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An integrated approach for building sustainable Islamic social finance ecosystems

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Abstract

Purpose – Bringing more impact seems to be a real issue for social initiatives and organizations requiring the adoption of new approaches. The paper aims to define an integrated approach for building, maintaining and upgrading Islamic social finance and sustainable ecosystems.

Design/methodology/approach – The paper presents a conceptual framework based on case studies and literature review describing the methodology and the necessary steps to build sustainable ecosystems.

Findings – The paper shows the impact of building social finance ecosystems on tackling social issues. It emphasizes the idea that solving social issues is everybody's business – from governments to businesses – and that those initiatives require sufficient Sharīʿah-compliant funding to achieve sustainability goals.

Research limitations/implications – The paper does not focus on the Islamic world experiences in building ecosystems serving social causes.

Practical implications – The paper gives an overview on how collaboration between the different social oriented organisations can enhance the social impact of the different initiatives. The aim is to ensure adequate financing to all the ecosystem components during the whole lifecycle.

Social implications – The suggested approach of building sustainable ecosystems can serve as a way to assess the existing social initiatives and practices to find relevant combinations targeting more impact.

Originality/value – In the social sphere, the idea of building ecosystems has been explored in different ways but never in a way that gathers all the components including finance providers, coordinators and the different types of initiatives. The paper adapts the ecosystem concept to the Islamic finance specificities.

Keywords Waqf, Zakat, Islamic social finance, Social finance ecosystems

Paper type Conceptual paper

Introduction

Due to social and environmental challenges facing human societies and their growing complexity, governments are becoming more and more incapable of tackling all the socio-economic issues or of reducing their impact. Moreover, many social initiatives have ambitious targets but are not satisfactorily achieving them (Ditkoff and Grindle, 2017). Thus, involving other parties and adopting a more effective approach has become a necessity rather than a luxury. Conducting projects with greater social impact requires coordination between all the stakeholders. It also requires mobilisation of sufficient financial

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resources in a way that ensures a financial dividend and a social return for the whole community.

For this purpose, it is highly recommended to adopt an integrated approach that involves all the parties and coordinates the initiatives established according to a predefined strategic vision to have real and tangible achievements (E.T. Jackson and Associates Ltd, 2012). In this paper, these parties are called "social welfare initiators". Tackling each social issue means bringing all the parties together according to a relevant strategic vision in a single project that has its own development lifecycle with different stages. Each stage would require appropriate financing and support (Varga and Hayday, 2016) and thus involve fund providers whose interests are aligned with those of the project. In this paper, these parties are called "social finance providers".

Moreover, such approaches would require a framework in terms of regulation, monitoring and innovation to create self-regulating ecosystems involving independent agencies, regulators, research and development institutions, and highly qualified consulting firms. In this paper, these parties are called "social ecosystem coordinators".

Bringing social welfare initiators to work together to tackle a social issue according to a clear vision, providing them with appropriate funding and financing throughout the project lifecycle in association with social finance providers and with a suitable monitoring framework means creating a social finance ecosystem.

From the Islamic perspective, the economy is made of two main pillars: lucrative and non-lucrative activities (Al-Suwailem, 2013). The two activities are not supposed to evolve separately. In fact, each type of activity is embedded in the other, which creates a sound economic equilibrium. This approach is adopted in building social finance ecosystems, associating with for-profit and non-profit organizations in developing social and economic welfare.

An Islamic social finance ecosystem has its specific instruments in terms of funding and investment that are in line with Sharīʿah (Islamic law) principles. These include waqf (Islamic endowment), zakat (compulsory alms), *ṣadaqah* (donation), *qarḍ ḥasan* (benevolent loan) and others.

The methodology adopted in this paper is based on case studies and literature review to identify the different components of impactful social finance ecosystems and to define an appropriate approach to build them in a way that enhances their effectiveness.

The first part of the paper aims at defining the concept of "social finance ecosystems" and the way "an Islamic social finance ecosystem" should be. Then, the paper presents the different forms that social welfare initiators can take and the way their initiatives should be coordinated. It also discusses the different instruments that Islamic social finance can provide and the way traditional Islamic social finance providers can collaborate with Sharīʿah-compliant commercial financial institutions. The second part of the paper defines the lifecycle of an ecosystem and the financing needs for each stage of development and the way social finance providers can meet them effectively. Moreover, the paper presents the methodology of building an Islamic social finance ecosystem.

Islamic social finance ecosystems: definition, components and objectives

The concepts of "social finance ecosystems" and "Islamic social finance ecosystems"

A social finance ecosystem includes providers of social finance and social enterprises, plus all stakeholders who participate in, influence or are impacted by social investment activities (Varga and Hayday, 2016). A social finance ecosystem aims at:

- involving each stakeholder in a way that enhances the effectiveness of the whole approach;

- offering an adequate environment to encourage the start of new social businesses through suitable legal and regulatory frameworks and the availability of adequate financial instruments;
- accompanying existing social businesses throughout their lifecycle in terms of regulation, financing mechanisms and advisory.

A social finance ecosystem is composed of four main parties: social welfare initiators, social finance providers, social ecosystem coordinators and beneficiaries. Each of these parties plays a well-defined role in terms of conception, implementation, coordination, financing and upgrading of the whole ecosystem.

What does a social finance ecosystem look like?. A successful example of a social finance ecosystem is the SAGCOT[1] (Southern Agricultural Growth Corridor of Tanzania) initiative (Kramer and Pfitzer, 2016).

If Islamic social finance ecosystems are deemed to share the same objectives, two main characteristics distinguish them from conventional ones:

(1) First, the Islamic social finance sector has its own institutions and instruments that are aligned with Sharīʿah principles. The Islamic social finance sector includes the traditional Islamic institutions based on philanthropy (zakat*, ṣadaqah,* waqf), those based on cooperation (*qarḍ* and *kafālah*), and the contemporary Islamic not-for-profit microfinance institutions using for-profit modes to cover costs and sustain their operations (IRTI, 2014).

(2) Second, in the Islamic social finance ecosystem, there are many opportunities in terms of integration between the traditional Islamic institutions and Sharīʿah-compliant commercial financial institutions. This feature gives more flexibility to initiate and develop effective social finance ecosystems.

Social welfare initiators

The initiators of social welfare can take many forms depending on the level of their involvement in achieving social objectives. These are discussed below.

Governments and international agencies and organizations. In many countries, governments are the main actors of change in the social field. Indeed, for some authors, social welfare is the strict and exclusive responsibility of governments and businesses do not need to get involved in it (Levitt, 1958).

This idea has changed in our days and governments' involvement in initiating social welfare has taken many forms. Moreover, international agencies and organizations constitute real support to governments in terms of insights, expertise and funding. For example, in the field of health care, governments in lower and middle-income countries as well as donors such as USAID (United States Agency for International Development), DFID (Department for International Development) and the Bill and Melinda Gates Foundation, spent over US$300bn in 2015 (USAID).

Associations with a social purpose. Associations can constitute real support when it comes to socially oriented projects. The main difference between an association and a social enterprise is the revenue model. An association's activity is not supposed to generate revenue while a social business has to generate revenue but not necessarily a profit.

Associations rely on charitable contributions, public funding and volunteers. These sources are limited, and the involvement of volunteers in the association's actions is not constant.

Social enterprises. A social enterprise is a business created and designed to address a social problem (Muhammad, 2009). Aspects common to all social enterprises are that they do not work exclusively for a profit maximization purpose (Gomez, 2016) and aim at overcoming a global or local issue.

Social businesses work in various fields of activity according to the needs of the country or the region where they evolve. Mapping social enterprises in different regions would yield different results. Indeed, classifying social enterprises based on their activity is irrelevant. Thus, there are two types of social enterprises:

(1) *Type 1: For-profit social enterprises:*

These social enterprises are for-profit but tackle social issues. Many examples can be cited, such as:

- companies that provide a product of their own to a needy person for each product sold like Toms Shoes[2], State Bags[3] and Baron Fig[4].
- companies that are providing innovative services like Zipline[5] in Rwanda, Health Solutions[6] in Morocco, and M-KOPA[7] in Kenya.

(2) *Type 2: Not-for-profit social enterprises:*

These enterprises are delivering services or goods for free or at cost to tackle social issues in their community. One example is Health Solutions Inc. in Morocco, which provides complementary training and internships to medical students at cost. The aim of this initiative is to develop the skills of Moroccan medical students. Moreover, Health Solutions Inc. uses the profit generated from its lucrative activities to support the non-lucrative ones.

Socially responsible corporations. Corporate social responsibility (CSR) is a form of corporate self-regulation that is integrated into the business model and takes into account not only shareholders but also stakeholders such as employees and customers. CSR efforts often include the entire value chain, including suppliers, buyers and the communities in which the company operates, when addressing issues of social and environmental impact (Varga and Hayday, 2016).

The efforts of corporations in terms of social responsibility vary according to two main visions:

(1) *Vision 1: Converting social issues to business opportunities (CSR Businesses – Sustainability)*

Drucker (1984) defends the idea that social responsibility and profitability are compatible and urges conversion of social responsibility into business opportunity through which the firm can reap extra profit. Each social problem is an economic opportunity that can be turned into economic benefit, productive capacity, human competence, well-paid jobs and wealth. Case study 1 on Tolaram Group is a case in point.

- *Case study 1: Tolaram Group*

Tolaram Group provides a notable example of this vision (Christensen *et al.*, 2017). The group was founded in Indonesia in 1948. It began by trading textiles and fabrics and has since evolved into a manufacturing, real estate, infrastructure, banking, retail and e-commerce conglomerate.

In 1988, Tolaram decided to start its operations in Nigeria, a country with 91 million people with a life expectancy of 46 years, a GDP per capita of US$256 and with 78 per cent of the population living on less than US$2 a day. The group found an opportunity to feed a nation with a very affordable and convenient product, Indomie noodles. It had to create the whole market infrastructure to succeed.

In 1995, to control costs, Tolaram shifted its production operations to Nigeria and worked on electricity generation and water for its production unit. Moreover, Tolaram invested in a whole supermarket supply chain, including trucks, warehouses and storefronts. The group employs 7,500 people directly and 600,000 retailers and is involved in education issues. It hires Nigerian people and provides them with appropriate training instead of hiring expatriates.

After 30 years, Tolaram sells 4.5 billion packs of noodles in Nigeria annually with a revenue of almost US$1bn and a tax contribution of US$100m.
The Tolaram experience shows that enhancing the welfare of the community brings more prosperity to the corporation itself.

(2) *Vision 2: Eliminating the negative impacts (CSR Businesses – Level 1)*

Some authors defined CSR as the serious attempt to solve social problems caused wholly or in part by the corporation (Fitch, 1976). According to that vision, corporations should tackle, at least, the social and environmental issues related to its activity. Case study 2 on British Petroleum is a relevant example of this CSR approach.

- *Case study 2: British Petroleum*

British Petroleum (BP) can serve as an example of sustainability (British Petroleum, 2017). The main target of the company is meeting the dual challenge of more energy with fewer emissions. To do so, BP helps people and companies to reduce their carbon footprint for compliance needs, corporate responsibility and individual choices.

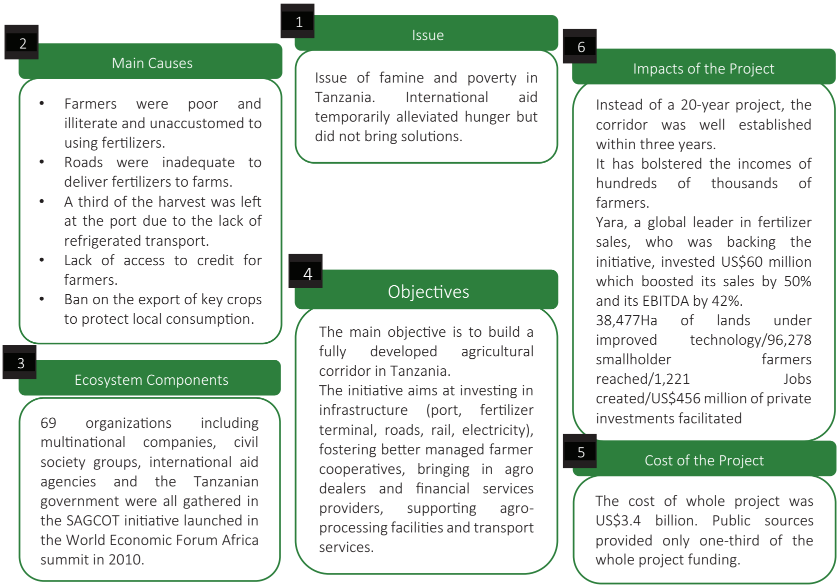
BP uses carbon credits to offset its own operational emissions growth, make some products carbon neutral and trade with companies to meet their compliance and voluntary needs. The BP low carbon ambitions consist of reducing emissions in their operations, improving their products by providing lower emissions gas and creating low carbon businesses.

Figure 2 summarizes the types of social welfare initiators.

Islamic social finance providers and the integration between traditional Islamic social finance providers and commercial financing

This section lists the Islamic social financial instruments and institutions and discusses the way collaboration can be set between the traditional Islamic social finance providers and commercial financing players.

Institutions of the Islamic social finance sphere. There are two categories of Islamic social finance providers: the traditional Islamic institutions and the commercial financing institutions. Each of the two categories can offer a wide range of funding instruments from philanthropic ones to those oriented toward financial return.



Source: Author's own

Figure 1. The SAGCOT Initiative – issue, objectives and impactsSource: Author's own

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Figure 2. Social welfare initiators in an Islamic social finance ecosystem

(1) *Zakat institution*

Zakat can serve as one of the main social finance providers in the Islamic social finance ecosystem, or even the main provider, if:

- It is a well-structured institution with a strategic vision.
- It is allowed to invest a part of its resources in projects that can generate a financial return (it depends on the Sharīʿah position) (Chubair *et al.*, 1998). Some scholars do not allow the investment of zakat funds while others do.
- It is allowed to grant interest-free loans for the beneficiaries (It depends on the Sharīʿah position).

(2) *Waqf institution*

The waqf institution is one of the pillars of the financial system in Islam. Waqf implies holding or setting aside certain physical assets by the donor (*wāqif*) and preserving it so that benefits continuously flow to a specified group of beneficiaries or to the community (IRTI, 2014).

It contributes actively in the economic and social welfare of the Muslim communities. Nevertheless, in many Muslim countries, waqf is not a part of the economic and social vision of the government and is not a part of the culture such as Kazakhstan, Kyrgyzstan, Bosnia and Herzegovina, and Macedonia (IRTI, 2017), which reduces its impact. In contrast, other countries provide real support to the waqf institution such as Indonesia, Malaysia and the Gulf Cooperation Council (GCC) countries (IRTI, 2014).

The waqf institution can provide different formulas of funding to the social welfare initiators and can create new instruments in collaboration with different commercial financing providers.

(1) *Islamic microfinance institutions*

Microfinance can serve as an instrument to provide adequate funding to micro social projects or to socially responsible micro enterprises. In practice, microfinance showed that it has only modest average impact on customers. It has often been used to cover the normal ups and downs of household spending, which is helpful but not transformative. This is due to the difficulty of providing microfinance services on a large scale because it is time consuming and labour intensive, which makes it hard to keep margins at a reasonable level (Cull and Murdoch, 2017).

The main challenges facing microfinance in both the Islamic and conventional spheres are as follows:

- reducing the cost of transactions to lower the cost of financing and provide the services on a large scale;
- allocating funds to investment rather than to financing short-term needs; and
- allocating funds to micro-enterprises in the field of social finance.

Integration with traditional Islamic social finance providers and the use of financial technology (fintech) can enhance the effectiveness of this institution.

(2) *Islamic banks*

Islamic banks can provide appropriate funding to the social welfare initiators under different forms starting from donations and ending with commercial financing. Islamic banks can be a part of the Islamic social finance ecosystem and contribute actively to its development throughout the different stages of the ecosystem's lifecycle.

(3) *Crowdfunding and fintech platforms*

Crowdfunding platforms can enable micro social enterprises to raise sufficient funds for their projects according to the different available platforms:

- crowdfunding platforms for the collection of donations;
- crowdfunding platforms for loans;
- crowdfunding platforms for profit and loss sharing formulas;
- crowdfunding platforms for other Sharīʿah-compliant formulas.

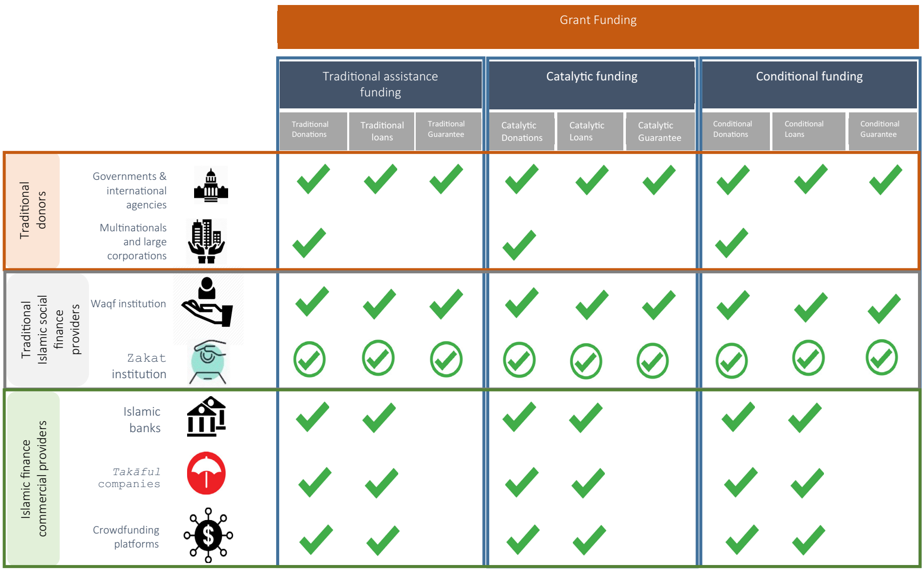
(4) *Islamic capital markets*
Islamic capital markets can help social welfare initiators to raise funds to finance their projects through different Sharīʿah-compliant financing instruments such as *ṣukūk*, mutual funds, real estate unit trusts and others.

Instruments of the Islamic social finance sphere. There are two types of Islamic social financing instruments: grant funding and commercial financing.

(1) *Grant funding*
Grant funding includes donations, loans and guarantees. In the Islamic social finance sphere, various institutions (governments, banks, NGOs, multinationals, waqf, zakat and crowdfunding) can provide this type of funding. Moreover, there can be three types of grant funding (USAID's Centre for Accelerating Innovation and Impact, 2017), notably traditional development assistance, conditional funding and catalytic funding.

- *Traditional development assistance:* provides non-conditional financial support to social purpose initiatives and enterprises.
- *Conditional funding:* provides funding on the basis of outcomes. This type of funding ensures a better allocation of donor funds.
- *Catalytic funding:* provides funding for innovative solutions that can be sustainably delivered at a large scale.

Figure 3 gives an overview of the grant funding providers and instruments.
Governments can provide all types of grant funding instruments starting from donations to guarantees and from non-conditional instruments to catalytic ones. The use of one type or another would depend on the object of financing.



Source: Author's own

Figure 3.
Types of grant funding and donors

Multinationals and large corporations can provide donations with or without specific conditions as a contribution to build comprehensive ecosystems.

Waqf and zakat institutions can provide different types of grant funding if the beneficiaries are admitted from the Sharīʿah standpoint and if the zakat funds can be invested or granted as loans.

Islamic banks and *takāful* (Islamic insurance) companies can dedicate a part of their revenue to finance the ecosystem initiatives in the form of donations. Moreover, they can dedicate a part of their resources to interest-free loans granted to different components of the ecosystem.

Crowdfunding platforms can be used to leverage funds in the form of donations or loans to allocate to the ecosystem initiatives.

(2) *Commercial financing*

In the Islamic social finance sphere, commercial financing includes all the financing instruments that generate a return in compliance with Sharīʿah principles and that target a social impact. Involving these instruments in the Islamic social finance ecosystem would attract more funds to the initiatives and ensure effectiveness and continuity for the whole ecosystem.

Commercial financing includes instruments targeting social welfare initiators and instruments targeting the beneficiaries to have access to goods and services provided by the ecosystem (e.g. SACGOT – providing financing to farmers to buy fertilizer; M-KOPA – providing financing to access electricity through solar panels). Moreover, Islamic social finance providers include those who provide direct financing and those who invest in social impact investment instruments (e.g.

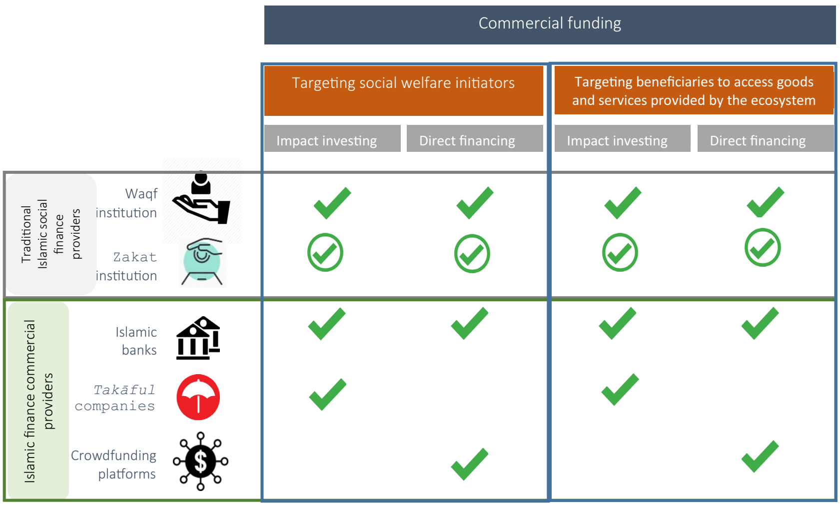


Figure 4.
Types of commercial funding and targets

Source: Author's own

ṣukūk, mutual funds, stocks). Figure 4 gives an overview of the different instruments and their objectives.

The waqf institution and Islamic banks can provide direct financing as well as investing in Islamic capital market instruments with social impact underlying projects. They can target both social welfare initiators and beneficiaries from the ecosystem. The zakat institution can provide the same instruments if the Sharīʿah position allows it.

Takāful companies can adopt an investment strategy that defines the share of funds to invest in social impact instruments while crowdfunding platforms can provide direct financing to both social welfare initiators and beneficiaries of the ecosystem.

Integration between traditional Islamic social financial institutions and commercial financing. The integration between traditional Islamic social financial institutions and commercial financing can take four different forms:

(1) Both institutions should work together in ecosystems to enhance their effectiveness.

(2) Commercial financial institutions constitute a real opportunity for traditional social financial institutions to leverage new funds.

(3) Commercial financial institutions can co-finance or re-finance the projects of traditional Islamic social financial institutions.

(4) Traditional Islamic social financial institutions can play the role of guarantor for commercial financing.

- Working together in ecosystems to enhance the effectiveness of the different initiatives.

  To make optimum use of grant funding, it is necessary to prioritize initiatives that cannot bear commercial financing. When initiatives can generate revenue, they shall be supported by commercial financing instead of grant funding. The latter can be used to support initiatives with significant impact, but that are not generating revenue.
- Opportunity to leverage funds.

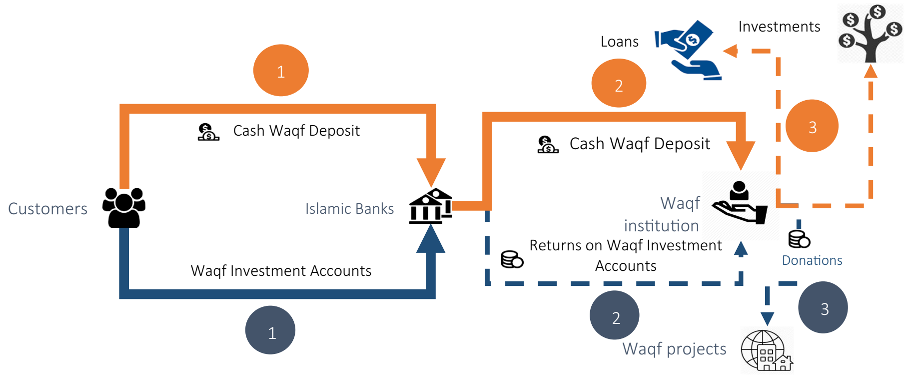
Islamic banks and waqf institutions. Islamic banks can serve as a vehicle to collect funds according to two formulas:

(1) Cash waqf paid into a special bank account dedicated to the waqf institution that could use it for investment or for granting loans or guarantee.

(2) Waqf investment accounts (with a defined term or not): the returns of the waqf investment accounts are paid back to the waqf institution, which can use it for a special purpose. The customer can choose the term of the investment account and get back his capital or make the investment account as a waqf. The waqf institution can create different types of investment accounts, each type serving a special project.

- Opportunities for co-financing or re-financing.

Islamic banks and waqf projects. Islamic banks can grant commercial financing to waqf projects that can generate a financial return according to different formulas that are Sharīʿah-compliant. The return on investment goes to the waqf institution while the cost of financing is paid to banks. Figure 6 defines the way Islamic banks can grant adequate financing to waqf projects.



Notes: 1 1 Customers can make cash waqf deposits and/or create waqf investment accounts in Islamic banks; 2 2 the cash waqf deposits collected and the return on waqf investment accounts are paid to the waqf institution; 3 3 the waqf institution uses the cash waqf deposits in loans and investments while the return on waqf investments accounts is used for donations made to waqf projects

Source: Author's own

Figure 5.
Islamic banks as a way to leverage funds for waqf

Islamic capital markets and waqf. The waqf institution can issue *ṣukūk* to leverage sufficient financing for its projects according to the available Sharīʿah-compliant structures. The return generated from the waqf projects is paid partially to *ṣukūk* holders. The latter can even donate *ṣukūk* as a waqf.

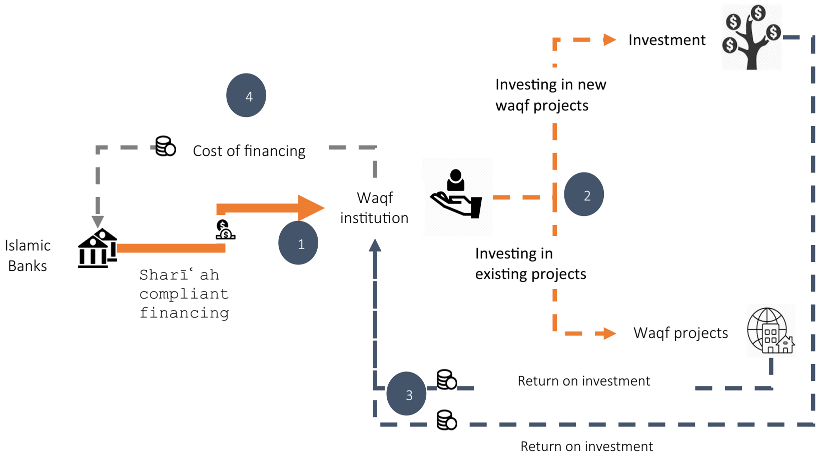
Moreover, the waqf institution can issue waqf *ṣukūk* that is a form of cash waqf. The return generated from investments is paid back to the waqf institution.

Another form of integration between commercial financing and waqf is that Islamic banks, *takāful* companies and mutual funds can allocate a significant proportion of their funds to waqf projects and activities. Figure 7 presents the categories of *ṣukūk* that the waqf institution can issue and that investors can target.

From another perspective, *ṣukūk* can be used as a way to raise funds for projects with social impact and profit rates depending on the Key Performance Indicators (KPIs). Sukuk Ihsan in Malaysia is one of the best examples to cite.

- Case study 3: Sukuk Ihsan

Sukuk Ihsan is the first Malaysian sustainable and responsible investment (SRI) *ṣukūk* issued in 2015 and offered exclusively to institutional investors (Khazanah Nasional Berhad, 2017). The proceeds are channeled to a not-for-profit organization incorporated to improve the accessibility of quality education in Malaysian government schools. If the KPIs are not met, the profit rate is equal to 4.6 per cent while it is equal to 4.20 per cent if the KPIs are met.



Notes: 1 Islamic banks offer Sharīʿah-compliant financing solutions to the waqf institution; 2 the waqf institution allocates the funds raised to new or existing waqf projects; 3 the return on investment goes to the waqf institution; 4 the waqf institution pays back the cost of financing to Islamic banks

Source: Author's own

Figure 6. Islamic banks financing waqf projects

Moreover, the investors may waive the principal value and profit invested at any time during the tenure of Sukuk Ihsan.

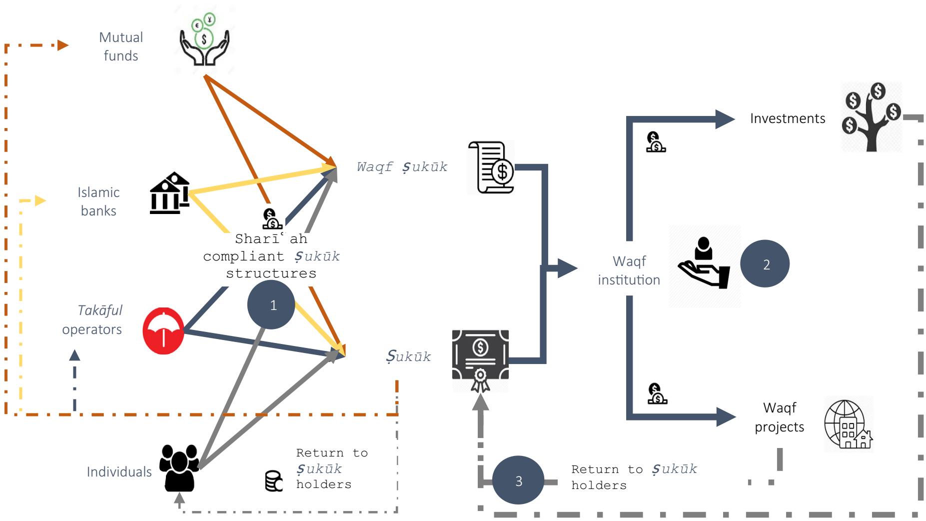
Fintech platforms and waqf. The crowdfunding platforms can play a dual role for waqf:

- The waqf institution can have its own crowdfunding platform to raise funds for its projects.
- The waqf institution can use crowdfunding platforms to grant financing to businesses with high potentialities and interesting perspectives.

Zakat and Waqf vs Islamic banks and Islamic microfinance: as a guarantee.Another form of integration between the traditional Islamic social finance institutions and commercial financing is the aspect related to guarantees. One of the eight categories of beneficiaries from zakat funds is indebted persons who are finding it difficult to pay their debts. Thus, the zakat institution can pay the debts of customers of Islamic banks and microfinance institutions when the criteria are fulfilled. Zakat institutions can also encourage Islamic financial institutions to grant financing to categories that could never be served before.

Social ecosystem coordinators

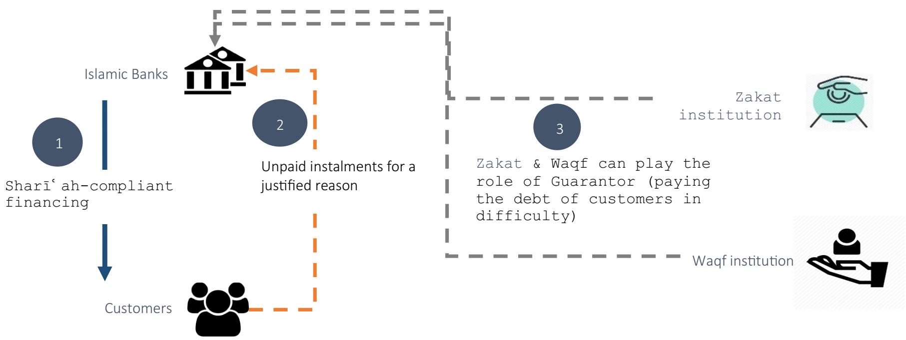
Creating social finance ecosystems is not a random process. It requires coordination between the social welfare initiators and social finance providers. This section explains the relevance of creating ecosystems and the categories of social ecosystem coordinators.



Notes: 1 The waqf institution can issue two categories of *ṣukūk* based on Sharī ʿah-compliant structures: waqf *ṣukūk* and/or *ṣukūk*; 2 the waqf institution invests in waqf projects or in other investments; 3 The return on *ṣukūk* is paid back to *ṣukūk* holders

Source: Author's own

Figure 7.
Ṣukūk issuances for waqf project financing



Notes: 1 Islamic banks grant adequate Sharīʿah-compliant financing to customers; 2 Islamic banks identify the unpaid instalments for a justified reason; 3 Zakat and waqf can play the role of guarantor. They can pay for the customers with unpaid instalments

Source: Author's own

Figure 8.
Zakat and waqf institutions as guarantors

The relevance of creating ecosystems. The M-KOPA experience can provide interesting answers to understand the relevance of creating ecosystems and having coordinators. In Kenya, Uganda and other countries, hundreds of thousands of homes did not have access to electricity. To solve this issue, solar energy seems to be an appropriate response and M-KOPA provides a solar energy-based solution without requiring investments from the governments. It provides solar panels for homes that need to pay a daily amount for use during a defined period. Once all the payments are made, M-KOPA transfers the ownership of the solar panels to customers.

If the M-KOPA initiative works so well, it is thanks to M-PESA, a mobile payments provider that gave the access to financial services to many Eastern African people. M-KOPA uses M-PESA solutions to be paid, and it developed a system that can lock solar panels in case customers do not pay.

Let us assume that M-PESA services were not available or that the Governments took time to issue regulation for the mobile payment sector, in that case, the impact of the M-KOPA initiative would have been very limited.

Thus, creating ecosystems enhances the impact of the whole initiative. However, the main question is: who should create the ecosystem and upgrade it?

The coordinators of social finance ecosystems. Creating an ecosystem consists of bringing social welfare initiators and social finance providers in one common social project. The idea is to combine the different efforts to enhance the impact of the whole initiative. The following could be coordinators:

- *Governments* can coordinate the efforts of different players to create a comprehensive ecosystem when the initiative is part of the government program. Otherwise, governments can participate in different ecosystems without being the major coordinator. Moreover, the involvement of the government is necessary at all times to ensure adequate regulation, provide necessary funding and endorse the idea *vis-à-vis* the other stakeholders.
- *Zakat institutions* can coordinate the efforts of different players to create initiatives that serve the categories of the people whom it targets. If other players already have initiatives that serve the categories targeted by zakat, the zakat institution can participate in the different ecosystems without being the major coordinator.
- *Waqf institutions* can initiate ecosystems according to their vision or participate in other ecosystems when relevant.
- *Social businesses and sustainable businesses* can participate in different ecosystems or initiate their own ecosystem and bring all the other players together to achieve social welfare objectives.

In addition to this, *research and development centres*, as well as advisory firms, are necessary to create and maintain sustainable ecosystems by providing insights and orientating the efforts to the most pressing social needs.

Islamic social finance ecosystems: interactions and building methodology

Methodology to build and upgrade Islamic social finance ecosystems

Building an Islamic social finance ecosystem requires three major steps, as described below and illustrated in Figure 9:

- The diagnosis step: It consists of identifying a social issue, to understand its causes and its details, to have an idea about all the initiatives conducted to tackle it, and finally to identify the solutions on the basis of the latest innovations and international experiences.

- The arrangement step: It consists of identifying the social welfare initiators that can be part of the solutions and of the whole ecosystem. Then, based on the requirements of the ecosystem and the different implementation steps, it is necessary to identify the Islamic social finance providers for each step and the right mixture between the different sources of funding.
- The preparation step: It consists of defining an implementation roadmap for the ecosystem, identifying the coordinators of the ecosystem, and defining the ecosystem upgrade mechanism.

Generally, research and development centres or large companies that have deep knowledge of the context can initiate these steps and work on the conception of different ecosystems. Later, these institutions can work on linking the ecosystems in a way that reinforces their effectiveness.

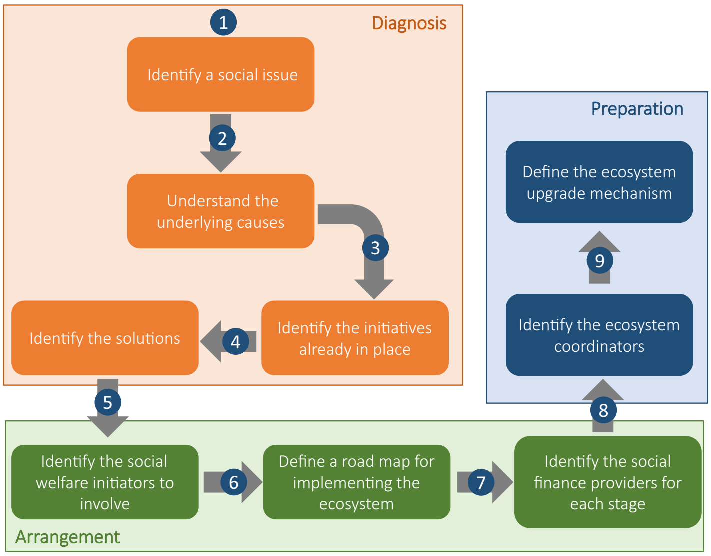
In what follows, the three main steps in building an Islamic social finance ecosystem are further elaborated with some relevant case studies cited to exemplify the issues at hand.

The diagnosis phase

Identifying the social issue. In the diagnosis phase, the most important step is to define the scope of the intervention. It could be:

- A well-defined social issue with precise objectives.

The United Nations Sustainable Development Goals (UNSDGs) can serve as a guide to define the social issue to tackle and the objectives to achieve. The United Nations initiative covers 17 goals with data that describe in detail the present situation (The United Nations Statistics division website). The ecosystem could target one or more of these goals.



Source: Author's Own

Figure 9.
The steps to build an Islamic social finance ecosystem

- An intervention that covers several issues for a community.

As most communities are suffering from social and economic woes that are complex and interconnected, the most effective approach would consist of tackling them in a more integrated approach.

- Case study 4: SAGCOT – Southern Agricultural Growth Corridor of Tanzania

Let us take the example of the SAGCOT ecosystem; it has contributed in achieving different SDGs at once. It built an adequate infrastructure including the port, roads, railway, electricity, etc. Moreover, it enhanced the agricultural production of Tanzania and thus reduced hunger and famine. Finally, SAGCOT bolstered the revenue of hundreds of thousands of farmers, thus helping to reduce poverty levels in the country (Kramer and Pfitzer, 2016).

Understanding the underlying causes. Once the social issue to tackle or the community to serve has been defined, it is important to start a deep diagnosis to understand the causes significantly impacting the issue or the community.

Let us take the example of SAGCOT once again. Famine and hunger in Tanzania was a real issue. The diagnosis conducted revealed several causes:

- Farmers were illiterate and poor and unaccustomed to using fertilizers.
- There was lack of access in terms of roads and transport infrastructure to deliver fertilizers and to deliver crops.
- There was lack of access to credit to buy fertilizers.
- There was a ban on exports to protect local consumption.

Once the causes are well defined, it is easier to define appropriate solutions.

Identifying the initiatives already in place. Based on the defined causes, it is important to have an idea about the existing initiatives and solutions that can be part of the ecosystem. Indeed, an ecosystem is not supposed to be created from scratch; it can be plugged into existing enterprises or solutions.

- Case study 5: M-PESA and M-KOPA

Let us take the example of M-PESA in Eastern Africa that gives hundreds of thousands of people access to financial services. M-Pesa is a mobile phone-based money transfer, financing and microfinancing service, launched in 2007 by Vodafone for Safaricom and Vodacom, the largest mobile network operators in Kenya and Tanzania. The impact of such a form of financial inclusion on achieving the SDGs is multifold:

- According to a study conducted in Kenya (Suri and Jack, 2017), M-PESA increased consumption levels and lifted over 194,000 Kenyan households out of poverty. In fact, the M-PESA application enables unbanked people to send money back to their home villages faster, more cheaply and more securely, which increase their consumption and the stability of their revenues. Thus, M-PESA contributes to reducing poverty.
- M-KOPA brought electricity to hundreds of thousands of homes in Kenya, Tanzania and Uganda through solar panels. The beneficiaries have to pay through their M-PESA accounts; otherwise, the panel is automatically locked. Thus, M-PESA contributes to electricity access.
- M-PESA can provide other uses through complementary services such as rainfall index insurance for farmers.

Defining the adequate solutions. Once all the previous steps are conducted successfully, the solutions to be adopted can be inspired by:

- regional, national and international benchmarks;
- initiatives already in place that can be plugged into the ecosystem;
- thematic competitions that can gather social entrepreneurs and technology start-ups that have effective solutions for the targeted issues.

As issues are getting more complex and interconnected, solutions have to be complementary and interconnected to tackle them more effectively.

The arrangement phase

Identifying the social welfare initiators. The ecosystem is the combination of initiatives led by governments, sustainable corporations, socially responsible corporations and social businesses. These initiators can play other roles like granting loans or donating to the ecosystem. Nevertheless, in this part, the focus would be only on the initiatives, not on the funding.

The initiatives play complementary roles in solving a specific issue or serving a community. Each initiator takes in charge an initiative that is part of the whole ecosystem. Generally, when it comes to infrastructure and regulation, governments are the initiators. When it is about services of high added value that are delivered for free or for money, social businesses are the adequate initiators. When the services are specialized and are linked to a business activity delivered for free, sustainable corporations or socially responsible businesses are supposed to be the initiators.

Building an ecosystem goes through different stages. In each stage, different initiators are involved based on the ecosystem's needs and the initiators' expertise.

Defining a roadmap for the implementation of the ecosystem. The ecosystem implementation roadmap consists of defining the different lifecycle stages of building and maintaining an ecosystem. For each stage, the roadmap should define the parties to be involved in terms of contributions, deadlines and impacts as well as the prerequisites and the next steps.

The roadmap would give an exact idea about the needs in terms of financing for each stage and the social finance providers to associate into the ecosystem.

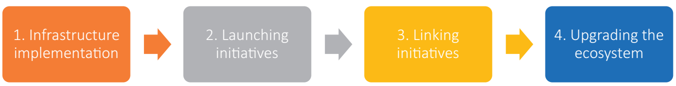
Generally, it is possible to define four main stages for the ecosystem implementation and upgrade, as in Figure 10.

(1) *First stage: infrastructure implementation:*

This first stage consists of implementing the necessary infrastructure for the ecosystem that covers, depending on the nature of the ecosystem, the following aspects:

- transport infrastructure (e.g. ports, airports, roads, railways);
- special lands or zones;
- energy or water infrastructure (e.g. green energy, dams);
- regulation and strategic vision (e.g. laws that would enhance the ecosystem initiatives, strategic plans to accompany the ecosystem); and

Figure 10. Main stages for the ecosystem implementation



Source: Author's own

- all the necessary contributions to facilitate the launching of initiatives and to enhance their effectiveness.

(2) *Second stage: launching initiatives (social enterprises and CSR initiatives):*

Once the infrastructure is ready to host the ecosystem, the different initiatives can be launched. They could be:

- existing social businesses to get plugged into the ecosystem;
- creating new social businesses;
- initiatives launched by sustainable businesses or CSR initiatives; and
- technology start-up solutions.

(3) *Third stage: linking initiatives:*

The third stage of the roadmap implementation is the most important. It consists of linking each initiative to the other in a way that ensures effectiveness of the ecosystem. Indeed, the main principle of ecosystems is linking different initiatives to have a bigger impact.

(4) *Fourth stage: upgrading the ecosystem:*

Ecosystems should accompany the main changes of the environment. They should be open to all the new technological and technical innovations as well as to all the new complementary initiatives and social enterprises.

Identifying the Islamic social finance providers for each stage. Providing adequate financing and sufficient funds for the different components of the ecosystem is a challenge and an important step in the implementation process. Thus, it is necessary to:

- estimate the financing needs for each stage of the lifecycle;
- then, for each stage, estimate the projects and initiatives that require grant funding and those that can afford a commercial financing;
- identify for each stage whether the financing would be allocated to social welfare initiators or beneficiaries from the services and goods provided by the ecosystem;
- identify the gaps between the needs and the available finance providers; and
- define the alternative solutions to fill the gaps.

Generally, the first stage "infrastructure implementation" would require more grant funding than commercial financing. Then, in the second and third stages "launching and linking initiatives", both sources of funding are required to launch the different initiatives and businesses. If the social businesses involved in the ecosystem are already existing, commercial financing would be more appropriate. Moreover, depending on the nature of goods and services provided by the ecosystem, the beneficiaries would probably need both types of funding.

In the fourth stage, for every upgrade, it is required to estimate the financing needs and the finance providers to fill the gap. Nevertheless, an upgrade could concern the financing side.

The preparation phase

The preparation phase consists of defining the ecosystem coordinators to launch the implementation process and define an upgrade mechanism.

Identifying the ecosystem coordinators. The major issue at that level is to identify the coordinators of the ecosystem: who should lead the different components of the ecosystem?

Companies and corporations could be the initiators of an ecosystem, but they have to remain neutral. In fact, trust is a prerequisite for successful collaboration, and companies are often suspected of being in the self-interested pursuit of profit. YARA, a global leader in fertilizer sales, initiated the Tanzania agricultural corridor, but it was careful to avoid taking ownership or branding the initiative as its own (Kramer and Pfitzer, 2016). Generally, a separate and independently funded staff dedicated to the initiative is needed to guide vision and strategy, support activities and mobilize social welfare initiators as well as social finance providers. Companies and corporations can create foundations or organisations to take charge of the initiative.

In the Islamic social finance ecosystem, the waqf institution can oversee the entities in charge of the ecosystems implementation, coordination and upgrade, but other stakeholders can also do the job; for example, governments and groups of social businesses.

Defining the ecosystem upgrade mechanism. Ecosystems are supposed to evolve or to disappear for two main reasons:

(1) If an ecosystem continues to function like the first day of its creation, it means that it fails to achieve the objectives it was created for.

(2) Social issues are evolving in different ways. If the ecosystem cannot accompany these changes, it would fail to impact the community the way it is supposed to.

In both cases, ecosystems need to evolve to make optimum use of the resources mobilized and to take into account the new elements impacting the complexity of the social issue. For this purpose, ecosystems have to implement upgrade mechanisms such as:

- *Monitoring instruments*: It consists of defining the main indicators relating to the expected outputs of the ecosystem to identify the gaps and adopt corrective measures. Defining the objectives and measuring the impacts are not easy. They require the involvement of research centres and advisory firms.
- *Capturing the social innovation initiatives*: New issues require new answers and targeting more impact requires new tools. Thus, ecosystems need enough flexibility to host innovative initiatives. Research centres and innovation competitions can bring new ideas to the ecosystem.
- *Adopting technology solutions*: Technology solutions can help the ecosystem to optimize the use of resources and to bring more initiatives and funds to the ecosystem. To do so, the ecosystem coordinators should organize thematic competitions to select impactful initiatives and innovations.

Conclusion

The development of a real awareness of social issues brought a multiplicity of players with different business models and objectives to work on socially oriented initiatives. The most impactful initiatives rely on the principle of collective impact, which is based on the idea that social problems arise from and persist because of a complex combination of actions and omissions by players in all sectors. Therefore, they can be solved only by coordinated efforts of these players, including businesses, government agencies, charitable organizations and members of affected populations (Kramer and Pfitzer, 2016).

This research paper is based on the idea of associating all the stakeholders in one ecosystem where social welfare initiators can cope together to launch complementary initiatives. The aim is to have a more significant impact on their communities and to cope with social finance providers to ensure continuous financial support to the ecosystem.

The Islamic social finance ecosystem has two main specificities: the social finance providers sphere is composed of two categories: traditional social finance providers and commercial ones. Both are supposed to be in line with Sharīʿah principles. The second main specificity is that there are different paths of collaboration between traditional Islamic social finance providers and commercial ones. Commercial financing can serve as a new effective way to mobilize more financial resources for traditional institutions. Moreover, commercial finance providers can serve as an investment opportunity for traditional institutions.

Working in an ecosystem would enable all the stakeholders to make optimum use of financial resources and define indicators to monitor the impact, identify the gaps, and adopt the corrective measures.

This paper was inspired by real experiences, but it is necessary to identify other successful and unsuccessful experiences to learn how Islamic social finance ecosystems can be built, maintained and upgraded.

Finally, the concept of building ecosystems is in line with the spirit and the law of Islam that unify people as one body. When one of the limbs suffers, the whole body responds to it with wakefulness and fever.

Notes

1. http://sagcot.co.tz/
2. www.toms.com/
3. www.statebags.com/
4. www.baronfig.com/
5. Zipline is a social business working in the field of health care. It uses drones to deliver vaccines, medicine and blood transfusions for use in rural Rwanda. Zipline is collaborating with the Rwanda government in 20 hospitals and health centers, providing urgent medical supplies for millions of people.
6. Health Solutions Inc. provides complementary medical and extra medical training to doctors and medical students to enhance their skills and deepen their knowledge.
7. M-KOPA is a company providing solar panels to hundreds of thousands of homes in Kenya, Tanzania and Uganda. Buyers put down a small deposit and then make a daily payment from their mobile money account until, after a year, they own the panel. If a payment is missed, the panel is automatically locked.

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Further reading

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