



Received: 21 October 2016  
Accepted: 08 March 2017

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## MANAGEMENT | RESEARCH ARTICLE

# Islamic social enterprises in Bangladesh: Conceptual and institutional challenges

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**Abstract:** To date, very little attention has been given to Islamic social enterprise although it has huge potential within the context of third sector economy. Addressing this gap, taking Bangladesh as a point of departure, this paper explores how Islamic social enterprise can contribute to enhance the effectiveness of third sector economy. Drawing on lessons from different case studies, it finds that government of Bangladesh should provide a separate legal and regulatory environment for Islamic social enterprise for it to grow in size and scale. In addition to that, the paper came up with three themes which could provide crucial guidelines for Bangladeshi Islamic social enterprise to improve operation and effectiveness. These themes are: leveraging social capital, product and service innovation, and formation of apex institutional bodies. The paper ends with actionable and transparent policy and strategy recommendations for all the stakeholders.

**Subjects:** South Asian Economics; South East Asian Economics; Economics and Development; Development Economics; Business Ethics; Small Business Management; Asian Business

**Keywords:** Islamic social enterprise; social enterprise; third sector economy; social capital; product and service innovation; Islamic social enterprise regulation

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### PUBLIC INTEREST STATEMENT

Taking Bangladesh as a point of departure, and drawing on lessons from around the world, this article argues that Islamic social enterprise is a viable tool to improve the effectiveness of third sector economy. The unique nature of Islamic social enterprise calls for a separate legal and regulatory structure with separate tax provision. Using existing religious infrastructures (e.g. mosques) and tapping into the universal brotherhood/spirit of volunteerism that resides within Islamic social capital, Islamic social enterprises can reduce its operation cost greatly. In addition to that, innovation of products and services, especially in sectors like agriculture, would create new demand for Islamic social enterprises and thus would make these enterprises more sustainable and efficient. Finally, formation of an apex body of institutions to attract investment fund and to help in capacity building efforts would ensure adequate access to capital and would remove dependency on institutional donor and government funding.

## 1. Introduction

The prevailing capitalist, “market competition” economic order has generated unprecedented levels of wealth and prosperity since the industrial revolution. However, there is growing concern as identified by Picketty of rising levels of income and wealth inequality not seen since before the World Wars at the turn of the 20th century country (Piketty, 2014). Moreover, critical socio-political authors such as Chomsky explain that the neoliberal economic order has produced other problems including British Economic Imperialism and American State Terrorism. These orders have resulted in the control and exploitation of the world’s raw materials (e.g. oil, natural gas, rare earth metals, forestry products, etc.) and generated markets for their industrial and war materials in less developed and emerging nations (The Berlin Tagesspiegel Daily, 2002; Chomsky, 2001; Chronology of American State Terrorism, 2014).

It is within this context and more recently since the global financial crisis (GFC) that upon reflection, many are calling for alternative business models. No concept has received as much attention as promoted by Nobel Laureate, Muhammad Yunus, as “social business” or “social enterprise”. Since these enterprises and initiatives do not have ‘profit maximization’ as their core focus, they prioritize solving pressing social justice problems from affordable health care and housing, to drug abuse, environmental degradation and even autonomous governance through market-based or business approaches. In parallel with the rise of the Islamic banking and finance sector (IBF), many authors and commentators are looking at the growth of the industry as a competitor to the prevailing economic order (Warde, 2000).

Majority of the previous studies of social entrepreneurship focused merely on western perspective and there is a huge scarcity of research of social entrepreneurship in Islamic context (Abdullah, 2009; Johnsen, 2015; Muin, Abdullah, & Bahari, 2014). The study on Islamic social enterprise in Bangladesh (as is the case across the Muslim world) is non-existent although Bangladesh is home to some of the world’s pioneering traditional social enterprises like Building Resources Across Communities (BRAC), Grameen Bank and Association for social advancement (ASA). For a developing country like Bangladesh where abject poverty is rampant, role of such social enterprises is crucial.

However, although there are many activities in place in Bangladesh such as Islamic microfinance, *Zakat* and *Awqaf*, there is no clear framework to understand and operationalize the notion of “Islamic social enterprise”. This paper adopts a concept of Islamic social enterprise that is more holistic than just considerations finance or trade. It shall argue that Islamic social enterprises in their principled form are a comprehensive account of production, consumption, exchange and ultimate social relationships (*Mu’amalat*) that are governed by both the letter and spirit of *Shari’ah* (Islamic law). This definition introduces a community wellbeing-centric social enterprise economics (third sector), which features cooperatives and not-for-profit social enterprises in the name of foundations, Trusts/*Awqāf*, social businesses, and similar undertakings which has emerged as a make-up strategy to meet the minimum unmet requirements for social well-being (Molla, Alam, Bhuiyan, & Alam, 2015).

To the extent of conceptual uncertainty, further research, debate and experimentation is required to help achieve their full potential. This paper will add to the debate and discussions around Islamic social enterprises by adducing the learning and experiences from Bangladesh in order to evaluate their progress and potential.

The paper is organized as follows: first it provides a brief background on Bangladesh. The next section discusses a brief theoretical background on the concept of traditional and Islamic social enterprises in the context of Bangladesh. Next, various business models and approaches of Islamic social enterprises within the Bangladeshi context are explored. The chapter then probes the nature of regulatory structures that influence Islamic social enterprises in Bangladesh followed by what lessons could be learnt and applied in Bangladesh from other countries. The paper then ends with general conclusion and key policy recommendations.

## 2. The Bangladeshi context

With a population of more than 160 million (2015 estimate) (Bangladesh Bureau of Statistics, n.d.), recently, Bangladesh has gained the status of lower-middle income country. The GDP of Bangladesh is \$209 billion (2015 estimate at current market price)<sup>1</sup> and is enjoying a consistent growth rate of around 6.0% for the last decade. There are three areas where Bangladesh needs to focus more: the north-west, which is affected by droughts and river erosion; the central northern region, which suffers from serious flooding problem that hinders crop production; and the southern coastal regions which are affected by soil salinity and cyclones (Sukaj, 2014). Even in major cities, a large part of population lives in swamps and slums with no access to health care and clean drinking water while people in rural areas lives in traditional houses with no electricity and a very low standard of living (Sukaj, 2014). Bangladesh is one of those countries which are considered to be the victim of “global warming”.

Since the country came into existence in 1971, it has been struggling in almost all areas of economic and social development mainly due to resource constraints. However, it has also been experimenting with different mechanisms to fight some of the more severe problems like poverty and social justice. Hence, we see an uprising of NGOs like BRAC, ASA and Grameen Bank which are operating with considerable success and national and international recognition. Especially organizations like Grameen Bank have become a synonym for “poverty remover” around the globe which has a vision of “sending poverty to museum”. Due to the efforts of Governments and these NGOs, the poverty rate drops to 24.8% with 6.5% of ultra-poor rate (Bdnews24.com, 2015). However, around 40 million<sup>2</sup> people still live below the poverty line in Bangladesh and thus increasing access to quality services is still a priority for this country.

The government of Bangladesh, under its vision 2021 strategic plan, aims to graduate from a lower income country to middle income one. With this vision, it has taken a five year strategic plan for poverty reduction (called poverty reduction strategic paper) where it plans to take important actions like increasing access to microfinance, increase farm income through better productivity etc. (IMF Country Report No. 13/63., 2013). It is worth noting that the government has already been taking a number of social safety-net programmes<sup>3</sup> like VGF<sup>4</sup> (Vulnerable Group Feeding), food for work<sup>5</sup> etc. which have a substantial impact on poverty reduction. The five year strategic plan shows the country’s intention to put more effort towards economic and social development. As the government still faces resource shortage, it needs to partner with private sector if these goals are to be realized. Additionally, Bangladesh is the third largest Muslim majority country in the world where popularity of Islamic banking and finance is growing exponentially. Islamic banking is a matured industry in here with 21.1% of the market share which plays a crucial role for the economic growth of the country (Islamic Financial Services Board, 2014). Therefore, Bangladesh is considered to be an important jurisdiction for Islamic finance (Islamic Financial Services Board, 2014). Hence, this paper argues that Islamic social enterprise, being a crucial tool for social advancement, have the potential to be a major tool to achieve these goals.

## 3. Conceptions and approaches of traditional and Islamic social enterprise

### 3.1. Social enterprise

From the outset, there is a great deal of uncertainty and imprecision with “social enterprises” let alone “Islamic social enterprises” due to the interchangeable use of the term to mean many different things. The term “social Enterprise” is used interchangeably with several related concepts such as the “social economy”, “business for social purpose”, “not for profit organisations”, “third sector organisations” etc. (Czischke, Gruis, & Mullins, 2012). It can be distinguished from the philanthropic sector as well because it implies some form of inherent revenue generation to achieve sustainability of ourcomes.

Furthermore, national and regional differences in the term add further complexity to studying and conceptualizing social enterprises.<sup>6</sup> These differences are even more important when the rich

religious traditions in Muslim societies are overlaid where from the public, private and social sectors are merged together for the purpose of achieving God's order on earth.

Nobel laureate professor Yunus, as a major advocate of the "social business" provides the following definition. A social business is a non-loss, non-dividend-paying company where all of its profits are re-invested for expanding its social mission more effectively (Yunus, 2007). Whilst agreeing with the basic premise of Yunus' definition as one where the organization is both sustainable and fulfils a social mission, we more leniently consider the utilization of profits. Thus, siding with the UK governments definition (see Note 6), this article utilizes the following essential concept to distinguish social enterprises from other entities: Social enterprises are those that actively re-invest a substantial portion of their profits for better and more effective achievement of their social mission.

### 3.2. Islamic social enterprise

Where Islam provides a holistic framework infusing the material, social and spiritual needs of humans, there is a great tradition of social enterprises in its 1,400 year history. The concept is far more advanced than many would believe and the emergence at the forefront of contemporary discourse is considerably late. From the earliest attempts at society-building, the Prophet (SAW) emphasized business as a form of economic transaction with deep social and spiritual dimensions.

Linking with the concept social enterprise, Islam views entrepreneurship as integral for progress of human civilization and made engaging in business activities as obligatory upon the community (*Fard-al-Kifāyah*) as opposed to the individual (Molla et al., 2015). According to Molla et al. (2015), unlike prevailing western economic system, those who aspires to be entrepreneurs in Islam, must seek to pioneer continual change through innovations in the economic environment, first and foremost, for society's benefit where earning profit for themselves is incidental. Therefore, Islamic social enterprises<sup>7</sup> are inherently community centric.

Despite the rich tradition, the modern manifestation of Islamic social enterprises is less developed due to limited consideration in state legal systems. In this regard, Johnsen (2015), after investigating the phenomena, concludes that social enterprise in the GCC region is still less understood and perhaps it would take few more years before the concept is well understood.

Since the concept (see Note 9) is novel for Islamic scholars and practitioners, there is a tendency for many to view Islamic social enterprises as an extension of Islamic philanthropy. Unlike the concept of social enterprise, Islamic philanthropy is a matured concept among Islamic scholars and practitioners. Islam pays great attention towards generosity through Islamic philanthropic organizations such as *Sadaqah* (giving), *Zakat*<sup>8</sup> (obligatory tax) and *Waqf* (endowment) (Widyawati, 2012). The concept of Islamic social enterprise overlaps with its traditional "philanthropy" counterpart in the sense that both carry out social missions. One major difference though is that whilst *Awqaf* can be considered an Islamic social enterprise due to the underlying business activity that it operates, *Zakat*, *Sadaqah* or even *Qard Hassan* are purely charitable with no means to cover operational or funding costs.

In addition to operation distinctions, Islamic social enterprise must conform to Islamic ethical standard and moral guidelines (i.e. Islamic Shariah).<sup>9</sup> However, given the contextual<sup>10</sup> nature of the concept (See for example Muin et al., 2014), there is a need for a greater discussion among Islamic scholars and practitioners in order to fully understand what this concept is in Bangladeshi context. To do this, scholars need to consider if western style conceptualization of *social enterprise* works for Bangladesh and how this idea is different from Islamic philanthropy. This would help in the sense that there is only a handful of business models employed in Bangladesh and other models would add to the status quo.

Therefore, even though the concept of social enterprises is yet to be fully matured around the globe and in Bangladesh,<sup>11</sup> it is clear that social enterprises exist to advance social justice missions

or solving social problems. They also feature business activities (involving sale of goods or services) that help further the social mission. Further, in particularly considering Islamic social enterprises, the definition is extended to consider those social enterprises that comply with Shari'ah rules and principles whilst also ensuring a balance between material and spiritual outcomes.

#### 4. Models and approaches to Islamic social enterprises in Bangladesh

Being the originator of many leading social enterprises in the broadest sense of the term, there are a spectrum of operating models spanning “for-profit” or “business-style” to “not-for-profit” or “social mission style”. The range of activities also range from those that are based on traditional religious modes (e.g. *Awqaf* and *Zakat*) to innovative modes (e.g. *Cash Waqf*) to more common modes (e.g. non-profit hospitals and schools).

An example of for-profit social enterprise is the *Baitul-Mukarram* complex which combines a mosque and market complex all situated on 8.30 acre *Waqf* land. The market provides rental revenue to enable administrators to maintain the mosque. It also finances a large auditorium for many sorts of activities, a publishing house which disseminates Islamic teachings and provides employments to a large number of people. A portion of the income from the complex goes to its administrative authority called *Islamic Foundation* (an autonomous body under the ministry of religious affairs) which in turn uses the fund for various social welfare related projects. In addition to income from the *Baitul-Mukarram* complex, *Islamic Foundation* receives grants and loans from sources such as government and other domestic and foreign sources. As part of advancing social mission, the foundation has established over 29 Islamic Missions in various regions in Bangladesh and has plans to set up missions in every district. These missions provide medical treatment, assistance to orphans and destitute women, vocational training and training to unemployed youth, interest-free loans, equipment for livelihood trades, organize literacy programmes, and disseminate knowledge on the fundamentals of the Islamic way of life. Some of the notable highlights of these missions work are that, since inception, these mission centres treated 18,385,354 patients, provided literacy training to 380,038 illiterate people and supplied 2240 person with interest-free microcredit loans (*Islamic Mission, Bangladesh Islamic Foundation - ইসলামিক ফাউন্ডেশন, n.d.*). Although exact data about the extent of contribution of *Baitul Mukarram* complex towards various programmes of *Islamic Foundation* are not available, it is justifiable to conclude that the complex has been fairly successful in fulfilling its social enterprise related goals; at least indirectly, if not directly.

The innovative cash *Waqf* is used by commercial banks like *Social Islami Bank Ltd* to allow benefactors to set aside capital to generate income for needy beneficiaries. Non-government organisations such as *Muslim Aid Bangladesh* are utilizing *Zakat* in market-driven ways. Their programmes emphasize livelihood improvement through business establishment, cash grants and training to help beneficiaries set up income-generating businesses rather than distribution of clothes and free funds. *Centre for Zakah Management (CZM)* is another vivid example which provides small *Qard Hasan* loan through its *Jeebika* programme aimed at improving lives of the hard core poor people in Bangladesh. The most notable example of the conventional market-oriented social enterprises which also meet Islamic principles is *Islami bank hospital* which is run by *Islami bank foundation*. Although it operates with a market-like model, the cost of availing its service along with the patient care service is reasonable (*Islami Bank Foundatoin, 2014*).

We can see from the above discussion that Islamic social enterprises are run with both business style and not for profit business model in Bangladesh. Additionally, Bangladeshi Islamic social enterprises are familiar with Islamic philanthropic tools such as *Waqf* and *Sadaqa* and their potential usage for advancing social mission with a business style approach. However, the full potential of different tools and their innovative usage is yet to be realized and doing so would ensure better performance of the sector.

The variation in operating modes and underlying principles is what distinguishes them based on the extent of Shari'ah compliance. However, without a robust Islamic social enterprise framework



with leading indicators to assess organizations, it is evident that to some extent, there are many organizations that at least undertake Islamic social enterprise activities if not potentially being labelled as an “Islamic social enterprise”.

Islamic social enterprises in Bangladesh have their own SSC<sup>12</sup> (Shariah Supervisory Committee) which oversees the Shariah compliance matters. However, there are controversial practices regarding shariah compliance in some instances. For example, Exploring Potential of Zakat, (CZM) Center for Zakat Management (2006) uses Zakat fund to provide qard hasan loan which may be regarded as controversial since Zakat is freely distributed and not meant for repayment. Apart from minor issues like this, they do comply with shariah regulations most of the time.

Drawing on experience and examples of Islamic social enterprises, this article argues that Bangladeshi Islamic social enterprises are better equipped to deliver social justice than its traditional counterpart. For example, microfinance programme of Social Islami Bank Ltd Bangladesh (SIBL) uses individual rather than group pressure for its lending policy and combines qard hasan loan to help defaulters. According to Abedin, assistant vice president of family empowerment and microfinance division of SIBL, the bank charges a flat 9–10% on its microfinance loans whereas conventional MFIs’ interest rate start with 12.5% (which eventually reaches 27–30%). Moreover, conventional MFIs give money to its clients whereas SIBL microfinance programmes sell goods through different schemes like bai-muajjal and HPSM (Higher Purchase Shirqatul Mulk). This makes SIBL more effective since its microfinance programmes inherently protects any missuses or inappropriate use of funds. In addition to that, conventional MFIs collect repayment every week while SIBL collects in every 15 days. Finally, unlike its conventional counterparts, the first instalment of SIBL microfinance borrower is due after one month and defaulters are given additional time with no extra interest on missed instalments. This makes it more humane (since defaulters have more flexibility for repaying loans) and thus ensures better social justice outcome.

Additionally, programmes such as Rural Development Scheme (RDS) or Microfinance of SIBL relies on universal brotherhood (jamaat) aspects of shariah which ensures that beneficiaries are conducting themselves within the moral code of shariah. This results in better social justice outcome since caring for the brother in distress is one of the central concept of jamaat. And it makes RDS better at delivering social justice since traditional social enterprise do not comply with such ethical guideline and thus have no focus on moral or spiritual aspects of its beneficiaries. RDS charges 10% flat interest/profit on its investment which is much lower than the conventional MFIs’. It also offers a rebate of 2.5% on timely payment. And similar to SIBL microfinance programmes, RDS is more flexible than conventional MFIs as it forgive debts on a regular basis and extremely poor borrowers have access to a qard el hasan if they face difficulties in repaying their loans. Finally, since RDS credits are subsidized by Islami Bank Bangladesh, it can reach the poorest of the poor, a segment often overlooked by conventional MFIs. The above-mentioned examples demonstrate the inherent capacity of Islamic social enterprises to deliver social justice which cannot be matched by its conventional counterparts.

Now, when examining financial viability aspects, there are few solid examples of long-term effective social enterprises in Bangladesh. When applying the filter of “Islamic” this number falls even further. For instance, there are many well-established Islamic microfinance institutions in Bangladesh such as Muslim Aid Bangladesh and the Rural Development Scheme (RDS) established by Islami Bank Bangladesh Ltd (IBBL). However, with limited access to funds or large line of finance, they remain marginal activities compared to the behemoths of the industry such as Grameen Bank and BRAC. A cycle of underperformance can form where due to their small size and room for additional expenses, MFIs in Bangladesh tend to have underpaid, under-trained staff (the highest performing staff move to conventional MFIs) which further exacerbates the low performance problems of MFIs (Ahmed, 2002). Hence, in addition to Shari’ah compliance considerations, the scale and financial viability of Islamic social enterprises warrant further attention.

Hence, it can be argued that for-profit, business style Islamic organizations that strive for a social mission are more effective as they are sustainable and do not depend on funding from other organizations. Unfortunately, most Islamic organizations (especially non-government donor-funded entities) rely purely on philanthropic contributions and are not market-oriented. This has proven to be the main challenge for activities like Islamic microfinance to scale effectively. Therefore, adopting a business style approach could make Bangladeshi Islamic social enterprises more sustainable and thus have better potential for advancing social mission.

### **5. The regulatory context to Islamic social enterprises in Bangladesh**

Islamic social enterprise in Bangladesh is subject to various legal regulation depending on the type of operation and service they provide. In case of Islamic microfinance organizations operated as NGOs, it is regulated by a body called Microfinance Regulatory Authority (MRA). Established in 2006 under the *Microcredit Regulatory Authority Act 2006* (Act No. 32 of 2006), the MRA's directive is to license MFIs, supervise their activities as per licensing requirements and enforce sanctions on those failing to meet the requirements. Additionally, microfinance operations run by Islamic banks such as Social Islami Bank and IBBL's RDS are regulated through similar to specialist MFIs such as Grameen Bank and NGOs such as Islamic Relief, by the Microfinance Regulatory Authority (MRA) instead of standard banking and financial regulation. In fact, one of the main goals for the MRA Act (2006) was to address the overlapping problem between legal structures and financial activities across various institutions. Any organization, regardless of their being Islamic or not, can take different structures in Bangladesh. These include the Societies Registration Act (1860), the Companies Act (1994), Co-operative Societies Act (1984), Charitable & Religious Trust Act (1920) and the Trust Act (1882). In addition, if any NGO wishes to receive foreign donations, it must be registered with the NGO Affairs Bureau (NGOAB), which was established under the Foreign Donations (Voluntary Activities) Regulation Ordinance (1978). Compared to all other types of institutions that offer microcredit services, Grameen Bank is an exception as it is regulated primarily by the Grameen Bank Ordinance (1983).

Matters pertaining to *zakat* are governed by Zakat Fund Ordinance of 1982 and anyone voluntarily wishing to pay *zakat* to the state can pay to the Zakat Board, an affiliated organization of government-owned Islamic Foundation which is supervised by the Ministry of Religious Affairs. Therefore, any organizations which wish to use zakah funds must deal with the zakat fund ordinance of 1982.

*Awqaf* in Bangladesh are of three types, first categories are registered with Office of the Waqf Administrator (OWA), second are the private trusts which are not listed with OWA and the third ones are managed by Mutawallis or committees without registering with OWA. It is only the first category which is regulated by governments *Waqf* administration system (Karim, 2010). For this category, Government (see Note 10) appoints a Waqf Administrator, who is a public officer<sup>13</sup> (usually delegated to the Ministry of Religious Affairs). The Waqf Administrator, on advice from the *Awqaf* Committee, (Ibid., at 19) is the ultimate authority for supervising all *Awqaf* in Bangladesh. The administrator has general powers and functions which include investigating *Awqaf* to ensure that *Waqf* benefits are distributed to beneficiaries, giving general directions, managing the property, fixing *Mutawalli* compensation, investing money for *Awqaf* acquisition (Ibid., at 27). The principal regulatory framework is provided by the *Waqf* Ordinance (1962) that promulgates rules for the registration, administration and de-registration of *Awqaf*. Organizations that provide other services such as NGO-related social services, microfinance services, Zakat-based social services etc., through *Waqf* structures must also comply with the *Waqf* Ordinance.

Interview with various Islamic social enterprise scholars and practitioners reveals that Bangladesh government has not shown much enthusiasm to establish separate legal framework for Islamic social enterprises. One reason could be the fact that Islamic social enterprises which are operated as NGOs have not faced any serious impediment due to government regulation as the regulatory framework is designed to keep the interference of organizational activities to a minimum. Another reason could be that Islamic social enterprises, especially when it comes to Islamic microfinance, still could not reach the size and scale like its conventional counterpart and thus government is not

serious about implementing a separate regulatory structure for Islamic financial sector. Moreover, although Zakat and Awaqf is regulated by separate ordinances, these regulations do not provide sufficient enabling environment for Zakat and Awqaf to be used for solving “social problem”. Therefore, it is argued by both Islamic scholars and practitioners in Bangladesh that it is high time for the government to play a more prominent role in creating an enabling environment for Islamic social enterprises to solve social problems more effectively.

## **6. Adapting Islamic social enterprise models from other parts of the Muslim world**

Through many decades of innovation, research and development, there have been many successful models and learnings for the application of Islamic social enterprises to address social problems. This paper presents three particular themes around which Bangladesh can adopt learnings from other countries to improve the operation and effectiveness of Islamic social enterprises. Within these themes, this article draws upon various case examples and explains how they can be beneficial in the Bangladeshi context. The three themes are: leveraging social capital, product and service innovation, and formation of apex institutional bodies.

### **6.1. Leveraging social capital**

Akhwat in Pakistan uses *Qard Hasan* loans to run its microfinance operation. More importantly, it successfully leverages Islamic social capital<sup>14</sup> in order to conduct its business. This is similar to the idea put forward by Uddin and Rahman (n.d.) called “socio- religious norms” where organizations utilize the whole social fabric to create social capital because development takes place within the fabric of the society and not in isolation. Their model offers greater flexibility and efficiency as it uses religious institutions (e.g. mosques) to operate its business (Babar et al., 2011) which reduces operating cost significantly. Moreover, they use the spirit of volunteerism and their borrowers become donors after a certain period of time (Babar et al., 2011). Volunteerism reduces financial cost greatly and the Islamic social capital that is gained through the practice of universal brotherhood (*jamaat*) helps build a strong knowledge sharing network that makes it more resilient to economic and social disruptions. Finally, creating and utilizing social capital this way is more sustainable as it turns borrowers into donors which help reduce dependency on fund from external donors.

Similarly, an Islamic NGO initiative in Darnka village in Birbhum district of West Bengal in Eastern India utilized Islamic social capital by pooling agricultural land together that could bring about a scale of operation which made possible to adopt technologies of land and water management to foster development process (Farooqi, 2006). For creation of social capital, it engaged complementary inputs from other sectors like agriculture department, Islamic banks etc. (Farooqi, 2006). Like akhwat foundation, the Islamic social capital resulting from the practice of universal brotherhood (*jamaat*) created a support network for the beneficiaries of Darnka village. This helped to pool financial and social resources that in turn provided protection during economic turmoil. The high level of trust that was built through constant interaction among agents within the network ensured high performance of the social enterprise. In addition to that, leveraging complementary inputs from other sectors (e.g. agriculture department, Islamic banks etc.) enabled them to access the expert knowledge as well as other resources available which is conducive for the success of their operation. Finally, it ensures optimum distribution of technological and natural resources through pooling of different technological resources together which contributed heavily towards its success.

These models present interesting case for Bangladesh in multiple ways. Firstly, the social capital utilization would lead to significant cost reduction associated with financial and other resource acquisition. For instance, social capital similar to the one that was created in Darnka village would enable joint resource pooling which would reduce the transaction cost associated with resource acquisition significantly. This is a great advantage for a developing country like Bangladesh which still faces severe resource shortage (e.g. arable land etc.). Secondly, due to high interaction among agents within the network, building trust would be easier which is highly conducive for the success of Islamic social enterprise. Similarly, Bangladeshi Islamic financial institutions are highly supportive of social development so using them as complementary input would enable Islamic social enterprise



to draw and use expert knowledge and other resources. Using complementary inputs to create social capital (i.e. using mosque to conduct operation, using volunteers etc.) would keep the operation cost to a minimum. As Bangladesh is a muslim majority country, it has numerous mosques and it would not be very difficult to utilize them as complementary inputs for creating Islamic social capital. Finally, akhwat style social capital formulation can be more sustainable for Bangladesh as here the goal is to turn the beneficiaries into donors which reduce pressures on external fund.

### **6.2. Product and service innovation**

Use of innovative product and service can be a source of great strength for Islamic social enterprises. For instance, a 2013 winner of Islamic microfinance challenge called wasil foundation is making a difference in pakistani farmers life through an innovative agricultural financing product called Salam which is an advance purchase agreement against future delivery of crops (CGAP, n.d.). The foundation also uses Ijara contract to rent agricultural land where it rents land from the owner and then rents these lands to other farmers on monthly rental basis (Wasil Foundation, n.d.). It is innovative in the sense the Ijarah contract have never been used for renting agricultural land. The demand for Salam is high because the farmers enjoy greater autonomy and they are empowered throughout the contract period.

Another good example can be drawn from Allianz Indonesia which uses credit-life insurance packages through partnership with commercial and microfinance institutions. It has created partnership with 3 commercial banks and 20 microfinance institutions such as rural banks and credit cooperatives (Allianz Indonesia: Strong Growth in Microinsurance, n.d.). This unique creation of microtakaful which works similar to mutual insurance offers protection for the low income group in Indonesia. It pioneered and developed a credit life microinsurance product called PayungKeluarga (“Family Umbrella”), which was sold through a well-established network of MFIs. It gained popularity in a short span of time due to the relative simplicity of credit life insurance and the economic and social advantages in distribution through a wide network of MFIs (Churchill, 2002, as cited in Uddin & Rahman, n.d.). Moreover, innovative product and service can drive the demand high that could help Islamic social enterprises to run smoothly. For instance, Selangor Waqf Corporation of Malaysia and AirRithsSdnBhd (ARSB), recently launched an Waqf airlines which aims to cater to the low income muslims around Asia who wishes to perform Hajj in Mecca (Muslim Social Enterprise Launches Waqf Airlines – Eden Keeper, 2015). The significance of this innovation-based social enterprise is that due to its usage of Waqf property, it can target low income groups who might have otherwise been ignored by other commercial enterprise. This attractive feature keeps the demand high enough for the Islamic social enterprise to be successful.

Bangladesh could learn a great deal from these cases as it needs more innovative and better solution for its Islamic social enterprise sector. For instance, Bangladeshi agriculture sector suffers from similar problems like Pakistan and thus creating products such as Salam can help meet the need of rural farmers. It would also empower them to make good decision as well as will provide greater flexibility as the Salam contract involves the farmers from the beginning to the end of the contract period. Moreover, integrating this with a microtakaful product like the one provided by Allianz, could improve quality of life for underprivileged people in Bangladesh significantly as they ensures protection against certain losses. More importantly, this integrated approach would help Islamic social enterprises to serve consumers better. This paper argues that it would be better as it offers a holistic and comprehensive set of solutions to problems such as access to finance and protection against uncertainty. This in turn, would help Islamic social enterprises to be sustainable and efficient as it would help prevent its beneficiaries from defaulting and thus would ensure timely return of its investments. Additionally, diversifying the product portfolio with products like Waqf airlines would enable Bangladeshi Islamic social enterprises to reach new segment of the market at a lower cost. Finally, we can conclude that through innovation in products and services, Islamic social enterprises in Bangladesh can create new demand for its products and target new segments of the market. This would make the Islamic social enterprises sustainable and efficient and more importantly, successful.

### **6.3. Formation of apex institutional bodies**

Through creating networks and formal institutional bodies, Islamic social enterprises could avail multifaceted benefits ranging from easing of capital acquisition to capacity building. For example, BMT organizations in Indonesia have avoided dependency on government funding through creating a strong network and support from influential muslim scholars,clerics and entrepreneurs, Islamic organizations and NGOs who provide seed capital, capacity building, training and moral support (Nazirwan, 2015). A venture capital organization called PBMT leveraged their proximity to investors and donors to support BMTs in Indonesia. The organization is majority owned by The Dompot Dhuafa foundation (DDF) and BMT institutions within the BMT centre network (Nazirwan, 2015). PBMT has mobilized commercial funds from private investors as well as accessing lending schemes from BUS/UUS(Nazirwan, 2015). Due to utilization of a large network, its capacity to finance has increased significantly and is now a major source of funding to the members of its BMT network(Nazirwan, 2015). As a centralized body, it offers a one stop solution for funding need and thus helps in reducing dependency on external and expensive source of funding.

Another organization called PINBUK has been building capacity through consulting, technical assistance and training programmes for start-up BMT institutions (Nazirwan, 2015). It played a major role in creating BMT system and establishing thousands of BMT institutions across the provinces (Nazirwan, 2015). It has successfully been providing training to local facilitators, the BMT-KUBE managers and staff and the BMT committee members and is considered an integral part of the government's administration to license and oversee the BMT sector(Nazirwan, 2015).

These models offer significant benefit and learning for issues like accessing financial capital and capacity building for Bangladeshi Islamic social enterprise sector. For instance, one major benefit of creating PBMT like formal institutional body is that they offer a viable and alternative source of funding for Islamic social enterprises which is not dependent on government funding. They also bring together different actors (e.g. Islamic scholars, NGOs, etc.) into a network which can be leveraged to mobilize financial, social and human capital resources efficiently and effectively. Establishing network of such scale and size fosters the capacity building and human resource development process for Islamic social enterprises. Therefore, Bangladeshi Islamic social enterprises could learn to apply these as they offer greater flexibility and operational excellence.

### **7. Conclusions and recommendations**

Since its independence, home-grown and international NGOs and social foundations have been addressing systemic poverty and social challenges. Yet, the vast majority of them are donor-driven and dependent which neither ensures their long-term sustainability nor their effectiveness in addressing root problems. Certainly, efficient and sustainable Islamic social enterprises can be effective in addressing some of these challenges. However, there is no overarching framework for Islamic social enterprises and conceptual challenges hinder the sector's development.

After carefully analysing the phenomena of Islamic social enterprise in Bangladesh, this article recommend that scholar and practitioners along with governments work together to develop a clearer and a more comprehensive definition of Islamic social enterprise. To do this, the main departure point would be to distinguish Islamic social enterprise from Islamic philanthropy since they are closely related but distinct concepts. Practitioners need to have discussion with scholars regarding the shariah compliance of the tools that they currently use in Bangladesh. For instance Islamic social enterprises in Bangladesh use Zakat fund to meet operational cost which may raise the question of validity of such acts from shariah perspective. Additionally, using Zakat as Qard Hasan loan may raise the same question since Zakat is meant to be freely distributed without any repayment provision. A discussion and direction from shariah experts regarding to what extent these philanthropic tools (e.g. Sadaqa, Zakat etc.) can be used for Islamic social enterprise would help develop industry

standard for the sector. Finally, the governments of Bangladesh should take into account both shariah experts' and practitioners' view to remove definitional confusion regarding Islamic social enterprise which would ensure better performance of relevant government departments (e.g. Islamic foundations, Waqf board etc.).

Government of Bangladesh needs to develop an integrated, holistic and enabling framework to ensure different Islamic social enterprises can function at their best. This means that since Islamic social enterprises are run under the purview of Islamic shariah, a separate legal and regulatory structure with separate tax provision is needed for this sector. Similar regulatory body like Microcredit Regulatory Authority (MRA) would help the sector to be more efficient since shariah provisions would be taken into account which is conducive for the Islamic social business success. Additionally, Islamic social enterprises should be allowed to obtain special licences to operate successfully. For instance, they can be allowed to obtain licence for mobile payment gateway linked with government's cash transfer/anti-poverty programmes and welfare distribution. This would on one hand help government to ensure efficient distribution of welfare fund and to achieve better size and scale of operation for Islamic social enterprises on the other. In fact, the government should take Islamic social enterprises more seriously and include provisions for it in the national development strategy.

Based on observations from other countries, a number of immediate recommendations can be made to improve the effectiveness of Bangladeshi social enterprises. To increase the size and scale, this article recommends that it leverages the social capital and religious infrastructures (i.e. Mosques) which would result in greater flexibility and efficiency of the sector. The sector also needs to focus on product and service innovation as it will ensure escalation of demand. More importantly, it needs to create an apex body of institutions which would attract investment fund and help in capacity building efforts. This would ensure adequate access to capital for the sector and thus would reduce dependency on institutional-donor and government funding.

#### Acknowledgement

The author gratefully acknowledges the invaluable comments and inputs from an anonymous reviewer in developing this paper.

#### Funding

The author received no direct funding for this research.

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#### Citation information

Cite this article as: Islamic social enterprises in Bangladesh: Conceptual and institutional challenges, Md. Fazla Mohiuddin, *Cogent Business & Management* (2017), 4: 1305674.

#### Notes

1. International Monetary Fund [IMF], (2013) World Economic Outlook (WEO) database, October 2014.
2. Bangladesh's poverty rate drops to 24.8%, ultra-poor rate to 6.5 percent. (2015, September 16). Retrieved June 24, 2016, from <http://bdnews24.com/economy/2015/09/16/bangladeshs-poverty-rate-drops-to-24.8-ultra-poor-rate-to-6.5-percent>.
3. See for detailed descriptions of social safety programme, Department Of Disaster Management- | দুর্ঘটনা-গত ব্যবস্থাপনা অর্ধদপ্তর-. (n.d.). Retrieved June 28, 2016, from <http://www.ddm.gov.bd/>
4. This programme is launched whenever during disaster and post disaster periods and continues till the people no longer remain vulnerable to hunger.
5. Under this scheme, people are paid in food grains and cash money for their work in rural infrastructure development and maintenance projects.
6. For example, in US, social enterprise operates with a profit maximization motive (Defourny, 2009) while in UK, their profits are re-invested into the business (DTI, 2002). Kerlin (2009), after studying seven world regions and countries, showed that region-specific factors played important roles for "social enterprise" to be perceived differently including its uses, organizational forms, legal structures and supportive environment.
7. See Almarri (2014) for a more detailed discussion about Islamic social enterprise.
8. See for example Johari, Ab Aziz, and Ali (2014) for a review of literature on Zakat.
9. If a social enterprise does not follow Islamic ethical standard but conforms reasonably well to all of its material aspects and community-centric spirit, it could be termed as 'Islamic-style' social enterprises (Molla et al., 2015).
10. The term social enterprise from a western perspective and Islamic social enterprise differs from one another, therefore we need to analyse this phenomenon from an Islamic perspective (Muin et al., 2014).
11. Other conceptions include Professor Sobhan of CPD (Centre for Policy Dialogue) Bangladesh, who places most significance on business ownership (Bangladesh Enterprise Institute, 2010). Additionally, Sir Fazle Hasan Abed, founder of BRAC, runs a hybrid model (Bangladesh Enterprise Institute, 2010).
12. See for a detail discussion of how SSC works: Mohiuddin and Uddin (2016).
13. Within the meaning of the Code of Civil Procedure (1908), Waqf Ordinance, at 10.
14. The term Islamic social capital implies the networking that inspires people to follow Islamic conventions and

norms governing the development process (Farooqi, 2006). It is considered to be the input into the process through which developmental institutions are created (Farooqi, 2006). Here the success of developmental intervention depends heavily on the trust between different agents embedded within the network and the ground rules for transparent functioning of the network (Farooqi, 2006). More importantly, the Islamic principles, norms and values that results from the network of development process combined with complimentary inputs such as Islamic financial capital and human labour determines the quality and nature of the underlying development process (Farooqi, 2006). The quality of interactions among agents helps remove problems of free-riding and high rates of discount which prevents communities from acquiring natural capital for development. Siding with this, we argue that the quality of interactions along with trust between members within the network creates superior Islamic social capital which in turn helps the whole developmental process.

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