

Islamic Business and Finance Series

ISLAMIC SUSTAINABLE FINANCE

POLICY, RISK AND REGULATION

Edited by

Mohd Ma'Sum Billah, Rusni Hassan,
Razali Haron and Nor Razinah Mohd Zain



Islamic Sustainable Finance

The central idea of sustainability in the modern world is intricate and ever-changing. Closely related to the realm of finance and socioeconomic discussion, the phrase “sustainable impact finance” has become increasingly popular among bankers, practitioners, financial analysts, investors and the relevant experts seeking an impactful connection between the best financing mechanisms or tools and sustainable development related investments or projects.

This book opens up the discussion by offering a Shari’ah-compliance perspective. It is a primer on how Islam addresses and offers solutions to the challenges facing us within the spirit of maqasid al-Shari’ah, among others, in tackling poverty, food supply, health and well-being, quality education, reducing inequalities, responsible consumption and production and climate action. It discusses the connection between Islamic sustainable finance and the Sustainable Development Goals (SDGs) and explains the strategic action-plan of Islamic banks towards achieving Islamic sustainable finance.

The book considers the relevant policies and regulations, evaluating the role of regulators, discussing jurisprudential solutions and focusing on the role of Islamic banking standards in relation to Islamic sustainable finance. Further, it explores the issue of risk mitigation and the effective role of Takaful. It presents a practical case study from the banking industry in Malaysia, which evaluates the carbon footprint of bank loans and climate change risk mitigation. Finally, it highlights sustainable finance innovations in an Islamic concept.

The book will appeal to advanced students, researchers and scholars of Islamic banking and finance, as well as those concerned with environmental social governance and Sustainable Development Goals research. Regulators, policy makers and Shari’ah-compliant practitioners will also find it to be a useful guide.

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Islamic Sustainable Finance

Policy, Risk and Regulation

**Edited by Mohd Ma'Sum Billah,
Rusni Hassan, Razali Haron and
Nor Razinah Mohd Zain**

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This book is dedicated to the remembrance of my most beloved parents Allamah Mufti Nur Mohammad (r) and Ustazah Akhtarun Nisa' (r) who have nourished me with their love and wisdom. May Allah (swt) shower them with His Love and Mercy and grant them Jannat al-Ferdaus. I would also like to dedicate this book to my lovely wife Dr Khamsiah Nawawi (Head, OSHE-Hospital UKM) and our heart-touching kids Dr Ahmad Mu'izz Billah (Head of Surgical Department and Medical officer at the Mukah Hospital, a Government hospital under the Ministry of Health, Malaysia), Ahmad Mu'azz Billah (OP-Cadet-RMC, BSc Hons. Formerly affiliated with the JPM, Putrajaya and currently serves at Accenture, Malaysia), Ahmad Muniff Billah (OP-Cadet-RMC. Winner of Gold Medal Award 2023 in his outstanding innovative research project and currently pursuing with his BSc Honors in Aviation Management and Piloting, MSU) and Akhtarun Naba' Billah (Pursuing with her LLB Honors, IIUM and Winner of Dean's List), for their continuous supports and sacrifices.

May all be blessed with *Muwaddau Wa Rahmah, Qurratu A'yun* and *Mardhaati Allah* (swt) in the life and the next.

This book is also dedicated to the Ummah and the whole of humanity.

Mohd Ma'Sum Billah, PhD

A special dedication to my parents, my extended family, my teachers and Murabbi who inspired, guide and shape me to be the person I am today. A special thanks also to the Institute of Islamic Banking and Finance (IIUM) team members for their unwavering support in bringing the Institute to a higher level. May Allah provide us with the fortitude and dedication to contribute to the well-being of our institution and to the Ummah.

Rusni Hasan, PhD

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Razali Haron, DBA

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Nor Razinah Mohd Zain, PhD

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17 Sustainability in Empowering Mumpreneurs through Islamic Social Finance

Syarah Syahira Mohd Yusoff, Salina Kassim and Rusni Hassan

Introduction

Sustainable finance refers to investment choices that include a project's environmental, social, and governance (ESG) implications. The utilization of sustainable resources and climate change mitigation are environmental considerations. The rights of people and animals, consumer protection, and a range of employment procedures, on the other hand, are all social elements, whereas governance considerations pertain to the management, employee relations, and compensation policies of both public and private organizations. Islamic sustainable finance (ISF) has been the “tittle-tattle” in the finance industry of late. Many Islamic banks have taken an initiative by offering new products that are ESG (environmental, social, governance) friendly. Without a doubt, ISF is a comprehensive approach to overcoming global ESG issues and addressing specific ESG issues. Islamic social finance (iSoFi), which is the subset of ESG, are closely related especially on the social side. Focusing on the livelihood of the women entrepreneur in the B40 society, it is vital for the industry to map out the capacity of ISF in ensuring the sustainability of the mumpreneurs. It is submitted that with a better financial literacy, this focal group will be better sustained.

In 2022, it was reported that in Malaysia, there was an increasing number of working women who decided to stay at home due to the pressure of housework. Department of Statistics Malaysia (DoSM) in Labour Force Malaysia Statistics 2021 had recorded a 0.04 million increase in women participation in labour force, amounting to 5.87 million compared to 5.83 million women labour force in 2020. Compared with the 0.06 million increase in men participation in 2021, an increase in women labour force is just minimal. Nevertheless, quarterly labour force statistics on May 2022 had recorded 42.2% out of 7.27 million women had opted to not enter into labour force with housework and family responsibilities as one of the main reasons (Department of Statistics Malaysia, 2022). The pressure of not able to cope with the dual responsibilities as an employee and as a mother has resulted in many working women to make a very difficult lifetime decision, as most of the women are in the category of tertiary education level, having completed at least three to four years of university education.

A recent trend also showed that mothers would express satisfaction in handling their own children at home rather than sending the offspring to a caregiver, mainly due to trust issues. Cases of child abuse at day care centres are increasing, apart from several negligence cases in handling children, especially when child handlers are incapable and inadequately trained. Apart from lack of trust with the caregiver or nursery, the costs of sending the children to nursery or day care are escalating day by day; this, too, might contribute to such decision. As a result, many stay-at-home mothers embark on a new career path known as mumpreneurship which allows them to stay at and work from home simultaneously. By joining the entrepreneurs, it will not only boost their self-confidence as a stay-at-home mother but will also alleviate the economical aspect of the family. However, it was also reported that the financial literacy among the entrepreneur mothers were moderate. The mumpreneur does not acquire sufficient knowledge in making a financial decision, lacks access to financing, and does not prepare themselves for a financial crisis. This situation is rather worrying, as it might result to poor business decisions.

The objective of this research is to explore the role of Islamic sustainable financing in enhancing the life of mumpreneurs. It uses a conceptual research technique to examine the problem of financial illiteracy among Malaysian Muslim mumpreneurs and how Islamic social finance might help them overcome it. It provides an analytical conceptual study that extends beyond the influence of Islamic social finance on the lifestyle of Malaysian mumpreneurs. This chapter also demonstrates the role of Islamic sustainable financing in enhancing the financial independence among mumpreneurs. The outcomes of this study will give vital inputs for relevant authorities in developing a guideline for designing financial education programs aimed at raising financial awareness among a specific set of Malaysian businesses, particularly mumpreneurs. The objective of this chapter is twofold, namely, to highlight the relationship between ISF and the Muslim mumpreneurs in the livelihood among the Muslim mumpreneurs.

Literature Review

Emerging Trend of Mumpreneur

The terminology “mumpreneur” is an emerging terminology coined by Patricia Cobe and Ellen Parlapiano in the late 1990s which refer to “a female business owner actively balancing the role of mom and of entrepreneur” (Richomme-Huet et al., 2013; Korsgaard, 2007). Duberley and Carrigan (2013) defined mumpreneur as follows:

women entrepreneurs . . . who set up a business in order to enable them to both work and care for young children. . . . They reflect current discourses on lifestyle entrepreneurship and a new approach to “having it all”.

This phenomenon of women being active in business while also being mothers is considered a relatively new trend owing to a woman’s realization of her

responsibility to provide the best for her family. In earlier years, working women are also known as career women. They would focus mainly on their career, most of the time, at the expense of their personal and family lives. In fact, career women with children would have to sacrifice the time and opportunity to raise their children, often unwillingly, to be successful in their careers. However, all this has changed with the role taken by women as mumpreneurs. Being successful businesswomen is no longer at the expense of a family life. Korsgaard (2007) reported that those with a good academic background are more likely to stay at home and establish a home company. This was further supported by Hudson and Leung (2020), where it was found that mothers who chose to stay at home get their inspiration to start their own businesses based on their previous career. Relying on experience and expertise are found to be an effective way to reduce the possibility of failure in starting the new businesses, as the mumpreneurs have been given the exposure on a particular business process and have already been familiarized with the necessary networking involved in running the businesses. A major factor contributing to increasing interest among stay-at-home women to embark on entrepreneurship is due to the advancement in technology and e-commerce. The idea of becoming a businesswoman is no longer exclusive among the rich, as with e-commerce, anyone can start an online store and reach the widest of the customer segments.

Empowering Mumpreneurs through Islamic Social Finance

Islamic sustainable finance and social finance are both based on Islamic finance principles, which include avoiding interest-based transactions and promoting ethical and responsible investing. Both also aim to promote positive social and environmental impact through financial instruments and strategies that align with Islamic ethical principles (Rai et al., 2019). Islamic sustainable finance focuses on promoting sustainable economic development and environmental conservation, using funds for investments in renewable energy and sustainable agriculture projects. This can involve using profit-and-loss sharing agreements and prohibiting speculative ventures. Furthermore, Islamic banking and financial institutions are urged to engage in initiatives that are ecologically clean, socially ethical, and commercially viable. This is in line with Islamic law principles (Shari'ah), which emphasize preserving natural resources and protecting the environment (Fazli Sabri & Tze Juen, 2014). On the other hand, Islamic social finance focuses on promoting social and economic development for underserved and marginalized communities, using funds for investments in education, healthcare, and affordable housing projects. This includes using microfinance, zakat, and waqf monies to promote social welfare initiatives, as well as developing financial products to meet the requirements of low-income people. The aim is to alleviate poverty and social inequalities and to promote financial inclusion and access to essential services. Providing access to finance for those not served by traditional banking systems helps reduce poverty, improve living standards, and promote economic development (Nugroho & Chowdhury, 2015).

Islamic finance may also be used to combat poverty and advance sustainable development since it forbids the charging of interest, which is viewed as exploitative and can result in the amassing of wealth by a small number of individuals. Instead, it encourages profit and loss sharing, which promotes greater fairness and equity in the distribution of wealth. Thus, submitted that, ISF and social finance are based on the principles of Islamic finance and aim to promote positive social and environmental impact through responsible investing. ISF aims to protect the environment, promote sustainable economic development, and align financial practices with the principles of Islamic law (Shari'ah) (Rai et al., 2019). In contrast, iSoFi aims to alleviate poverty and social inequalities, promote financial inclusion and access to essential services, and align financial practices with Islamic law (Shari'ah) principles. Both are interrelated, as ISF could contribute to poverty reduction and social development and Islamic social finance could also contribute to environmental protection and sustainable development (Hasler et al., 2018).

Islamic Sustainable Finance

While sustainable finance is described as investment decisions that take into account the environmental, social, and governance (ESG) characteristics of an economic activity or project, ISF includes the elements of sustainable finance that are in conformity with Islamic law and maqasid al-Shari'ah (Gayathri, 2019). Islamic sustainable finance is a subcategory of Islamic finance established on the principles of sustainability and responsible investing. It is an approach to managing financial resources that balance economic, social, and environmental objectives (Rai et al., 2019). This concept is based on Shari'ah law principles prohibiting usury, gambling, and speculative activities. Islamic sustainable finance includes products and services that comply with Shari'ah law and promote environmental and social sustainability (Hassan et al., 2017). This can include investments in renewable energy, sustainable agriculture, and environmentally-friendly infrastructure projects, as well as providing financing for small businesses and low-income communities. Islamic sustainable finance aims to provide a balanced approach to investing that prioritizes long-term sustainability over short-term gains. It also seeks to promote social and environmental responsibility among financial institutions and investors by considering their activities' impact on society and the environment (Muhammad, 2018).

Analysis

Inclusivity of Islamic Social Finance

Mumpreneurs, similar to micro-entrepreneurs, face specific challenges in getting their businesses started. This may include lack of financial access as well as an apparent lack of financial knowledge and awareness. According to Fazli Sabri and Tze Juen (2014), microbusiness owners confront several financial obstacles, including a shortage of money, difficulty obtaining financing, and difficulty making decisions that are financially sound for their industry. This is rather appalling, as it might result

to loss of entrepreneurship idea and motivation. There is a need from the Islamic finance industry to assist those Muslim mumpreneurs, as their strong willingness to contribute to the family and society is undeniable. This study posits that the Islamic social finance role through zakat, waqf, and sadaqah can be important in educating the mumpreneurs on financial literacy. Through the Islamic social finance fund, a portion of the fund may be used to educate the mumpreneur to conduct a financial programme or to provide an access to financing to the mothers as a start-up capital for their business. In this regard, scholars such as Kahf and Ahmed proposed to construct microfinance institutions based on zakat, awqaf, and Sadaqat, with the proceeds utilized to fund micro-enterprises at subsidized rates (Ahmed, 2007).

A META Analysis of Islamic Sustainable Finance and Islamic Social Finance

Islamic sustainable finance and social finance are both based on Islamic finance principles, which include avoiding interest-based transactions and promoting ethical and responsible investing. Both also aim to promote positive social and environmental impact through financial instruments and strategies that align with Islamic ethical principles. Islamic sustainable finance focuses on promoting sustainable economic development and environmental conservation, using funds for investments in renewable energy and sustainable agriculture projects (Gayathri, 2019). This can involve using profit-and-loss sharing systems and prohibiting speculative ventures. Furthermore, Islamic banking and financial institutions are urged to engage in initiatives that are ecologically clean, socially ethical, and commercially viable. This is in line with Islamic law principles (Shari'ah), which emphasize preserving natural resources and protecting the environment (Muhammad, 2018). Islamic social finance, on the other hand, focuses on promoting social and economic development for underserved and marginalized communities by investing in education, healthcare, and affordable housing projects, which can include the use of microfinance, zakat, and waqf funds to support social welfare programs and the development of financial products that meet the needs of low-income households (Arsyianti & Kassim, 2016). The aim is to alleviate poverty and social inequalities and to promote financial inclusion and access to essential services. Providing access to finance for those not served by traditional banking systems helps reduce poverty, improve living standards, and promote economic development. Thus, Islamic sustainable finance and social finance are based on the principles of Islamic finance and aim to promote positive social and environmental impact through responsible investing. Islamic sustainable finance aims to protect the environment, promote sustainable economic development, and align financial practices with the principles of Islamic law (Shari'ah). In contrast, Islamic social finance aims to alleviate poverty and social inequalities, promote financial inclusion and access to essential services, and align financial practices with Islamic law (Shari'ah) principles. Both are interrelated, as Islamic sustainable finance could contribute to poverty reduction and social development, and Islamic social finance could also contribute to environmental protection and sustainable development (Odeduntan & Oni, 2016).

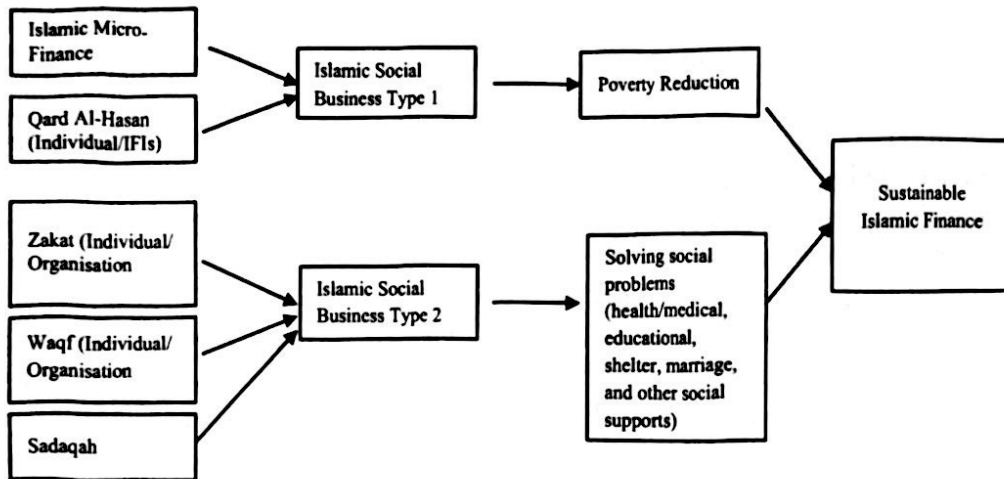


Figure 17.1 Islamic Social Business for Mumpreneurs

Source: modified from Nusrate Aziz and Mohamad (2016)

Based on the Islamic social business model shown in Figure 17.1, it is proposed that any Islamic social finance institutions, be it Islamic banks or Islamic financial institutions to establish the Islamic Social Business Type 2. The fund from this business Type 2 can be utilized to assist the Muslim mumpreneur to leverage their business plan while improving their knowledge and awareness on finance. In this regard, the Islamic financial institutions should play an active role in approaching these mothers, as they believed that financial institutions are not for the poor. It is believed that with an optimum access to resources and unlimited facilities, entrepreneurs such as women entrepreneurs will be more productive and add more value to the society (Salarzahi et al., 2010). On top that, social economic equality is assessable by implementing the Islamic sustainable finance. Such promising framework together with the SDGs policy will further encourage the mumpreneur to be successful. Accessing these potential sources of funding can also help mumpreneurs realize their goals of running profitable businesses while staying at home to raise their children. Mumpreneurs will be motivated to improve their financial knowledge as they strive to ensure the sustainability of their businesses.

Impact of Mumpreneur through Islamic Finance on Islamic Sustainable Financial and SDGs

Islamic sustainable finance and the accomplishment of the Sustainable Development Goals (SDGs) of the United Nations can benefit from empowering mumpreneurs through Islamic financing in a number of ways:

- Supporting sustainable businesses: by providing access to finance and promoting responsible investing, Islamic finance can help mumpreneurs sustainably grow their businesses. This can include investments in environmentally-friendly

and socially-responsible projects, contributing to achieving SDGs, such as clean energy, sustainable cities and communities, and responsible consumption and production.

- **Promoting economic development:** by providing access to finance, Islamic finance can help mumpreneurs grow their businesses and contribute to economic development in their communities. This can lead to increased income and employment opportunities, contributing to achieving SDGs, such as no poverty, decent work and economic growth, and reduced inequalities.
- **Empowering women:** mumpreneurs often face additional barriers to accessing finance and building their businesses. By providing access to finance and promoting responsible investing, Islamic finance can help empower women and contribute to SDG 5, which aims to achieve gender equality and empower all women and girls.
- **Financial inclusion:** Islamic finance promotes financial inclusion by providing access to finance to those who may be excluded from traditional financial systems. This can benefit women and low-income communities and contribute to SDG 1, which aims to eradicate poverty, and SDG 10, which aims to reduce inequality.
- **Promoting responsible investing:** by promoting responsible investing, Islamic finance can contribute to achieving various SDGs, such as fighting climate change and ensuring sustainable consumption and production.

Islamic Social Finance–Backed Mumpreneur Initiatives in Malaysia

In Malaysia, several Islamic social finance initiatives aim to empower mumpreneurs, such as Tekun Nasional, a government-owned microfinance institution that provides microfinance services to small and medium-sized enterprises (SMEs), including mumpreneurs. It promotes entrepreneurship and economic development, focusing on Bumiputera (indigenous) and women entrepreneurs. Yayasan Usahawan Nasional Berhad (YUNB): this organization is a government-linked company that provides microfinance services to SMEs, including mumpreneurs. It aims to promote entrepreneurship and economic development among women entrepreneurs. Amanah Ikhtiar Malaysia (AIM) is a government-owned microfinance institution that provides microfinance services to low-income households, including mumpreneurs. It aims to promote economic development and poverty alleviation, focusing on women entrepreneurs. Other initiatives are Tabung Ekonomi Kumpulan Usaha Niaga (TEKUN), which provides microfinance services to small and medium-sized enterprises (SMEs), including mumpreneurs, and Yayasan Pembangunan Ekonomi Islam (YAPEIM) with the same target and objectives. These institutions provide microfinance services to mumpreneurs, such as loans, training, and business development services. They also follow the principles of Islamic finance, such as no interest in loans, which align with the values of the Muslim community.

These initiatives have positively impacted Islamic sustainable finance in Malaysia by promoting responsible investing: providing access to finance and promoting responsible investing can help mumpreneurs sustainably grow their businesses.

In addition, encouraging sustainable business practices by providing training and business development services can help mumpreneurs adopt sustainable business practices, such as reducing energy consumption and waste, which can contribute to protecting the environment, encouraging financial inclusion that align with the principles of Islamic finance and increase awareness of its potential as a tool for sustainable development. Although some challenges still hinder the initiative, such as lack of awareness, limited access to finance, dearth of business development support, and limited enforcement of regulations. However, to increase awareness of Islamic social finance institutions and their services among mumpreneurs and potential clients, Islamic social finance institutions should provide business development support and training to mumpreneurs, such as business planning and management skills training, regulations, and enforcement related to Islamic social finance. To improve the environment in Malaysia for mumpreneurs to access financing as well as the functioning of Islamic social finance institutions and to address the issues preventing mumpreneurs supported by Islamic social finance in Malaysia, this skills development should be enhanced.

Conclusion

Islamic social finance can empower mumpreneurs by providing them with access to finance that is compliant with Shari'ah law, promoting responsible and ethical investing, promoting economic development, and providing educational and training opportunities for them to improve their financial literacy and management skills. Empowering mumpreneurs through Islamic finance can also positively impact Islamic sustainable finance and the achievement of the United Nations' Sustainable Development Goals (SDGs) by supporting sustainable businesses, promoting economic development, empowering women, promoting financial inclusion, and promoting responsible investing. In Malaysia, several Islamic social finance initiatives aim to empower mumpreneurs, such as Tekun Nasional, Yayasan Usahawan Nasional Berhad (YUNB), Amanah Ikhtiar Malaysia (AIM), Tabung Ekonomi Kumpulan Usaha Niaga (TEKUN), and Yayasan Pembangunan Ekonomi Islam (YAPEIM) which provide microfinance services, training, and business development services. These institutions also follow the principles of Islamic finance, such as no interest in the loans, which align with the values of the Muslim community. These Islamic social finance initiatives have had a positive impact on Islamic sustainable finance in Malaysia by promoting responsible investing, encouraging sustainable business practices, promoting economic development, encouraging financial inclusion, and aligning with the principles of Islamic finance.

However, there are also several challenges hindering Islamic social finance-backed mumpreneurs in Malaysia, such as lack of awareness, limited access to finance, lack of business development support, limited market opportunities, limited understanding of Islamic finance, limited enforcement of regulations, and limited data and research. To combat these challenges and propose Islamic sustainable finance through the empowerment of mumpreneur, researchers have made several suggestions and recommendations such as increasing awareness, improving access

to finance, providing business development support, creating market opportunities, educating about Islamic finance, enhancing regulations and enforcement, conducting research, and promoting sustainable development.

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