public.

Different institutions manage the above-mentioned types of charities. For example, both movable and immovable *waqf* are managed by department of endowment known as *awqāf*. In Malaysia, *waqf* is under the jurisdiction of the State Islamic Religious Council (SIRC) and in Pakistan under the jurisdiction of provincial governments. *Zakāt* and *Ṣadaqah* are usually managed by *bait-ul-māl* or a separate *zakāt* department at the government level, however, it is also allowed to do these two types of charities privately. This is why *zakāt* and *ṣadaqah* are not only collected by government-elected institutions but also by private charity institutions. These institutions are usually not concerned with profits or revenues but the social impact.

2.2. Revenue-Oriented Social Finance Institutions

Revenue-oriented social institutions can also be called as not-for-profit social enterprises. Objectives of these types of institutions are to create a social impact and recover the capital and costs as well. In other words, these institutions are only concerned with the social impact their investments create while covering the cost of capital. *Akhuwat* is a not-for-profit Microfinance institution in Pakistan which can be considered an example of a revenue-oriented social finance institution. *Akhuwat* receives donations from the public and institutions and transforms them into *qarḍ ul ḥasana*-based microcredit. The borrowers start new businesses or support their existing ones through these microloans. *Akhuwat* does not receive any profit but is only concerned with the social impact, the loan, and the service fee. Since its inception in 2001, *Akhuwat* has disbursed PKR140 billion (USD 835.8 million) and transformed 4.8 million lives [2324].

2.3. Profit Oriented Social Finance Institutions

For-profit social enterprises earn profit while keeping their social purpose intact. Socially Responsible Investments (SRIs) are linked with these types of enterprises. Investors invest in businesses called Socially Responsible Businesses (SRBs) which are directed towards creating environmental and social impact. Fair coffee trade companies are one of example of profit-oriented social institutions. The "Fair Trade Certified" coffee-producing companies purchase coffee under fair trade conditions. These conditions help the farmers to get a fair price for their produce. Hence, the investors or venture capitalists who are in favour of such community services invest in Fair-trade Certified coffee companies. In Pakistan, *Wasil* Foundation is an example of such an institution which is providing financing facilities through Islamic financial contracts to support the poor in breaking their vicious circle of poverty. Moreover, it also provides business development services, skill development training and advocating their rights. *Bait ul māl wa tamwil* (BMT) and *Amānah Ikhtiār Malaysia* (AIM), Malaysia's largest microcredit organization are other exemplary microfinance institutions that can be considered under this category.

3. Issues and Challenges

Islamic social finance is more developed and understood on the left extreme of Islamic Social finance (see Figure 1) as compared to the right extreme of the spectrum. To elaborate, impact-only institutions have been developed since the emergence of Islam but the role of these institutions in creating social impact in current times is much extended. This is because the social impact is not constant but evolves with the time thus the role of Islamic social finance institutions must adapt its role to the dynamic social issues. To tackle these issues, relying on the impact only institutions are not wise but bring more social finance institutions such as revenue-based and profit-oriented institutions to create sustainable social impact. However, several underlying issues exist in these institutions when it comes to practical implications.

3.1. Issues in Impact only Islamic Social Finance Institutions

Previous studies show that impact-only institutions have a huge potential to be developed and optimized [25] [26] [27] [28] [29] [30]. However, despite potential development, these institutions still need a lot of improvement, whether from the regulatory, practical, or educational perspective. Challenges need to be addressed to optimize the development of impact-only Islamic social finance institutions. Although different challenges are faced by different countries, there are three common types of obstacles that are faced by most Islamic countries. These aspects are literacy or awareness, operational, and regulation.

In Indonesia, in 2020, BAZNAS (regulator of *zakāt*) held a survey on the awareness of *zakāt*. The literacy index showed quite a high number of 66.78. The literacy index contained two factors, basic and advanced knowledge. From the conducted survey, it is revealed that Muslims in Indonesia have a higher index in basic knowledge. While for advanced, the index showed a low number as compared to basic knowledge i.e., 56.68. Moreover, Badan *Wakaf* Indonesia (BWI), in the same year, also conducted a similar survey for measuring *waqf* awareness, where the overall and each factor's result showed a quite low score of 50.48. The lowest score in the *waqf* literacy index is on advanced knowledge where the index showed a score of 37.97. It is far behind *Zakāt's* literacy. This shows that the first challenge that needs to be addressed is community awareness of Islamic Social Finance, particularly the *waqf*.

Awareness of *zakāt* was also recorded as high for several countries as reported by IRTI (2020) [31]. This high level of awareness leads to efficiency in collecting *zakāt* funds. This high level of awareness is caused by interactions between institutions and the community through seminars, training, and other community activities. The commitment to practising Islamic teachings could be one of the major factors of this high-level awareness regarding *zakāt*. Pew Research Centre in 2013 reported that 77% of 38,000 Muslims in 39 countries are giving *zakāt* as their obligation. This shows that since *zakāt* is an obligation in Islam, therefore, it leads to higher Muslim awareness.

The second challenge of Islamic Social Finance is the aspect of governments' focus on establishing rules and regulations. To optimize the use of Islamic social finance, there is a need to build a strong structure and institution along with high competencies within the resources. On one end, where strong infrastructure and regulations are necessary however, on the other end there are some Muslim countries where they lack in these areas. For instance, in Pakistan, according to Pakistan Centre for Philanthropy (2017), only 11 per cent of respondents were observing obligatory charity while the majority (30 per cent) used to give their *ṣadaqah* privately [32]. This is because of the lack of trust in *zakāt* institutions and the scarcity of awareness about cash *waqf*. One of the factors of such lack of trust and awareness is because government's lack of interest in bringing transparency through introducing appropriate rules and regulations.

Nevertheless, in some countries, governments have shown their support in optimizing Islamic social finance. In Indonesia, National Economic and *Sharī'ah* Finance Committees (KNEKS) were formed under government and ministries to support the development of Islamic Economics and Finance. In 2021, the national movement of cash *waqf* has been launched to support the *waqf* development in Indonesia. The Ministry of Finance also issued several Islamic obligations or *sukūk* based on cash *waqf* (Cash *Waqf* Linked *Sukuk*). This shows the government's intent to fully support the development of Islamic Social Finance. However, weak regulations relating to *zakāt* and *waqf* hinder the effectiveness of government initiatives.

According to ISDB, Islamic social finance, especially *waqf* has witnessed ups and downs due to certain factors, such as political influence, colonial rule, and human greed. These factors cause *waqf* assets to be lost for decades. *Waqf* assets in some countries are realized after independence. Province of Tripoli for example, the first attempt at reclassification of *waqf* assets identified about 11,000 real estate, 6,000 mosques, and more than a thousand schools of Holy Qur'ān memorization. This work must be done with the involvement of experts in the field of surveying. Hence, it necessitates that the government should establish special protection regulations to prevent any loss and preserve existing *waqf* assets. This kind of regulation has already been established in Libya.

The third relates to the operational practices of impact-only institutions. The operational issues of impact-only institutions can be divided into two categories, human resources, and technological development. Human resources in the philanthropic industry are limited, both in quantity and quality. Competency standardization must be done to optimize the impact of these institutions. Certification of *āmil* in Indonesia for example, has been initiated since 2019, not only to optimize but also to gain trust from the community that their funds are handled with great care and safety. However, *Nāẓir* (manager) of *waqf* has no standard certification for their competency yet.

Nurul et. al. (2017) also mentioned other issues that are being faced by *waqf* institutions. Being *Nāẓir* of *waqf* is commonly his main profession [33]. *Nāẓir* usually has other professions and developing *waqf* assets is its second profession. This phenomenon could decrease the performance of *Nāẓir* which then could cause the development of waqf not optimal. *Nāẓir has* also been mentioned to be an individual and this could cause the same problem.

Transparency in cash *waqf* operations is another issue which is haunting donors in countries such as Indonesia and Malaysia [34] [35]. The donors want to know where their donations are spent, though, a few waqf institutions are providing the records of their operations to the public too. This problem is not only with social impact only institutions but also with the microfinance institutions in most Muslim countries.

The last challenge is the application of digitalization and technology. Pandemic conditions have forced the majority of the industry sectors to adapt the technological change. Along with the fast development of technology, impact-only institutions should also adopt technology in their operations, especially during covid pandemic when there were restrictions and difficulties to donate or distribute the funds. Moreover, by digitalization in the industry, transparency, effectiveness, and efficiency can be emphasized in management. Again, the *waqf* sector still has no integrated system to centralize the data of *waqf* assets and their distribution in most of Muslim countries.

3.2. Issues and Challenges for Revenue-Based Islamic Social Finance Institutions

In our proposed Islamic social finance spectrum, core revenue-based social finance institutions can be *kafālah*-based and *qarḍ* based. In Pakistan, the largest *qarḍ* based microfinance institution is *Akhuwat* Islamic Microfinance. The institution is a success by providing benevolent loans to the needy with a recovery rate of 99.9 percent. The institution covers its costs from the service fee charged on the loan maintaining its pool sustainable. According to Dr. Amjad Saqib (CEO of *Akhuwat* Foundation), due to various reasons many other microfinance institutions in the world have the same model but failed to exist.

One of the major reasons for such failures is the complete dependence of these organizations on charities and government grants. If the institution is unable to recover the disbursed loans, the capital pool diminishes with time. The most popular collateral for these types of institutions is social collateral, i.e., group-based lending where each borrower in the group is the guarantor of the other. The concept of *kafālah* is the solution to this issue which is generally accepted in Islamic Banking and *Sukūk* market. However, there is an extinction of *kafālah*-based institutions that could provide a guarantee for low-income borrowers who do not have collateral to access the capital from Islamic Banks or other for-profit lending institutions.

The issue of *kafalah* is more prevalent in agriculture financing. Many small farmers are excluded from receiving financing facilities due to lack of collateral. The statistics of agriculture loans disbursement show that microfinance institutions could not disburse more than 57 percent of loans of the given target [36]. The issue was also prevalent in the financial year 2019-2020. The main reason for the exclusion of small-scale farmers was lack of reasonable guarantees[37].

It is also observed that the facility of *kafālah* is available for the 'haves' while 'have-nots' rely on the social collateral only. In Islamic economics where cooperation is one of the primary pillars, financing facilities without financial collateral need to be available for the 'have-nots' as well.

3.3. Issues and Challenges for Profit-Oriented Islamic Social Finance Institutions

Social entrepreneurs come across hurdles in having access to capital [14]. The main objective of these enterprises is to create social impact which is usually difficult to measure. The capital providers are typically concerned about the return on their capital investments which is difficult to guarantee by social entrepreneurs. In Western counties, this problem, to some extent, is resolved by social venture capitalists. *Acuman.org* is a social venture capital provider to social entrepreneurs for creating social and environmental impact. One of its recipients is the 'Agha Khan Rural Support Program' which aims to build small hydropower plants in Chitral, Pakistan to generate electricity for the people who do not have any access to cheap and clean energy resources.

Unfortunately, we do not have such examples of social venture capitalists at the grassroots level in the Islamic social finance domain. The reliance is largely made on Western social venture capital providers, governments, and international grants. This is because the research in Islamic Social finance is concentrated on the institutions of *waqf, zakāt* and microfinance mechanisms to resolve social issues. Widely held research is focused on the role of Islamic microfinance in poverty alleviation[38 39 40 41 42], *waqf* and *zakāt's* role in poverty alleviation [43 44 45 46 47]. However, the role of profit-oriented social finance institutions is overshadowed both by academia and industry.

There is a plenty of potential present in the Islamic finance system to create its social venture capital vehicles. However, this can only be done if this area of research is explored and communicated to the bodies in Islamic financial institutions.

4. Proposed Model

To tackle the issues and create an impact, a sound Islamic social finance ecosystem is vital. In this regard, Ahmed (2019) provided a comprehensive overview of his proposed Islamic social finance ecosystem [6]. According to him, one institution alone cannot resolve social issues unless all work collectively. He proposed a comprehensive and complex ecosystem in which for-profit, not-for-profit enterprises, governmental institutions, Islamic Banks, and Islamic Mutual funds work together to answer social problems or support those who do not have the political power to access the capital.

However, there are a few issues in his (Ahmed, 2019) proposed Islamic social finance ecosystem model. First, complex systems fail if one of them works traditionally. Secondly, the involvement of many players may make the process slow. Also, in the proposed ecosystem model, direct involvement of the government in initiation and monitoring can slow down the efficiency of the system, since in the majority of the Muslim countries, governments are proved to be inefficient in creating social impact. Finally, the involvement of for-profit institutions – whose main objective is to maximize the welfare of the shareholders, can stop providing commercial financing if it costs shareholders' well-being. Hence, the reliance on these institutions needs to be minimal.

In our proposed model, the complexity of the Islamic social finance system can be reduced by introducing technological advancements in the form of crowdfunding platform.

4.1. Crowdfunding

Crowdfunding is derived from the concepts of crowdsourcing and open-sourcing. The difference between open sourcing and crowdsourcing is that in the former the whole project is outsourced, whereas, in the latter, a specific task is outsourced by an open call to a large number of anonymous people (Howe 2008). Secondly, in the case of open sourcing, the final product is available to everyone who participates in the development while in crowdsourcing the product becomes the property of the company or individual who initiated it. The concept of crowdfunding is inspired by the same philosophy, but the purpose is different. In crowdfunding, the main objective is to raise capital from many people to fund a project, new business venture, or any worthy cause rather than take the benefits of other expertise.

In a crowdfunding platform, there are project initiators who introduce the project. Depending upon the interest of people (crowd) in the uploaded project, they may make a financial contribution[13]. In a typical crowdfunding platform (see Figure 2), the capital raised is maintained by the crowdfunding platform and transferred to the project account. If the project does not achieve its set financial targets, the money is returned to its funders.

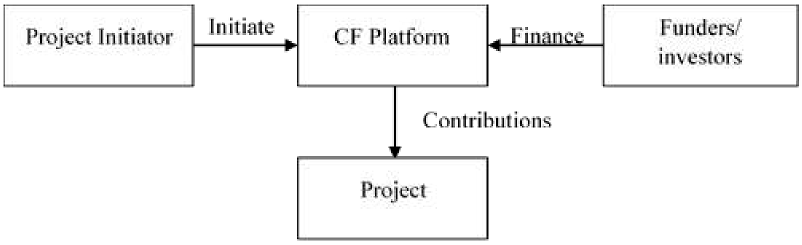

Figure 2: A typical crowdfunding platform
Source: Khan, Shafiai, & Khan (2019)

Broadly speaking, there are two main models of crowdfunding in the crowdfunding financial sector, i.e., financial and non-financial crowdfunding (see Table 1). Financial crowdfunding aims to raise capital for certain projects and provide returns on their investments. Two models fit the definition of financial crowdfunding – equity, and loan-based crowdfunding. On the contrary, non-financial crowdfunding does not provide an opportunity for the donor to make profits on their investments. Examples of non-financial crowdfunding include reward and donation-based crowdfunding.

Type	**Campaign Type**	**Popular Crowdfunding Platform**	**Origin**	**Website**
Financial	Equity-based	Crowdcube	UK	https://www.crowdcube.com/
		SmartAngels	France	https://www.smartangels.fr
		Bizhare	Indonesia	https://www.bizhare.id/
	Loan-based	Kiva	US	https://www.kiva.org/
		Prosper	US	https://www.prosper.com/
		Mekar	Indonesia	https://www.mekar.id
Non-Financial	Reward-based	Kickstarter	US	https://www.kickstarter.com/
	Donation-based	GoFundme	US	https://www.gofundme.com/
		YouCaring	US	https://www.youcaring.com/
	Donation-based	GlobalSadaqah	Singapore	https://globalsadaqah.com/

Table 1: Types of Crowdfunding Platforms
Source: Authors' Compilation

In the Islamic social finance domain, two crowdfunding platforms were established that combine social impact-only tools such as *ṣadaqah, waqf and zakāt*. The first initiative in this regard was taken in Malaysia in the year 2016 when *waqfworld.org* was introduced to the world at the 12th World Islamic Economic Forum. The platform, however, failed and disappeared for some unknown reasons. In the preceding year, the *globalṣadaqah* platform was launched by ETHIS Ventures. This platform has different project initiators who initiated projects for raising *ṣadaqah, cash waqf,* or *zakāt*. These initiators are usually different charity organizations who on behalf of the needy people post projects on the platform. The beauty of this platform is that it attempts to create an Islamic social finance ecosystem with the help of charity organizations and different for-profit enterprises in Malaysia.

Gobalṣadaqah platform introduces various projects on its platform which are either *zakāt* eligible or *waqf* eligible. The third category is emergency funds which are *ṣadaqah* eligible. Some of these projects are sponsored by for-profit enterprises in a certain ratio. Suppose a project is 25 percent sponsored by ABC Corp. than the rest 75 percent of donations may be raised from other donors. However, the platform lacks other social finance services such as peer-to-peer and Islamic social finance venture capital.

In this study we proposed and aimed to extend their model and include other key players from the Islamic Social Finance ecosystem to create a better social impact.

a. Project Initiators and the Project

The project initiators are those who upload projects on crowdfunding platforms. Every crowdfunding platform has its due diligence process. Once the project initiator passes the due diligence process it is allowed to upload the project. In the case of the Islamic Social Finance ecosystem, the project initiators can either be impact-only, revenue-oriented or profit-oriented players. In our proposal, interest-free Islamic microfinance institutions, for-profit Islamic microfinance institutions, *zakāt* institutions and *waqf* institutions are the project initiators. Each player has to pass through the due diligence process set by the crowdfunding platform.

Interest-free or not-for-profit microfinance institutions can target low-income groups in which the loan size would be relatively small. The service fee would include the microfinance institution’s charges including crowdfunding platform charges.

For-profit microfinance can extend its financing facility based on the Islamic mode of financing. Introducing projects and raising funds on the crowdfunding platform would reduce their costs which will ultimately lower the profit rate charged.

Waqf institutions can raise funds for two purposes i.e., to develop idle *waqf* lands and generate revenue, and to develop non-revenue generating assets e.g., *masjid*, free water supply, and so on. The revenue after certain necessary deductions will go back to the *waqf* pool for the sustainability of the *waqf*. However, the *kafālah* system is essential to be introduced within this platform which can be managed under fund managers. Those projects which may not be able to attract social finance providers can be guaranteed by the crowdfunding platform, where, the funding for guaranteeing will be managed through funds from *ṣadaqah*, *waqf,* and *zakāt*.

Figure 3: The Projects' funds providers
Source: Authors generated

b. Fund Providers

Social finance providers are individuals, Socially Responsible Businesses (SRBs), venture capitalists, governments and NGOs who can provide donations, interest-free loans, and loans with profit purposes. The SRBs can provide donations in the form of *ṣadaqah* and *waqf*. Social venture capitalists (SVC) may provide for-profit loans to microfinance institutions. Individuals on the other hand can play the role of donor as well as loan provider. Finally, governments and NGOs, apart from being donors and loan providers, can strengthen the *kafālah* (guarantee) system. Their donations for *kafālah* can include those who are excluded from the financial system.

Figure 4: The Projects' funds providers
Source: Authors generated

c. Crowdfunding Platform

The role of a crowdfunding platform is to bring all under one umbrella. Introducing a strong due diligence process for the inclusion of project initiators, providing financial information to the crowd about their performance on their platform, attracting social finance providers and providing them best services which are not possible in a traditional system, maintaining and reviewing the projects uploaded on their platform are all responsibilities that the crowdfunding platform needs to perform.

In Figure 5, we have explained the mechanism of the proposed crowdfunding platform. The key parts of the platform are explained above.

- Step 1: Before any project initiator can become part of CF Platform, a due diligence process needs to be performed by CF team. Once the due diligence process is completed, a specific project initiator can be recognized on the platform with all the financial ratios and rating made available.
- Step 2 & 3: The project initiator can then launch a campaign (project) on the crowdfunding platform. At this stage, the *Sharīʻah* team will screen the project for *Sharīʻah* compliance purpose. If it gets a green signal, the project will be launched on CF Platform.
- Step 4: These campaigns will be visible to the donors or financiers, and they can accordingly donate, finance, or provide guarantee to a specific project(s).

- Step 5: In case the projects are profit based then the profits derived from the projects will be channelled through CF Platform where the *Sharīʻah* team will make sure that the profits are generated through *Sharīʻah* compliant contracts.
- Step 6: On the other hand, fund managers of the CF platform must make sure that the profit is distributed according to the *Muḍārabah* contract between the *Rabulmāl* (financier) and *Muḍārib* (project initiator).

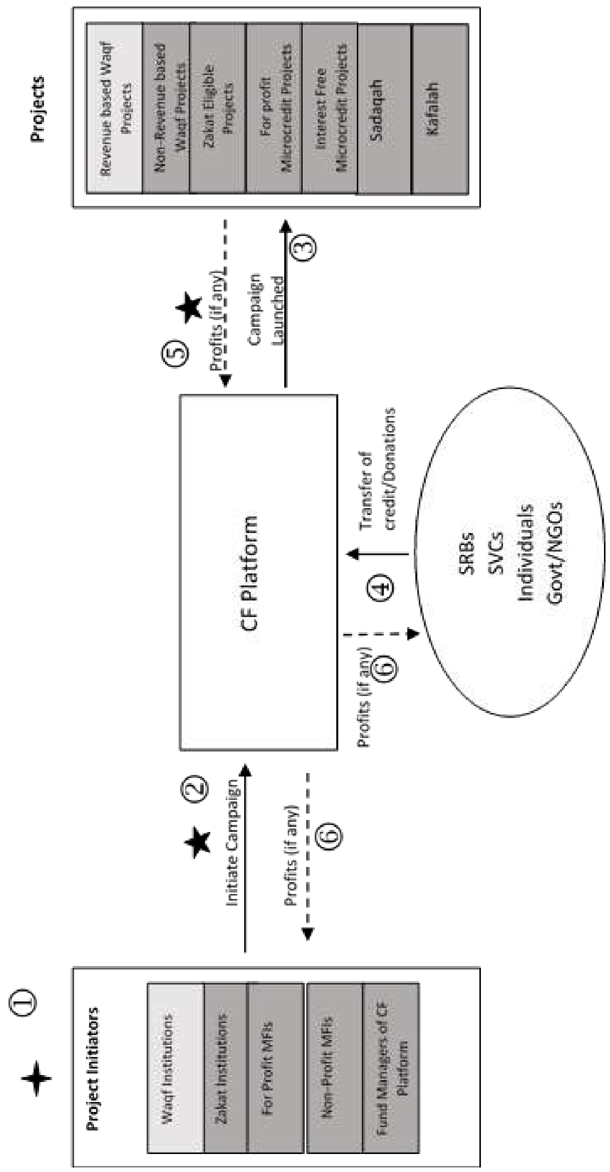

Figure 5: The proposed crowdfunding platform
Source: Authors generated

The issue of transparency can be resolved to a great extent as the social finance providers can see the performance of the initiator to whom it is going to contribute and the performance of the project to which they contributed. The involvement of the government can lay the platform for introducing regulations for social impact-only institutions. The *awqāf* institutions and *Sharīʻah* team of the crowdfunding platform may assist and provide assurance of *Sharīʻah* compliance of the entire project through supervisory and control measures. The established regulatory measures can help in defining the due diligence process for social impact-only institutions. The checks can be placed on *Nāẓir* or *mutawalli* about his qualification and his profession so that the success of the project is not affected. These due diligence checks can also include the human capital held by the project initiators. If they need to improve the whole system including capital security and *Sharīʻah* compliance, they are required to provide adequate training and update their employees about the *Sharīʻah* process involved along with the use of innovative technological tools.

5. Conclusion:

This study attempts to provide and develop a general spectrum of Islamic social finance, understand the issues in the Islamic social finance institutions under the same spectrum and to develop a crowdfunding platform to tackle the identified issues. In order to achieve the first objective of this study, an Islamic social finance spectrum has been developed in which Islamic social finance institutions are categorised into social impact only, impact first and financial value first. Further, this study identified the issues in the Islamic Social Finance institutions based on the abovementioned categorization. To tackle the issue, a crowdfunding platform is developed based on Islamic social finance spectrum so that the identified issues can be tackled.

This study is believed to assist the academicians and scholars to enhance the theory of Islamic social finance rather than focusing merely on a few instruments of Islamic social finance. Furthermore, practitioners as well as researchers are expected to get a valuable guidance to further improve the suggested crowdfunding model by incorporating smart contracts and blockchain technologies.

Notes and References

[1] Yunus, Muhammad, and Karl Weber, "Creating a World without Poverty : Social Business and the Future of Capitalism" (Philadelphia: PublicAffairs, 2007).
[2] Nicholls, Alex, and Cathy Pharoah. "The Landscape of Social Investment: A Holistic Topology of Opportunities and Challenges" (Oxford, 2008).
[3] Silvana Secinaro, Davide Calandra, Denisa Petricean, and Federico Chmet. "Social Finance and Banking Research as a Driver for Sustainable Development: A Bibliometric Analysis." *Sustainability* 13, no. 1 (2020): 330.

[4], TEDx Talks "A history of Microfinance" interview by Muhammad Yunus, January 18, 2012

[5] Belouafi, Ahmed, and Abderrazak Belabes. "Research Trends on Zakāh in Western Literature," *Islamic Economic Studies* 24, no. 1 (2016): 49–76.

[6] Kuanova, Laura, Aibolovna Rimma Sagiyeva, and Nasim Shah Shirazi. "Islamic Social Finance: A Literature Review and Future Research Directions," *Journal of Islamic Accounting and Business Research* 12, no. 5 (2021): 707–28.

[7] Geobey, Sean, Frances R. Westley, and Olaf Weber. "Enabling Social Innovation through Developmental Social Finance," *Journal of Social Entrepreneurship* 3, no. 2 (2012): 151–65, https://doi.org/10.1080/19420676.2012.726006.

[8] Saiti, Buerhan, Abdiwali Jama Salad, and Mehmet Bulut. "The Role of Cash Waqf in Poverty Reduction: A Multi-Country Case Study," in *Management of Shari'ah Compliant Businesses*, ed. E; Ghazali et al. (Springer, 2019), 21–34.

[9] Yarli, Dodi, Lina Pusvivasari, and Mohamad Anton Athoillah. "Functionalization of Cash Waqf for Solving Poverty Problems in Indonesia," *Al-Afkar, Journal For Islamic Studies* 6, no. 3 (2023): 519–34.

[10] Begum, Halima, ASA Ferdous Alam, Md Aslam Mia, Faruk Bhuiyan, and Ahmad Bashawir Abdul Ghani. "Development of Islamic microfinance: a sustainable poverty reduction approach." Journal of Economic and Administrative Sciences 35, no. 3 (2019): 143-157.

[11] Jouti, Ahmed Tahiri. "An Integrated Approach for Building Sustainable Islamic Social Finance Ecosystems," *ISRA International Journal of Islamic Finance* 11, no. 2 (2019): 246–66, https://doi.org/10.1108/IJIF-10-2018-0118.

[12] Nor, Shifa Mohd, Mariani Abdul-Majid, and Siti Nabihah Esrati. "The Role of Blockchain Technology in Enhancing Islamic Social Finance: The Case of Zakah Management in Malaysia," *Foresight* 23, no. 5 (2021): 509–27.

[13] Khan, Abidullah, Muahmmad Hakimi Mohd Shafiai, and Shabeer Khan. "The Rise and Fall of Cash WAQF Crowdfunding: Exploring the Shortcomings," *International Journal of Innovation, Creativity and Change* 8, no. 9 (2019): 57–77.

[14] Moore, Michele-Lee, Frances R. Westley, and Tim Brodhead. "Social Finance Intermediaries and Social Innovation." *Journal of Social Entrepreneurship* 3, no. 2 (2012): 184–205. https://doi.org/10.1080/19420676.2012.726020.

[15] Zain, Nor Razinah Mohd, and Engku Rabiah Adawiah Engku Ali. "An Analysis on Islamic Social Finance for Protection and Preservation of Maqāṣid Al-Sharī'ah," *Journal of Islamic Finance* 6, no. Special Issue (2017): 133–41, https://doi.org/10.12816/0047345.

[16] Hassan, M. Kabir, and A. Ashraf. "An integrated poverty alleviation model combining zakat, awqaf and micro-finance." In Seventh International Conference–The Tawhidic Epistemology: Zakat and Waqf Economy, Bangi, Malaysia, pp. 261-281. 2010.

[17] Ascarya, Raditya Sukmana, and Siti Rahmawati. "Cash Waqf and Islamic Microfinance Institutions: Business Models in Indonesia," in *2nd Islamic Finance, Banking & Business Ethics Global Conference* (Kuala Lumpur: INCEIF, 2017).

[18] Haneef, Mohamed Aslam, Ataul Huq Pramanik, Mustafa Omar Mohammed, Md Fouad Bin Amin, and Aliyu Dahiru Muhammad. "Integration of waqf-Islamic microfinance model for poverty reduction: The case of Bangladesh." International Journal of Islamic and Middle Eastern Finance and Management 8, no. 2 (2015): 246-270.

[19] The Holy Qur'an, 9:60, Translated by Mufti Muhammad Taqi Usmani (Karachi: Maktaba Ma'ariful Quran, 2010)

[20] Hennigan, Peter C. *The Birth of Legal Institution: The Formation of Waqf in Third-Century A.H. Hanafi Legal Discourse* (Boston: Brill Publishers, 2004).

[21] Abid, Abidullah and Muhammad Hakimi Mohd Shafiai. "Financial Problems of Bottom 40 Percent Bumiputera In Malaysia: A Possible Solution through Waqf-Based Crowdfunding," *Turkish Journal of Islamic Economics* 4, no. 1 (2017): 49–65.

[22] A Khan, Abidullah, Muhammad Hakimi Mohd. Shafiai, Muhammad Shaique, and Shabeer Khan. "Demographic determinants of charity donors and its implication for

cash waqf institutions in Malaysia." Journal of Islamic Marketing 13, no. 2 (2022): 508-525.

[24] Dr. Amjad Saqib, Chairman of Akhuwat spoke during 9th Global Islamic Microfinance Forum held at Lahore on 11 December, 2019

[25] FJohari, Fuadah, Muhammad Ridhwan Ab Aziz, and Ahmad Fahme Mohd Ali. "The role of zakat in reducing poverty and income inequality among new convert (muallaf) in Selangor, Malaysia." Online Journal of Research in Islamic Studies 1, no. 3 (2014): 43-56.

[26] Shirazi,Nasim Shah. "Integrating Zakāt and Waqf into the Poverty Reduction Strategy of the IDB Member Countries," *Islamic Economic Studies* 22, no. 1 (2014): 79–108.

[27] Ibrahim, Patmawati. "Zakat as an Alternative Redistribution Mechanism: A Review." Jurnal Syariah 9, no. 2 (2001): 53-60.

[28] Abd Halim Mohd Noor et al., "Efficiency of Islamic Institutions: Empirical Evidence of Zakat Organizations' Performance in Malaysia," *Journal of Economics, Business and Management* 3, no. 2 (2015): 282–86, https://doi.org/10.7763/JOEBM.2015.V3.195.

[29] Khan, S., A. E. Sheikh, and M. Abu Bakar. "Zakat-financial inclusion nexus: empirical evidence from Pakistan." Int. J. Innovat. Creativ. Change 8, no. 9 (2019): 18-30.

[30] Herianingrum, Sri, Indri Supriani, Raditya Sukmana, Effendie Effendie, Tika Widiastuti, Qudsi Fauzi, and Atina Shofawati. "Zakat as an instrument of poverty reduction in Indonesia." Journal of Islamic Accounting and Business Research (2023).

[31] IRTI. "Islamic Social Finance Report." Jeddah, 2020.

[32] Pakistan Centre for Philanthropy. "The State of Individual Philanthropy in Pakistan 2016," 2017.

[33] Nurul Huda, Nova Rini, Yosi Mardoni, Khamim Hudori, and Desti Anggraini. "Problems, Solutions and Strategies Priority for Waqf in Indonesia." *Journal of Economic Cooperation & Development* 38, no. 1 (2017).

[34] Kamaruddin, Muhammad Iqmal Hisham, Rosnia Masruki, and Mustafa Mohd Hanefah. "Waqf management practices: Case study in a Malaysian waqf institution." World Journal of Social Sciences 8, no. 3 (2018): 1-12.

[35] Iman, Nurul, Adi Santoso, and Edi Kurniawan. "Online based waqf management system in Indonesia: A new model in management of waqf administration." International Journal of Innovation, Creativity and Change 10, no. 11 (2020): 164-180.

[36] Iqbal,Shahid. "Agriculture Credit Target Missed by Banks in FY21," Dawn, 2021, https://www.dawn.com/news/1639706.

[37] The finding is extracted from the interviews conducted with the farmers in Sukkur, Pakistan by the authors.

[38] Rokhman, Wahibur, and Harif Amali Rivai. "Evaluation of Customer Satisfaction on Islamic Microfinance: Empirical Evidence from Central Java, Indonesia." South Asian Journal of Management Sciences 8, no. 2 (2014): 60-69.

[39] Abbas, Kausar, and Nasim Shirazi. "The key players' perception on the role of Islamic microfinance in poverty alleviation: The case of Pakistan." Journal of Islamic Accounting and Business Research 6, no. 2 (2015): 244-267.

[40] Ali, Khalifa Mohamed. "Integrating Zakah , Awqaf and Islamic Microfinance for Poverty Alleviation : Three Models Of Islamic Micro Finance," IRTI Working Paper Series (Jeddah, 2014).

[41] Aslam,Muhammad Naveed. "Role of Islamic Microfinance in Poverty Alleviation in Pakistan: An Empirical Approach," *International Journal of Academic Research in Accounting, Finance and Management Sciences* 4, no. 4 (2014): 143–52.

[42] Abid. Abidullah and Muhammad Hakimi Mohd Shafiai, "Islamic Microfinance for Rural Farmers: A Proposed Contractual Framework for Amanah Ikhtiar Malaysia," *Jurnal Hadhari* 9, no. 1 (2017): 33–47.

[43] Rana, Md Sohel, Muhammad Khalilur Rahman, Md Rabiul Alam, and Muhammad Nazmul Hoque. "Waqf-Based Microfinance: An Alternative Solution to Poverty Reduction." Selangor Business Review (2020): 40-54.
[44] Shirazi, Nasim Shah. "Integrating zakat and waqf into the poverty reduction strategy of the IDB member countries." Islamic Economic Studies 130, no. 1155 (2014): 1-30.
[45] Saiti, Buerhan, Abdiwali Jama Salad, and Mehmet Bulut. "The role of cash waqf in poverty reduction: a multi-country case study." Management of Shari'ah compliant businesses: Case studies on creation of sustainable value (2019): 21-34."
[46] Bouanani, Mejda, and Besma Belhadj, "Does Zakat Reduce Poverty? Evidence from Tunisia Using the Fuzzy Approach," *Metroeconomica*, 2020, 1–16.
[47] Abid, Abidullah and Muhammad Hakimi Mohd Shafiai, "Overcoming Income Disparity amongst Bumiputera by Improving Zakāt and Waqf System: A Special Focus on Improving Assets Management and Accounting Transparency," *Journal of Philanthropy* 1, no. 1 (2017): 61–76.