

Building Social Business with Islamic Fund

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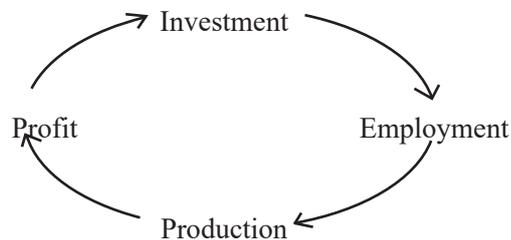
ABSTRACT

This paper finds the types of fund demanded for building social business. It also identified a gap between demand and supply of the fund. To ease the supply side, 10 sources with two frequency of Islamic fund have been found suitable for. It has been, therefore, concluded that Islamic fund may be tapped in social business. So it suggests that unlike Zakat Board, government should establish non-profit special institution to mobilize Islamic funds and channelize the same to social business. Thus the study paves the way for building social business with Islamic fund. Relevant economic literatures have been reviewed to collect information and organize the study.

Key words: Gap, Demand, Supply, Islamic, Mobilize

I. INTRODUCTION :

To create a world without poverty and to solve social, economic, and environmental problems with a view to making the world a better place, Nobel Laureate Muhammad Yunus proposed two types of social business (SB). Type I is a non-loss, Non-dividend Company devoted to solving social problems and owned by investors who either re-invest all profit in expanding and improving the business with joy (Yunus, 2010). It has seven key characteristics (Yunus, 2010) which indicate that it is for 'working-poor'. Type II is a profit-making company owned by poor people, either directly or through a trust that is dedicated to a pre-defined social cause. The profits flow to 'non-working poor' for alleviating poverty (Yunus, 2010). It seems, therefore, SB is a very specific type of business.



Social Business Cycle

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In view of the above, three research questions have been raised here:

- (i) What are the types of fund demanded by Yunus for building the SB?
- (ii) Is there any gap between the demand and supply of the fund?
- (iii) If yes, how the supply side could be ease?

It has been assumed that there may be a gap between the demand and supply of the fund. So, it is hypothesized that the supply side could be eased with Islamic fund. To organize the study and to prove the hypothesis, relevant economic literature has been reviewed. Collected information are discussed and presented in an organized way with a view to making it meaningful and easy to understand. Therefore, the study is divided into IV sections. After introductory section, section II discusses the types of fund demanded for building SB and identifies a gap between the demand and supply of fund, while section III discusses the sources of Islamic fund to ease the supply side. Section IV shows the findings, conclusion and suggestion for building SB with Islamic fund. It is a desk research work which paves the way for building SB with Islamic fund.

II. THE TYPES OF FUND DEMANDED:

An investor of SB aims to help others without making any financial gain for himself. At best he can take back, over a period of time, only the amount invested. Thus, he can invest in another SB to solve another social problem. Therefore, the money that currently goes to support philanthropy (Donation) is one source of fund for SB. Regarding Charity, he said, of course, not all charity should be replaced by social business. Therefore, both charity and SB are needed, but we must understand how, and to what extent, each can contribute to reduce the misery of the people (Yunus, 2010). It seems, therefore, charity is the supplementary fund (cushion) of SB for solving poverty problem.

Again, he mentioned that equity and loan support to SB may be provided from SB fund. He advocated for loan without interest and pay-back period. In time, more sources of funding will be needed. Each level of government - international, national, state, and city - can create SB funds. Bilateral and multi lateral donors can also create SB funds (Yunus, 2010).

A separate stock market may be created to make it easy to invest in SB. Only SB will be listed in this social stock market, and investors will know right from the beginning that they'll never receive any dividends from this market. Their motivation will be to enjoy the pride and pleasure of helping to solve difficult social problems like unemployment, health, sanitation, pollution, old age, drugs, crime, the needs of disadvantaged groups such as disabled, and so on

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The potential profit is not the basis of investment in SB rather the social cause. If the cause happens to be creating employment, it will go ahead if it is satisfied that the business can sustain itself. This gives SB enormous power in creating jobs. It can even invest in projects where the return on investment is near zero, and, in the process, open up job opportunities for many people. In a purely profit-making business world, these jobs never are created.

It appears, therefore, that Yunus wanted five types of fund for SB. Those are:

- (i) Donation;
- (ii) Equity without profit;
- (iii) Loan without interest;
- (iv) Stock market fund; and
- (v) Government fund.

He also mentioned different sources of the fund demanded. But he did not mention the sources of Islamic fund. It has, therefore, created a gap between demand and supply of the fund for SB.

It has been assumed that the funds for SB can also be supplied from the sources of Islamic fund. Therefore, the sources of Islamic fund for building SB are discussed below.

III. THE SOURCES OF ISLAMIC FUND:

There are various models and tools of Islamic finance, which has also a wide range of products and services, which are Islamic in form but conventional in every other sense (Obaidullah, 2005). Therefore, supply of Islamic fund from various sources is possible for building SB. Some of the important sources are discussed below:

1. **Zakat** : It is one of the five pillars of Islam: third in number. Order of paying *Zakat* is almost concurrent with *Salat* or prayer in the Quran. '**Establish *Salat* (prayer) and pay *Zakat*' [Baqara 2:43]. It is a tax-like levy imposed on the rich persons having a minimum level of wealth (called *Nisab*) and hence **represents transfer****

of payment from the haves to the have-nots. Ordinarily, the rate of *Zakat* is 2.5% and *Nisab* is 87.00 gram gold or 624.00 gram silver or values thereof. There are eight categories of the beneficiaries of *Zakat*, which Allah (SWT) himself has specified in the Quran. The poor (*Al-Fukarah*) and the needy (*Al-Masakin*), and the debtors are important to mention here in terms of poverty. The poor and the needy are those who do not have their basic needs fulfilled. The debtors are those people burdened by debts because of personal and family needs, and social necessities such as spending on an orphan, reconciling between Muslims, or renovating a mosque or school, and become unable to repay, this debt can also be paid out of *Zakat* funds. This holds true even if he is wealthy.

It has been mentioned that one of the principles of distribution of *Zakat* funds is: the funds must be distributed in such a way as to maximize the social and economic benefits of the recipients. This should not only help the recipients get rid of their poverty but also help increase their living standards so that they ultimately become *Zakat*-payers rather than always remain as *Zakat*-receivers (Hamid, 2009). It seems that this principle matches with the objective and funding of SB.

Again, Hamid mentioned that in order to implement the principle, it would be necessary to categorise the poor beneficiaries into 'non-working poor' and 'working-poor'. The non-working poor are those who are basically unemployed, having nothing to do. They can be treated as 'wage-labourers'. Truly speaking, this is the category of the people who need *zakat* funds most as charity. Given their socio-economic status, *zakat* funds have to be given to them through transfer payments. This should be immediately realized that this type of help would, in turn, help them by some goods and services, which would, in turn, help them only to survive. Without further measures, their status cannot be raised above the poverty line.

The working poor, on the other hand, may be defined as those who are engaged in some activities, say, production of agricultural commodities, handicrafts, small shops, petty business, etc. Because of one reason or other, these people are not in a position to make any headway in their professions. These people need help, a special type of help, such that they can increase their productivity in their respective professions. Transfer payment would certainly not help these people to the extent need. They will have to be provided with the supply of necessary inputs, help in marketing their product, provide the needed amount of capital, etc. To achieve the objective and funding of SB, they may be motivated for running business with the *Zakat* fund keeping in view that they can pay *Zakat* to others for building other SBs and it will be a joy.

According to Shariah, *Zakat* is not one's individual function; rather, it is a collective function and is closely related with the function of the government of the Muslim country. The government is responsible for creating such an organization that will effectively administer the collection and distribution of *Zakat*. This organization will administer the functions on behalf of the government (Islam, M. Zuhurul, 1999). In Bangladesh, *Zakat* Board collects and distributes *Zakat* on behalf of the government.

It appears, therefore, that the *Zakat*, as a source of Islamic fund, is aligned with the 1st and 5th types of fund (Donation and Government fund) demanded for SB.

2. ***Mudaraba*** : It is a mode of financing through which an organization/individual can provide capital fund for a specific venture indicated by the entrepreneur, who is responsible for the management of the business and provides professional, managerial and technical expertise for initiating and operating the business. Profit is shared according to a pre-agreed ratio. Losses, if any, are entirely absorbed by the capital provider.(Obaidullah, 2005).
3. ***Musharaka*** : It is a partnership in which both the organization/individual and its entrepreneur-client contribute to entrepreneurship and capital. Profits are shared between the organization/individual and the entrepreneur in the pre-agreed ratio. Losses are shared strictly in proportion to their respective capital contributions (Obaidullah, 2005).
4. ***Declining Musharaka*** : In this method, organization's share in equity capital of the business is diminished each year through partial return of capital periodically. On the other hand, the client's share steadily increases, ultimately resulting in complete ownership of the venture. (Obaidullah, 2005).

It appears, therefore, that the sources of Islamic fund, namely, *Mudarabah*, *Musharakah* and declining *Musharakah*, are aligned with the second type of fund (equity without profit) demanded for SB.

5. ***Qard-e-hasana*** : It is benevolent loans. The borrower should only repay the principal with or without a clear stipulation regarding the date of maturity. As no maturity is stipulated, only the principal amount of the loan is repaid when asked by the lender (Obaidullah, 2005).

The nature of *Qard-e-hasana*, therefore, indicates that it is aligned with the third type of fund (loan without interest) demanded for SB.

6. **Sadaqat** : This type of financing happens due to good wish and will towards the poor and needy. Like *Zakat* fund, Sadaqat fund can be used in SB.
7. **Awqaf** : The waqf donated by individuals may be invested as the capital of the SB. The returns from Awqaf can also be used to provide fund to SB.

It appears, therefore, that the sources of Islamic fund, namely, *Sadaqat* and *Awqaf* can fulfill the demand for 1st type of fund (donation) of SB.

1. **Sukuk** : The returns provided to Sukuk-holders come in the form of income generated from the asset, profit from sale, rental or combination of different forms. A Sukuk certificate represents a deferred payment to the holder, so the certificate will not be tradable on the secondary market and instead should be held until maturity.

Recently, *sukuk* have become increasingly popular, both as a means of raising government fund through sovereign issues, and a way of companies obtaining funding through corporate *sukuk* in the stock market(Dusuki, 2011). *Sukuk*, therefore, can fulfill the demand for both 4th and 5th types of fund (Stock market fund and government fund) of SB.

IV. FINDINGS, SUGGESTION AND CONCLUSION :

Nobel Laureate Muhammad Yunus proposed SB to solve social, economic, and environmental problems. He hopes that through SB, the world shall be a better place of living. It is a very specific type of business - a non-loss, Non-dividend Company with social objectives. In a SB, an investor aims to help others only. At best he can take back the amount only invested, over a period of suitable time. Thus, he can invest in another SB to solve another social problem with joy. So Yunus demanded five types of fund for the SB. Those are as follows:

- (i) Donation;
- (ii) Equity without profit;
- (iii) Loan without interest;
- (iv) Stock market fund; and
- (v) Government fund.

He also mentioned different sources of the fund demanded. But he did not mention the sources of Islamic fund. It has, therefore, created a gap between demand and supply of the fund for SB. It has been observed that the funds demanded may be supplied from

various sources of Islamic fund. However, the sources of Islamic fund aligned with the types of fund demanded for SB are shown in table 1 below.

It is observed that there are 10 sources (with 2 frequencies of *Zakat and sukuk*) of Islamic fund, aligned with five types of fund demanded for SB. Therefore, the supply side could be easier with Islamic fund. In other words, the demand for SB fund can be fulfilled with more than one sources of Islamic fund. Unfortunately, it was ignored. It has been, therefore, concluded that the Islamic funds may be tapped in SB.

So, it is suggested that unlike Zakat Board, government of Bangladesh should establish non-profit special institution to mobilize Islamic funds and channelise the same to SB. Commercial banks can also donate from their annual Corporate Social Responsibility (CSR) fund.

It will contribute to reduce pressure on the national budget for removing poverty and other social problems.

Table 1: Sources of Islamic fund for SB

Types of fund Demanded	Sources of Islamic fund (frequency)
(i) Donation ;	(i) <i>Zakat</i> (ii) <i>Awqaf</i> (iii) <i>Sadaqah</i>
(ii) Equity without profit;	(iv) <i>Mudarabah</i> (v) <i>Musharakah</i> (vi) <i>Declining Musharakah</i>
(iii) Loan without interest;	(vii) <i>Quard - e- Hasanah</i>
(iv) Stock market fund;	(viii) <i>Sukuk Market Fund</i>
(v) Government fund	(ix) <i>Zakat</i> (x) <i>Sukuk, etc.</i>
Total = 5	Total = 10

Source : Literature reviewed.

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