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A SYNTHESIS OF THE ISLAMIC SOCIAL FINANCE FOR SUSTAINABLE ISLAMIC SOCIAL ENTERPRISE: A FOUR FACTOR OF PRODUCTION FRAME

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ABSTRACT: The abstract is to be in fully-justified text as it is here, below the author information. Use the word "ABSTRACT" as the title, in 10-point Times New Roman, boldface type, centered relative to the column, capitalized. The abstract is to be in 10-point, single-spaced type, and may be up to 3 in. (18 picas or 7.62 cm) long. Leave two blank lines after the abstract, and then begin the main text. All manuscripts must be in English. The Islamic Social Finance (ISF) of Zakat, Sodaqah and Waqaf are as old as the system of Islam and represent formidable social economic structures that redistribute wealth to reducing poverty in the society. These Islamic social finance institutions have for a long time been treated independently, which has thus limited their strengths to widen the scope competitively, evolve adjustable prototypes and sustainable Islamic Social Enterprises (ISE) that can reduce the incidence of poverty in the Muslims' societies to the barest minimum. In line with the objective of the Law Giver (Maqasid Shari'ah), this study seeks to stretch the boundary of Islamic social finance with a view to expanding the reach of these institutions taking contemporary needs of the people and societies into consideration. Specifically, this paper proposes a model that operationalizes the Islamic Social Finance institutions using the microeconomics Four Factors of Production (FFP) structures to upscale the practices of Islamic Social Enterprises within the Muslim countries and beyond.

KEYWORDS: Islamic Social Finance, Islamic Social Enterprises, Four Factors of Production, Financial Inclusion and Maqasid Shari'ah

I. INTRODUCTION

The material wealth of any nation is a direct function of its productive capacity (the total goods and services its citizens can create at any point in time). The productive capacity is anchored on the efficient utilization of the nation's real assets which relies on tinkering the basic microeconomic principles of the four factors of production, namely: land, labour, capital and entrepreneurial ability. The small and medium business sector of the society is regarded as the closest business unit to the people and contribute significantly to the Gross Domestic Product (GDP) of most developed and developing nations (Aris, 2007; Musa & Chinniah, 2016). (Aris, 2007; Bonito & Pais, 2018) further noted that the Small Medium Enterprises (SMEs) are the lifeline of nation's economic growth that spurs industrial development as it represents more than 90% of companies globally and offers over 65% active jobs. This is evident in some developed economies as the percentage contribution of SMEs to Gross Domestic Product (GDP)/total value-added ranges from 60.0 percent in China, 57.0 percent in Germany, 55.3 percent in Japan and 50.0 percent in Korea, compared to 47.3 percent attained by Malaysia (Bank Negara Malaysia, 2003).

Given this huge contribution of the SMEs to GDP of most of the developed economies, adequate governance that continually supports the growth and responsiveness of the institutional framework are regularly finetuned to ensure proper monitoring and sustainable development of the sector. For example, the International Accounting Standard Board (IASB) issued the International Financial reporting Standards (IFRS) in 2009 to ensure harmonization of SMEs reporting (Bonito & Pais, 2018). Notwithstanding the sound regulations, monitoring and effective implementation of the laid down procedures and processes, the third sector still contends with the herculean market challenge of access to finance which has restricted market entry to many aspiring entrepreneurs especially in the less developed countries (LDCs). Tung and Aycan (2008) reiterated that restricted access to finance and investment opportunities stifled the growth of many SME's and in some cases resulted in high failure rates. In the United States, for most of the incubation period ranging from the first three years of operation, 80% of the SME's experienced failures resulting from funding challenges, (Pandya, 2012). In the less developed economies, Mahmood (2008) noted the that absence of good governance that could provide enabling environment for SME's monitoring and regulation is the bane in those climes. Coincidentally, majority of the Muslim countries are among the less developed economies. This has thus, reduced the extent to which the SME's could permeate the market to achieve financial inclusiveness in those countries widening their social and financial inequalities.

Responding proactively to stem the tides of failures in the SME's and create more robust and sustainable market for start-up firms, the concept of social enterprise regarded as the third business sector has been gaining prominence in various parts of the world. Though, the definition of social enterprise as a concept is still at large and a subject of lingering debate in the social science literature, (Galera & Borzaga, 2009) noted that its central feature is to solve problems in order to create and sustain social values. Thus, (Aris, 2007; Galera & Borzaga, 2009; Johnson, 2000; Roper & Cheney, 2006) explained that the social enterprise concept covers a wide spectrum of activities and initiatives that are not necessarily confined to production nor being time invariant, but involve social initiatives within a profit seeking businesses, institutionalized entities vividly pursuing a social goal, relations, and practices that improve social welfares, trending entrepreneurial flavors in non-profit organizations up to ventures developed within the public sector.

The welfarist nature of the social enterprise industry is more in congruence with the underlining principles of Islamic Social Finance which comprises Zakat, Awqaf and Microfinance that is naturally inclined to solving social menaces such as poverty alleviation and ensuring financial inclusion (Islamic Social Finance Report, 2015). However, the Islamic Social Enterprise remain untapped in most Muslim countries Mohiuddin (2017), despite the fact that Islam considers the development of the entrepreneurial wits of the society as an integral part of national economic progress and development (Alam, Bhuiyan, & Alam, 2017). Legal and regulatory framework, Initial capital outlay, technical know-how and entrepreneurial spirit are some of the identified factors responsible for the poor state of social enterprise in Muslim countries (Ardic, Mylenko, & Saltane, 2011; Mahmood, 2008). In fact, Johnsen (2015) retorted that their investigation indicated that it will take a long time before social enterprise takes a normal course in the GCC as the concept is less understood in the region. Additionally, Kamaruddin and MdAuzair (2019), noted that the constituents of ISE rely extensively on donations, and the teeming poor population of the Muslim society exerts extreme pressure on the collections of ISE. More so, there are administrative costs attached to its management which further limits the activities of the ISE. At this juncture, it is important to reflect on the concept of SE in a base of the pyramid (BoP) environment as presented in the study of (Panum, Hansen, & Davy, 2018). They documented that SE is illusive in environment where the economic strength of majority of its populace resides in the base of the pyramid (BoP). This is because it is practically challenging to separate social and commercial missions in a BoP environment. This compounds the social economic challenges that face the Muslim communities. That notwithstanding, since one of the crusts of the Maqasid shariah is to reduce the incidence of poverty to the barest minimum, Kamaruddin and MdAuzair (2019) emphasized the importance of involvement in Shari'ah compliant trading activities to ensure the sustainability of ISE. This will ensure the moral identity, sanctity and ethical considerations as enshrined in the underlining philosophy of business engagements in Islam are projected and upheld. In furtherance to the latter, Muhamed, Kamaruddin, Nasrudin, and Syazwani (2018) espoused that ISE is value laden, and thus derives its inspiration from the concepts of Al-Falah (success in this world and hereafter), Maslahah (Public Interest), and Maqasid Shari'ah (Objective of the Law-Giver). This provides the pedestal for defining and differentiating the value proposition of ISE from SE. This does not discount the fact that there are areas of common interests given that both ISE and SE work primarily to provide benefits to the society. Therefore, there exists greater socio-economic incentives to explore the fundamental institutional instruments in use by SE that have contributed to their burgeoning growth and development and by interpolation their cosmic symbiotic fusion into ISE with careful consideration of the public benefits without neglect to the objective of the Law-Giver since there are explicit convergence in the objectives.

In view of the fact that well-structured social enterprise institutions generate greater benefits to the society which include dislodging the scourge of poverty amongst the poorest of the poor which is in line with the Maqasid Shari'ah, this study proposes an operational synchronization of the Islamic Social Finance variables using the microeconomics four factor of production principles to optimize the workings of the Islamic Social Enterprise principally in the Muslim communities.

The structure of the paper is as follows: the background to the study is established by exploring how community development interacts with ISE within the confines of Maqasid Shari'ah. Secondly, the elements of Islamic Social Finance are elaborated, while social enterprise as a concept was explained thereafter. Fourth, the need for Islamic Social Enterprise was highlighted. It was followed by the Four Factors of Production model aimed at operationalizing the ISE. In conclusion, implications of the ISE in increasing financial inclusion are discussed.

1.1 Community development and Maqasid Shariah

A community can be termed as being physical where it consists a group of people who interact amongst themselves based on certain vested interests and live in a particular geographic space. On the other hand, it is virtual where a group of people who share similar social, economic, political, religious and other interests converge irrespective of locations, (Phillips & Pittman, 2008). Development becomes attainable when these diverse but interwoven interests are properly harnessed to the benefits of all and sundry. Alam Choudhury and Harahap (2009) emphasized that community development should not be seen solely in giant structures and robust economic policies devoid of ethics.

(Kamali, 2003; Vejzagic & Smolo, 2011) explained Maqasid Shari'ah to encompass the respected view of Islam in its entirety, and not a segregated position or opinion as Islam is an absolute and integrated way of life and its purpose includes the complete life, personal and public; in this world and the next. Thus, relating community development to the tawhidic epistemology, Alam Choudhury and Harahap (2009) explicated the unity of divine laws which established divergent forms of interrelationships between community, business and microenterprise, economy and the society. The unity of knowledge is brought to useful bearing when the diverse skills of human society culminate sustainably through the creative evolution of possibilities geared by interactive, integrative, and value laden evolutionary learning processes. Ensuring sustainable community development requires concerted efforts in the areas of community growth modification to a harmonization of economic, environmental and social needs (Wiewel, Teitz, & Giloth, 1993). For example, in the United States alone, Benjamin and Rubin (2007), noted that there exist more than 700 certified community development financial institutions (CDFIs) which work to cater for the financial inclusion of the low-income communities and individuals.

Hyman (2002) alluded that society continues to grow both vertically and horizontally forging interactions and debates between unresolved challenges on the one hand, and the quest for alternative and better solutions on the other hand, with a view to forming new lines of reasoning or perception that promotes progress of the community. Thus, considering that current economic framework has its underlying principles on conventional philosophy and has developed diverse human and material resources in supporting those structure to endure changing realities. It becomes imperative to ensure continual engagement that provides platform to relevantize, within the existing status quo, the latent potentials and benefits, the Maqasid alternative portend for the society in general. This will bring the contemporariness of the Shari'ah to the fore, such that its values are not relegated to the background as not being alert to modern day realities. Abozaid and Dusuki (2007) noted that Maqasid al-Shari`ah manifests the holistic view of Islam which has to be looked at as a whole not in parts as Islam is a complete and integrated code of life and its goal encompasses the whole life, individual and society, both in this world and beyond. Thus, the Islamic social finance constituents which harbors great welfare packages aimed at saving individuals and society from destitution needs to be better positioned and utilized such that its contributions are taken as valuable outputs and quid pro quo for greater economic and social goals.

II. LITERATURE REVIEW

2.0 Islamic Social Finance

The Islamic Social Finance (Zakat, Sodaqah and Waqf) are as old as the system of Islam and represent formidable social economic structures that redistribute wealth to reducing poverty in the society. These institutions have for a long time been treated independently, which has thus limited their competitive strengths to widening their scope, evolve adjustable prototypes and sustainable Islamic Social Enterprises that can reduce the incidence of poverty in the society. The Islamic Social Finance (ISF) represents the varying institutions under the Islamic umbrella aimed at protecting the social welfare as well as individual interest to stimulate economic activities for all and sundry and improve public happiness. Given the symbiosis relationship that exist between the 'discovery' of the economy and the 'discovery' of the society, the ISF predisposes a welfaristic state in line with the promotion of public benefit (Maslahah) that are in congruence with Maqasid Shari'ah (Tripp, 2006). In this study, Zakat, Awqaf and Microfinance as components of ISF are discussed as a platform for raising the tempo of ISE in the Muslim countries.

2.1 Zakat

Zakat is one of the five pillars of Islam and thus an obligatory responsibility to be carried out by Muslims that fulfil the criteria set by Allah, the Most-High. It involves deducting a certain fixed proportion (2.5 percent) on yearly basis called Nisab of the financial asset of matured Muslims for the purpose of assisting those in need referred to as the 8 Asnaf as specified by the Quranic injunction of chapter 9 verse 60. Zakat is paid once a year and its collection has been voluntary and decentralized, whereas the collection proceeds are distributed to the needy in the society to uplift their social and economic status (Salim, 2008).

Zakat represents a viable tool for the redistribution of income and wealth that guarantee fair share of good living standard for everyone within the community (Lewis, 2001). Ab Rahman, Alias, and Omar (2012) explained that effective management of Zakat collection could complement government policies on poverty eradication in Malaysia. Buttressing the above position, (Yusoff, 2006) explained that Zakat could act as a countercyclical fiscal policy that could complement taxation and government expenditure as stabilization policy tools. In line with such disposition, Salim (2008) noted that the management of Zakat may witness some structural and institutional changes given the enactment of law to monitor and regulate the management of Zakat in Indonesia. In Malaysia, Ab Rahman et al. (2012) also

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identified that Zakat management has undergone considerable improvements ranging from the deployment of adequate technology and infrastructure, operational transparency and governance, development of human capital and quality delivery system. These developments have the capacity to improve governance, boost payers' confidence and increase Zakat collections and its disbursements. Other studies opined that it could also pressure the management of Zakat to lean towards centralization as opposed to the existing order and could become an annex to the existing tax system losing focus of its spiritual inclination (Salim, 2008).

Ibrahim, et. al., (2017) however, implored that though Zakat is a social-spiritual emblem and an economic pillar of Islam, the religious aspect is more propagated than its economic imports. In Q59 v 7, Allah (S.W.T) emphasized that wealth must not necessarily circulate among the wealthy ones alone but redistributed to benefit the poor and the needy. As a corollary, this study proposes a framework whereby a portion of the Zakat collections, notably the portions meant for the needy and those on the way of Allah are channeled towards improving the competency and social class of the recipients via Islamic social enterprise engagements. This approach will be expanciated further in the model.

2.2 Awqaf

Awqaf, the plural form of waqf is an Islamic concept which literally means pious foundation owned by private individuals endowed to cater for social charitable cause(s) in perpetuity, whereas the revenue derived therefrom is ploughed back into the foundation to ensure its sustainability. Cizakca (1997) noted that Waqf is one the greatest achievement bequeathed by the Islamic civilization to the world as there still exist priceless and enviable architectural works, as well as countless number of essential social services such as hospitals, educations institutions, mosques, etc., that were financed and maintained through the Waqf institutions. Kuran (2001) also noted that the provision of public goods was traditionally private initiatives as opposed to the current norm where a central government coordinate the provision of such. Notably, the Waqf system was deployed as a veritable tool in extending public goods throughout the Middle East in a decentralized manner, (Kuran, 2001). In fact, Iman and Mohammad (2017) further highlighted that the Western world also acknowledged the Waqf system as a socio-economic problem solver. Despite the substantial contribution of the Awqaf system in developing the society in a socially sustainable manner, Cizakca (1997) recounted that it faced deliberate brutal annihilation policies by the colonialists in the 19th and 20th century.

In contrast, Kuran (2001) claimed that it was a self- inflicted perfidy as the donor of the Awqaf used the foundation as shield for tax evasion and enjoying elevated social status which robbed the institution of functional governance. Nonetheless, countries such as Sudan, Kuwait, Malaysia and Indonesia have taken giant strides in revamping the Waqf concept in their various climes by providing tools for community-based finance for the establishment of new Awqaf (Kahf, 2003; Mohsin et al., 2016). Experience has however shown that government alone cannot serve the interest of the public in its entirety as there are always competing forces against the social needs of the public especially under the capitalist framework (Salarzehi, Armesh, & Nikbin, 2010).

However, Obaidullah (2016) identified that preservation of waqf benefit for the potential beneficiaries, over the preservation of assets, requires judicious management of the assets and efficient allocation of resources for investment purposes over. Such technical efficiency may lead to further development expanding the benefits accruing to the intended beneficiaries. This gives credence to the fact that waqf is naturally well conceptualized as business model as well as social entrepreneurship (Raimi, Patel, & Adelopo, 2014; Salarzehi et al., 2010; Zainol, Daud, Norhayate, Abdullah, & Yaacob, 2014)

2.3 Islamic Microfinance

Islamic Microfinance is the alternative to the interest bearing conventional micro-finance offered to small and medium enterprises (SME's) to raise debt or equity-based fund to carry on with their business transactions. Obaidullah and Khan (2008) defines it as a powerful financial mechanism that offers financing to the entrepreneurial low- income class of the society to enhance their financial inclusion. The low-income group entrepreneurs are referred to as being highly risky and unbankable, and are as a result rejected by the mainstream financial services provider to enhance the SME's, (Abdul Samad, 2014; Hassan, 2015). Islamic Microfinance uses various Shari'ah compliant contracts such as Murabahah, qard-hassan, Ijarah, Salam, etc., to broker debt-based Microfinance initiatives, while Mudarabah and Musharakah are generally employed in Islamic microfinance equity arrangement.

Islamic microfinance like its conventional counterpart, faces the age-long challenge of finance gap due majorly to entry barrier to mega fundraising institutions such as the capital market. The finance gap is due generally to the high rate of demand for financing from SME's and low willingness of the financial institutions to supply the financing at the existing market rate, (Deakins & Freel, 2009). ABDUL RAHMAN (2007), capitalizing on the inherent moral and ethical attributes of the Islamic financing alternatives, argued for its relevance in ensuring socio-economic development through bridging the financing gap of the micro-entrepreneurs. Hassan (2015) also

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explained that the concept of corporate social responsibility is geared towards ensuring the common goods of the society based on the underlying philosophy of social justice (al adl alijtimahi) and benevolence (al ihsan) of Islam.

Studies have recorded successes in various parts of the Muslim societies on the efficacy of the Islamic Microfinance. In India, Hassan (2014) reported that through the joint efforts of Microfinance Promotion Institutions (MPIs) and the Islamic Welfare Society (IWS), the rural credit delivery was expanded through the expansion of the participants "Bila Sudi Qardh" scheme under their Informal Islamic investment portfolio. The scheme used social capital instead of physical capital as collateral, which worked well in repayment of the non-interest financing and improved the bond of brotherhood amongst the people. Erstwhile poor farmers became upgraded financially through Islamic microfinancing schemes that were not debt laden. The Baitul Maal Wa Tamwil (BMT) in Indonesia operates two scheme of financing sources (social ministry) and private financing (national and international donor) which it uses to build specific products and empowerment program for the poor people (Wulandari & Kassim, 2016). Presently, BMT has 382 outlets in Indonesia providing the dual functions of collecting Zakah, Sodaqah and Infaq donations and giving it out to the poor in form of financing. In Malaysia, Rozzani, Rahman, Mohamed, and Yusuf (2015), moved the Islamic Microfinance discourse a step ahead by proposing a model that infuses the use of community currency such as the Local Exchange Trading System (LETS) in the Islamic Microfinancing approach. Using the community-based approach, the study noted will not only reduced the incidence of poverty but ensure grassroot financial inclusion that will promote national development.

III. SOCIAL ENTERPRISE

The economic dynamics of nations is going through unprecedented global transformation that require formal and informal adjustments of existing norms and in some cases, a complete overhaul of existing practices due to increased cross-border movement of people, goods, capital and ideas. This recent flow of people and properties is a direct consequence of the 2008 economic recession of which third world emerging markets bear the greatest economic and developmental challenges, (Dau, Moore & Soto, 2016, p. 20). Thus, the new settlements created, and the wealth displacement caused by the economic crisis especially to the emerging economies, are at no time more in need of social capital to nurture and grow their ideas to rejuvenate their economies from devastation than now, as developed economies have exploited market liberalization policies to bail out their economies. Thus, the need for social enterprise.

Social enterprises are however molded by existing or new specific legal form or combination both, (Austin, Stevenson, & Wei-Skillern, 2003). Hassan (2014) noted that social intermediation is an investment meant for the development of human resource as well as institutionalized financing to financially excluded groups of the society. Financial regulatory authorities, private and public corporations, as well as individuals are exploring opportunities and at the same time mitigations for unsavory risk exposure. As highlighted above, significant of the challenges of the microfinance scheme are the collateralized term and the compounding interest elements attached to the access to capital for small start-ups which had caused peril to the cashflow of many. In the conventional economic space, ways are gradually being paved for the institutionalization of the third sector, generally referred to as the social enterprise to create capital access to widen the societies' entrepreneur base and put their creative ingenuity to productive use that will increase real income generation within the economy and improve the living standards of the vast majority of the people.

However, the definition of social enterprise is in an undefined continuum and yet to be standardized as the understanding of its scope means different things to different people in different circumstances, (Galera & Borzaga, 2009). For example, according to the EMES European Research Network, social enterprise, following the European tradition is interpreted to mean that, "social enterprises are private establishments that operate on not-for-profit basis which provide goods or services that conform to their explicit aim of creating social business values to benefit the community. They dwell on a collective-dynamics involving various types of stakeholders in their governing bodies, placing high value on their autonomy and bearing economic risks that come the way of their activity", (Borzaga & Defourny, 2004). In addition, Fisac and Moreno-Romero (2015) explained that even though the definitional boundaries of social enterprise remain a subject of debate, its fundamental principles which include: undertaking some form of commercial activity to generate income and using same to advance social cause are well defined. Galera and Borzaga (2009) highlighted that an invaluable point of reference in this definition is the delineation it made between social enterprise that engages in entrepreneurial activities and those involved in purely advocacy functions, public institutions, and profit oriented enterprises doing social projects. This is expedient to ensure proper coordination, monitoring and efficient issuance of institutional policies.

Also, in 2002, and in response to the critiques of the earlier definition of social enterprise, the British government, relying on the identification of indicators instead of artificial definition, provide a working

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definition of SE as “a business with primarily social objectives whose surpluses are principally reinvested for that purpose in the business or in the community, rather than being driven by the need to maximize profit for shareholders and owners". This definition puts in proper perspective the prominent characteristics of SE such as: 1- the social aim being pursued, 2- the non-profit distribution constraint, and 3- the assignment of ownership rights and control of power to stakeholders other than investors coupled with an open and participatory governance model, that is apt for institutional governance. This is incongruence with Zahra et al. (2009) which summed up the various assumptions surrounding SE and explained that it involves activities, procedures and processes deployed to identify, define and exploit opportunities in order to improve social wealth of a community via the establishment of new start-ups or managing existing ones in an innovative way. Hence, Greblikaite (2016, p. 83) noted that SE operates on two-legged phenomenon, “entrepreneurship” and “community”. In Australia, Farmer et al. (2016), used relational geography theory which include Spaces of Well-being theory and therapeutic assemblage to explore the impact of social enterprise on community well-being. The study found that it brought about greater benefit to the local via improved social inclusion among the engaged participants and the community. Thus, there has been renewed interest by regulatory authorities to ensure its adequate governance and sustainability considering the contributions of social enterprise entities in improving social, economic and environmental regeneration of the society, (Haugh, 2005). As a result, this burgeoning sector continue to witness transformation that is empowering individual citizens, community entrepreneurs, as well as global initiatives that are expanding opportunities for the transformation of consumers/prosumers into producers to enhance societal value creation.

IV. ISLAMIC SOCIAL ENTERPRISE

Mohiuddin (2017) defines Islamic social enterprise as entrepreneurial engagements which has social mission and comply with the rulings and principles of the Shari’ah which ensure a balance between material and spiritual outcomes. Social enterprise focuses on activities that creates benefits by enhancing capacity development, blocking harm and improving the social wellbeing of the society. This aspect of providing benefits in the interest of the public has strategic connections with Islam and its values are well enshrined in the Shari’ah. Shaykh Ibn Qayyim al-Jawziyah (d. 1350 CE) was cited as saying that ‘the whole of the shari’ is of benefit’ (al-shari’ kuluhu masalih), (Tripp, 2006). Imam Ghazali espousing the concept of public interest (Maslahah Mursalah) noted that it involves propagating and encouraging ideals that foster benefits and prevent harm to the public and are in conformity with Shari’ah rules (Kamali, 2003).

Strategically, they are captured under five essential values, thus: the protection of religion, protection of life, protection of lineage, protection of intellect, and protection of wealth. Preservation of wealth is apt in this regard because the socio-economic responsibility of transforming the resources of the society into goods and services that will encourage exchange, stimulate economic growth and development, and improve the living standard of the people, is a direct function of the society’s wealth. Wealth protection is considered essential because Prophet Muhammad (s.a.w.) was reported to have narrated that “poverty is next to disbelief”. However, in the Islamic doctrine, the preservation of wealth is achieved through the avoidance of Riba in business dealings, which is regarded as the major parameter that differentiate Islamic business operations from conventional ones.

Considering this background, Alam et al. (2017) noted that involving in business activities to avoid destitution is regarded as obligatory (fard kifayah), and social development is considered an integral part of maintaining social values in Islam. History of Islamic society development is replete of social institutional concepts such as Zakat, Waqf, Sodaqah, etc, that have resuscitated and sustained many Islamic societies from the abyss of economic lockdown and social destitution. However, these invaluable concepts have maintained only past glories in majority of Muslim societies and require more concerted theoretical as well as practical re-engineering to meet the demands of current realities. This is evident in the abysmal presence of social enterprises in the Muslim countries especially in the GCC and their representation in the world stage on the subject matter (Johnsen, 2015).

Thus, in line with the submission of Mohiuddin (2017) that there is a urgent need for a roundtable discussion by Islamic scholar and relevant authorities to design modalities to ensure proper understanding of Islamic social enterprise and perpetuate its entrenchment within the Muslim communities, this study highlights the four factor of production frame as relevant model to operationalize the Islamic social enterprise vis-a-vis the Islamic social finance variables.

V. FOUR FACTORS OF PRODUCTION FRAME

The microeconomics concept of the four factors of production brings together four key inputs in the production processes of goods and services (Acemoglu, Laibson, & John). The four factors of production provide mutually benefitting relationship between the households and firms which represent the fulcrum of national economic activities. The factors of production become sources of income generation for the households when they supply some of these factors to the firms (Hubbard, Garnett, Lewis, & O'Brien, 2015). For example, the firms rely on the households to supply them with labour hours which they compensate by paying salaries or wages. On the other hand, the firms sell the produced goods and services to the households to earn profits after deducting their overheads. The four factors of production frame in relation to the Islamic Social Finance is consistent with the "born globals" and the use of interfirm resources to explicate rapid and organic entrepreneurship growth across borders and divides, (Callaway, 2004). This is contrary to the general notion that nurturing and transforming firms to become large multinational corporations (MNCs) must necessarily evolve through a long tedious step-by-step process. In addition, Spencer (2003) explained that the success of the interfirm entrepreneurship growth is hinged on a closely knitted arrangement and network that is underscore by an enduring underlying philosophy, generally accepted among the community of participants as industry best practices or standards. In ISF, this is akin to the Shari'ah standards guiding the fundamental concepts and providing operational principles from time to time to meet the dynamic needs of the industry. Generally, these inputs include land, labour, capital and entrepreneurship.

5.1 Land: this is one of the natural resources regarded as gift of nature managed by relevant stakeholders via various means such as ascendancy, exchange, gifts, purchase, etc., used in the production of goods and services. Land can be owned either privately or publicly subject to the law of the society.

5.2 Labour: is composed of all types of work engagement where an individual or group of people offer their expertise to an enterprise in return for wages or salaries. The outcome of these efforts is a product or service that can be exchanged for money by the firm. Thus, all firms whether big, medium or small requires the services of laborers or staff to be engaged in the production process of their goods and services. DeFilippis and Saegert (2007) explained that, compared to other commodities, labour is a peculiar commodity that replaces itself when unused, but expected to generate more labour to be bought in the economy in the future, i.e., production of labour does not operate in isolation. For example, a worker after certain period of work engagement will naturally succumb to fatigue necessitating eating, sleeping and maintenance of health to encourage future work.

5.3 Capital: This refers to physical assets such as money, computers and machinery that are required generally at the initial stage to set up the production of goods and services. The reward for capital provision is profit. Arguably, capital is regarded as the most scarce resource among the factors of production. Kungwansupaphan and Leihaothabam (2016) noted that lack of access to capital constitute the major impediment to entrepreneurs particularly women in developing economies. The market for capital restricts or in many circumstances, deny financial access to low-income and minority individuals, small enterprises and residents of poor communities that are in need of capital to grow their businesses (Green & Haines, 2015).

5.4 Entrepreneurship: is the process of coordinating the other factors of production, namely land, labour and capital to produce the targeted goods and services and reward the factors appropriately. Kungwansupaphan and Leihaothabam (2016) views entrepreneurship as the process of transforming resources into valuable goods and services that result into multiple wealth creation. Considering its significant contribution to economic growth and bottom-up wealth distribution inclination, it has become a phenomenon that continue to attract the interest of various stakeholders around the world to unravel how best to tap and adjust the concept to fit the uses of different communities (Fuentelsaz, González, & Maicas, 2018). More than a decade ago, Baumol (1996) argued in favor of a more granular application of the entrepreneurship ideals due to regional or country specificities. In support of this, (Hutzschenreuter, Kleindienst, & Lange, 2016; Peng, Sun, Pinkham, & Chen, 2009) clamoured for a fine grained analysis that integrates formal and informal institutions giving consideration to the complex, multi-dimensional and potential interdependencies that exist among them.

The social enterprise concept like any other businesses leverages on this framework to perform their business functions. The Islamic social enterprise however can utilize the social finance already in existence in Islam to further entrench social enterprises in the Muslim communities. The two-tiered attributes of SE enunciated by Greblikaite (2016, p. 83), highlighted that the first part, "entrepreneurship" has to do with organization which operates business activities with the mindset of taking the burden of the market risk, and the second part, "community" relates to the use of the community's social capital on one hand, and on the other, operates on a mission to improve the financial inclusion within the community through professional activity engagements. Embedded in the two attributes are challenges of adequate financing and human resource personnel.

Due to their small size and exposure, SE faces herculean task accessing financing from traditional financing institutions which limits their growth potentials and capacity of their human resource. Greblikaite (2016, p. 83), further noted that due to their social nature, SE enjoys little or no support from traditional financing institutions which provide veritable opportunities for the Islamic Social Finance to build the Islamic Social Enterprise.

This study highlights the proposed framework for the Islamic social enterprise below:

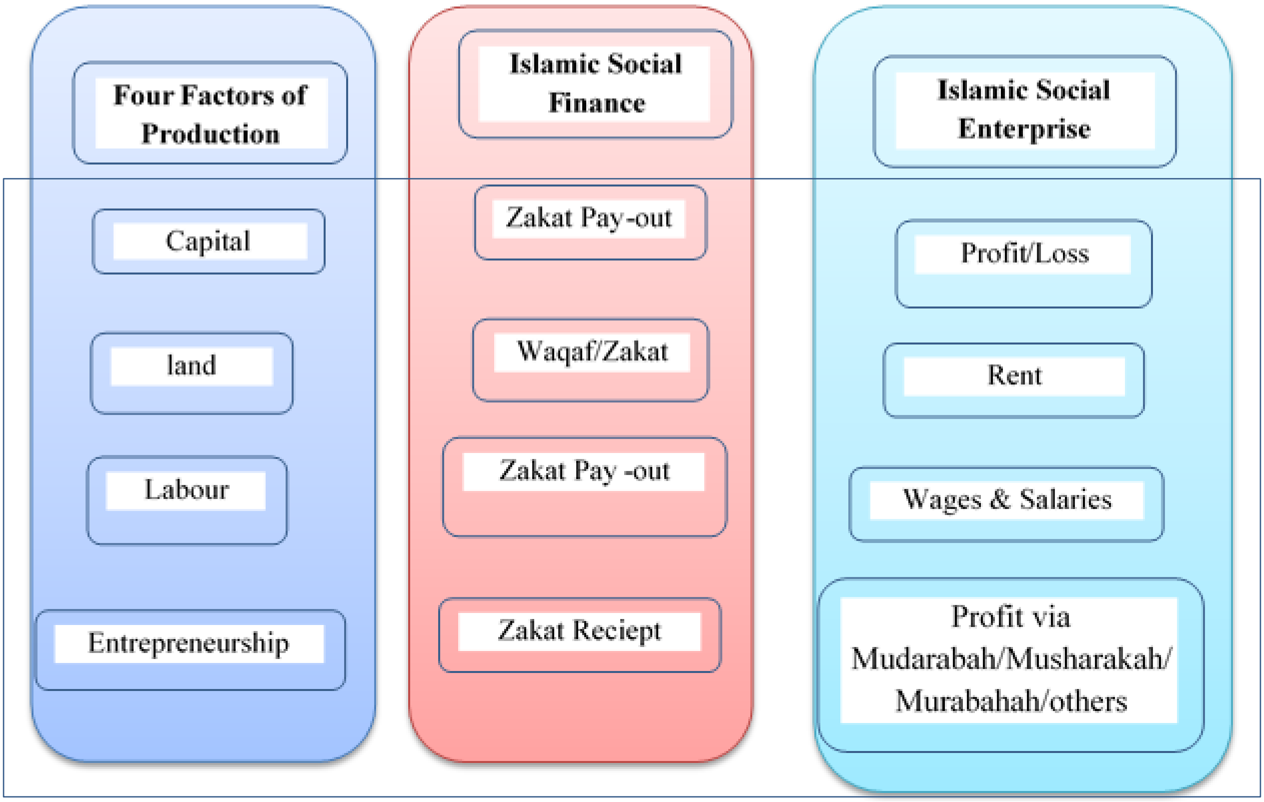

Figure 5.1: The proposed Islamic Social Enterprise framework

The model above provides a conceptual framework to operationalize the Islamic social enterprise using the four factors of production. Beginning with the capital which is the major challenge that most business ideas face including start-ups. The capital to set up a social business ventures is more of a constraint because of the underlying mission of the business to improve social values and not majorly profit motive. This FFP-ISF framework proposes that some portion of the Zakat collections especially the part meant for recipients regarded as "fisebililllah" on the part of Allah, should be earmarked as capital for needy start up projects with social mission. This should be managed under the baitul-mal where the baitul-mal enters into an Islamic contract that befits the business contractual arrangement with the social enterprise. For example, if a contract of Mudarabah is favoured, the baitul-mal will become the provider of capital (Rab-ul-mal) and the social enterprise will become manager of the funds. In the event that the outcome of the business relationship results in profit, it shall be shared between the provider of the fund and the manager in an agreed ratio. However, if lose arises, the provider of capital bears it all, after it must have been ascertained that it was not due to negligence and lack of due diligence on the part of the mudarib.

If they choose to enter into Musharakah contract, the baitul-mal will have the opportunity to become equity holder in the business of the social enterprise which afford them the capacity to not only share in the profit with the enterprise but also board and management representation. In Musharakah contract, the baitul mal provides part of the capital and share profit or loss in agreed ratio with other equity providers. On the other hand, the baitul zakat may contract a social enterprise on the basis of wakalah, where the baitul zakat plays the role of the principal (muwakkil) and the social enterprise acts as agent (wakil). The principal pays the agent a certain specified fee to carry on the business of the social enterprise. The profit is all due to the principal except where there is a performance clause due to the agent if they meet an earlier agreed target, and same is true for losses incurred.

It is important to note that irrespective of the contractual model embarked upon, if loses arise in propagating a social enterprise, the capital ab initio was derived from accumulated excess fund (zakat) from the community pool. Thus, even though there might have been financial losses, there would have been repository of knowledge gained in adding value to the society and guarding against future loss occurrences. Where profit is made, it allows for more capacity improvement which in turn reduces poverty and increase the standard of living which is the objective of the Shari'ah.

Secondly, land, which may either be in the form of office spaces or building is one of the major cost considerations that may hinder the setting up a social enterprise. The concept of waqf presents a golden opportunity to be harnessed by Muslim social entrepreneurs. The Waqf administrator may develop a lot of waqf building into office spaces that will accommodate existing and intending Muslim social enterprise and collects rents from them to sustain the waqf. For example, the Waqf administrator may enroll a group of indigent people in a tailoring training, purchase set of tailoring equipment in conjunction with a baitul zakat and engage them as tailors in the waqf office outlet dedicated for such. Rents generated from such activities shall be used to defray the cost of maintaining the building and paying the salaries of the erstwhile indigent people. By this approach, the waqf properties will be put to more productive uses and the indigent trainees will become self-sufficient and entrepreneurs from the support provided by the Islamic social finance outlets. Mars (2014), noted that the American land grant college and university system is a typical example in question of a land scheme that was employed to disrupt the dominating elitist education system to a more inclusive one needed to meet and advance the pressing economic and social needs of the United States.

The third part is the labour. The reward for labour which comes in the form of salaries or wages represent overhead any enterprise must prepare for in their cashflow summary to ensure their smooth running. It is a recurring expenditure that may consume the finances of the enterprise especially if it requires a longer time to break even. Thus, this framework presents that the indigent ones should be placed as staff of social enterprise. Since they are entitled to Zakat in the first place, their salaries and wages should be drawn from the Zakat coffers.

Finally, when the social enterprise becomes a profitable venture, the baitul-zakat can have a share of profit, the Muslim society can have improved workforce, additional social values are created, and the social enterprise also pays corporate zakat to increase the zakat collection and reduce unemployment.

VI. SUMMARY AND CONCLUSION

This study provides an interpolation framework of the four factors of production that can be explored in stimulating the Islamic Social Enterprise in the Muslim societies. The study identified that providing the enabling environment for the operationalization of ISE in the predominantly Muslim countries especially would increase the creativity and productivity of their teeming poverty-stricken population. This will go a long way in reducing poverty and increase financial inclusion using the traditional means of social and economic emancipation as enshrined in the Shari'ah of Islam. This is in line with the submission of Wilson (2007) and Abul and Hjh (2009) who highlighted that non-bank financial institutions will serve the interest of microfinance better in the provision of Shari'ah compliant SME financing. This study further suggested that the setting up of International Islamic Non-Governmental Organizations (IINGOs) that will serve as a transnational institution overseeing the activities of ISE across borders (Deakins & Freel, 2009). It is however important to note that the study is conceptual in nature and the propositions built in the study are expected to engender further cerebral discussions on the subject matter. As a corollary, our model may offer an over simplistic relationship between the four factors of production frame and the Islamic Social Finance towards a formidable Islamic Social Enterprise.

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