ISLAMIC FINANCE AND SOCIAL SUSTAINABILITY: PARAMETERS FOR DEVELOPING A MODEL FOR SOCIAL IMPACT MEASUREMENT

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ABSTRACT

To be true to the spirit of Islamic finance, embodied in the principles of maqasid al-shariah, developments in Islamic finance should contribute towards promoting social inclusion and reducing poverty. However, Islamic finance is criticised for the minimal social impact that it has created and its contribution towards promoting social sustainability. Thus, this paper aims to develop a comparative analysis of literature on the meaning, conceptualization and measurement models of social impact. Then, the paper uses maqasid al-shariah as a theoretical framework to conceptualise social impact and to propose a set of parameters that can be used to measure the social impact of IFIs.

Keywords: Islamic finance, Islamic economics, social impact, social sustainability

INTRODUCTION

Islamic finance is built on the concept of maqasid al-shariah (objectives of shariah) which promotes both economic welfare and social justice. The spirit of maqasid al-shariah calls for an Islamic finance industry that fulfils its economic and social obligations beyond the conventional perspective that only aims for profit maximization (Dusuki, 2008). As a financial system that aims to provide a fair, transparent and one that is directly tied to the real economy, Islamic finance has the potential to end all forms of poverty and promote inclusive and sustainable growth (Islamic Development Bank, 2015).

The global Islamic finance industry has grown significantly over the past three decades. As of end-2016, the industry stood at USD2.293 trillion in terms of total asset size (Dubai Islamic Bank, 2017). In addition, for the first quarter of 2017, the global Islamic asset under management is worth USD70.8 billion (MIFC, 2017). The Islamic concept of maqasid al-shariah also resonates with the United Nations' Sustainable Development Goals (SDGs). The main challenge in achieving the United Nations' SDGs is to mobilize resources to targeted sectors (United Nations, 2015). With its considerable presence all around the globe, Islamic finance contributes towards financial inclusion, financial stability and inclusive economy, which is essentially important to ensure effective policies implementation on ending poverty (SDG-1) and hunger (SDG-2), achieving gender equality (SDG-5), ensuring decent work and economic growth (SDG-8), reducing inequality (SDG-10) and promoting just, peaceful and inclusive societies (SDG-16) (Islamic Development Bank, 2015).

Sustainable development is broadly classified into three dimensions; economic sustainability, environmental sustainability and social sustainability. According to United Nations (2015), social sustainability particularly concerns with identifying the positive and negative business impacts on people and managing them. Company's continuous engagements with various stakeholders may have impacted the stakeholders either directly or indirectly. While contributing to social development of the nation, company's social sustainability efforts may attract new business partners, increasing employee's productivity and eliminate company-community conflicts. In addition, Jenks and Jones (2009) underline the importance of all parties, particularly companies to consider the social impacts of their decisions alongside economic and environmental impacts.

Despite the maqasid al-shariah framework which promises social justice and welfare, there are criticisms on the Islamic finance industry for the minimal social impact that it has created and its contribution towards promoting social sustainability. The industry is seen to be technical, legalistic and focusing on form rather than substance, evidenced by a reliance on negative screening and lack of use of positive screening to channel investment towards some positive social and environmental goals. In this sense, apart from the shariah compliance standards which undoubtedly has been well put in place in many jurisdictions and at the global level, the social impact of the industry is probably offering little difference. There are only a few Islamic finance products and services that cater to the marginalized sector of society (Mohamad, Lehner, & Khorshid, 2016). Thus, it is often pointed out there is little intentional contribution to the development in social sector as a result of development in Islamic finance industry in recent years. In spite of the idealistic social objectives, positive outlook and impressive growth of the Islamic finance industry in recent decades, the economic and social welfare of the vast majority of the Muslim world remains underdeveloped (Cebeci, 2012).

But is it fair to put such a heavy responsibility of the welfare of the Muslim world on the "shoulders" of the Islamic financial institutions (IFIs)? In any case, it is also possible that IFI activities have already produced great social impacts, but such impacts have not been effectively identified and measured. The topic of social impact has not been thoroughly explored in the Islamic finance space be it in the Malaysian landscape or other Islamic countries. To the best of the researchers' knowledge, there is very limited past studies that focus on setting the parameters and measuring the social impact of the IFIs from the Islamic perspective. In addition, within the wider sustainable development literature, the social dimension has not been thoroughly explored due to the intangible nature of social sustainability (Baffoe & Mutisya, 2015). Social sustainability is usually discussed in relation to economic and environmental sustainability or as a final impact of the economic and environmental sustainability efforts, rather than as one of the important pillars of sustainable development itself (Jaeger, Tabara, & Jaeger, 2011; Lees, 2014). Thus, comprehensive literature on social sustainability is still limited.

Despite criticisms on Islamic finance having minimal social impact, the industry appears to strive to make a difference towards promoting social justice and welfare. The impacts of the industry extend beyond profitability (Askari, Iqbal, & Mirakhor, 2010; Draz, Ahmad, & Ali, 2011; Bacha, Mirakhor, & Askari, 2015; Ali & Hussain, 2016; Aassouli, 2016; Mohamad, Lehner, & Khorshid, 2016). However, using conventional performance standards that only measure economic and financial impacts would seriously undermine the positive impacts that the industry has contributed to the social sector (Mohammed & Abdul Razak, 2008). Hence, the issue lies with the conceptualization and measurement of social impact and social sustainability. Thus, in order to assess the level of social impact contributed by Islamic finance, parameters for measurement and appropriate methodologies ought to be developed.

This study aims to fill the gap in the apparent lack of innovations in the assessment and social performance measure of the Islamic finance sector. This paper thus examines firstly the concept of social impact and major measurement tools in existing literature. Secondly, this paper uses maqasid al-shariah as a theoretical framework to develop and conceptualise social impact and to propose a set of parameters that can be used to measure the social impact of IFIs. By having the right parameters and method to measure the degree of social impact contributed by the Islamic finance industry, policymakers and practitioners can evaluate whether Islamic finance can contribute to social impact and be closer to fulfilling the principles of maqasid al-shariah (the objectives of shariah), promoting the maslahah (public interest) and contributing towards social sustainability.

The rest of this paper is organized as follows; Section 2 defines and conceptualizes social impact from existing literature. Measurement methodologies and proposed parameters are presented in Section 3. Section 4 discusses the topic of social impact measurement from an Islamic perspective. Finally, Section 5 provides the conclusion.

DEFINING AND CONCEPTUALIZING SOCIAL IMPACT

It would be inappropriate to limit the objectives of Islamic finance to elimination of riba (interest), gharar (uncertainty), maysir (gambling) and other prohibited activities only. While elimination of these aspects is crucial in ensuring Islamic finance products and services are shariah-compliant, it is by no means the ultimate objectives of Islamic finance. Islamic finance exists to achieve various objectives; religious objectives, social objectives and economic objectives (Ahmed & Barikzai, 2017).

The multidimensional objectives of Islamic finance require a shift from single bottom line approach to double bottom lines approach which seeks to measure both social impacts as well as financial returns. While the measurement of financial returns is not a problem, there are several issues with the measurement of social impact (Porteous, 2007). Firstly, social impact is qualitative in nature, thus it is hard to quantify it. Secondly, social impact may be positive or negative. Thirdly, it is usually hard to link activities with impacts due to the issues of attribution and causality questions. Moreover, according to Porteous (2007), there is no consensus on the definition of social impact itself.

Various definitions lead to confusion regarding the scope of social impact and this affects the ability to measure and assess it. While some researchers refer social impact to unintended impact only, some others refer it to both intended and unintended impacts (Maas & Liket, 2011). In addition, the term social impact is also sometimes replaced with social value or social return. Various definitions are found in various academic fields such as business, management, accounting, engineering and environmental. Several key definitions of social impact from various studies, reports and books are provided in Table 1.

Table 1: Various Definitions of Social Impacts

Term	Reference	Definition
Social impact	Freudenburg (1986)	Impacts that are likely to be experienced by an equally broad range of social groups as a result of some course of action
Social impact	Interorganizational Committee on Guidelines and Principles (1994)	The consequences to human populations of any public or private actions that alter the ways in which people live, work, play, relate to one another, organize to meet their needs and generally cope as members of society.
Social value	Emerson, Wachowicz and Chun (2000)	The value created when resources, inputs, processes or policies are combined to generate improvements in the lives of individuals or society as a whole
Social impact	Clark, Rosenzweig, Long, and Olsen (2004)	The portion of total outcomes that happened as a result of the activity of the venture, above and beyond what would have happened anyway.
Social impact	IDEO and The Rockefeller Foundation (2008)	The capacity of portfolio of projects to create positive social change on communities and individuals.
Social impact	Center for Social Impact (2014)	A significant, positive change that addresses a pressing social challenge.

Social impact is an emerging and a relatively new concept in the field of Islamic finance. Thus, there is limited literature which focuses on discussing its concept and measurement. Social impact measurement, however, has garnered the attention of various parties in the Western countries since there is an increasing interest in socially responsible activities. Grieco (2015) has highlighted that social impact measurement is very important for various stakeholders as it aims to help the decision makers to evaluate the worthiness of investing and continuing with their businesses. Social impact measurement also provides information on the success of the business, which accordingly can motivate the employees. In addition, measuring the social impact of businesses increase transparency and accountability towards stakeholders (Arena, Azzone, & Bengo, 2015).

Nevertheless, Islamic finance has seen an increasing interest in impact investment and corporate social responsibility (CSR) in recent years. United Nations (2015) define impact investment as "investments made into companies, organizations, and funds with the intention to generate a measurable social and environmental impact alongside a financial return". On the other hand, the World Business Council for Sustainable Development (1999) defines CSR as ""the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large". A substantial Islamic finance literature on impact investment and CSR provides evidences of the positive social impact created by these two activities (Wan Yusoff, Idris, Adeyemi, & Babatunde, 2013; Arshad, Mohd Noor, & Yahya, 2015; Wan Jusoh & Ibrahim, 2017).

Another global agenda that goes hand in hand with Islamic finance is the United Nations' Sustainable Development Goals (SDGs) that officially came into force on 1st January 2016. According to Brundtland Commission (1987), sustainable development is "the development that meets the needs of the present without compromising the ability of future generations to meet their own needs". The realization of United Nations' SDGs requires actions from all parties to promote inclusive growth and social development, upholding social justice, supporting resilient and sustainable economic systems and protecting the environment. At the same time, various social needs must also be addressed such as education, health, social protection and job opportunities.

The aims of SDGs are overlapping with the aims of Islamic finance itself. SDGs provide opportunities for Islamic finance to further strengthen its role and contributions towards economic growth, social inclusion and environmental protection, which are crucial for the well-being of the society. Through various innovative instruments such as sukuk, microfinance, zakat and waqf, Islamic finance is able to mobilize funds and resources to the targeted sectors (Ismail, 2017). However, as one of the three dimensions of sustainable development, social sustainability has not been equally prioritized within the sustainability discourse as compared to economic sustainability and environmental sustainability (Jaeger, Tabara, & Jaeger, 2011). Furthermore, there has been considerable debate regarding the definition of social sustainability which severely compromises the efforts to understand the concept and effectively assessing it (Vallance, Perkins, & Dixon, 2011; Barbier, Rogowski, & Colomb, 2015).

Every author derives their own definition of social sustainability based on the study conducted and the discipline they are in. Thus, there is no generalised definition of social sustainability. For example, McKenzie (2004) defines social sustainability as "a life-enhancing condition within communities, and a process within communities that can achieve that condition". On the other hand, Polese and Stren (2000) offer a more comprehensive definition of social sustainability which is "development that is compatible with harmonious evolution of civil society, fostering an environment conducive to the compatible cohabitation of culturally and socially diverse group while at the same time encouraging social integration, with improvement in the quality of life of all segments". Despite various definitions, it can be seen that the essence of social sustainability lies in the improvement and enhancement of the life of the people in the society.

Maqasid al-shariah has been the central concept in Islamic finance, which is consistent with the objectives of Islamic finance having social impact. According to al-Ghazali, "the ultimate objective of Shariah is to promote the wellbeing of the people" (Dusuki & Abdullah, 2007). This lies in safeguarding the five main interests; deen (faith), nafs (life), ‘aql (intellect), nasl (posterity) and mal (wealth). Any actions that safeguard these five interests are desirable and whatever harms them must be removed (Saba, 2017). The other definition as provided by al-Shatibi, who defined maqasid al-shariah as "the tool to protect and preserve the interest and repels harm in the society" (Sheikh Obid & Naysary, 2016). Al-Shatibi also grouped the objectives of shariah into three broad categories; daruriyyat (essentials), hajiyyat (complementary) and tahsiniyyat (embellishment). Daruriyyat must be protected at all costs and al-Shatibi considered the five interests mentioned by al-Ghazali as the essential interests. Hajiyyat are the complementary interests exist for the betterment of the society while tahsiniyyat are the interests that aim to beautify the way of life (Al-Mubarak & Osmani, 2010).

In this context, maqasid al-shariah requires Islamic finance to take into account the justice and welfare of the society members in addition to profit maximization. Based on the concept of maqasid al-shariah, Mohammed and Abdul Razak (2008) have identified three ideal objectives of Islamic finance which are educating individuals, establishing justice and protecting maslahah (public interest). In addition, Esen (2015) has used maqasid al-shariah approach in a conceptual study to develop a socio-economic development index. Based on fiqh opinions on how best to preserve the five objectives of shariah, various socio-economic indicators have been selected as the parameters in developing the index. The table below illustrates the socio-economic indicators proposed by Esen.

Table 2: Maqasid al-shariah variables and explanatory sub-variables

Maqasid al-shariah Variables	Explanatory Sub-Variables
Protection of Religion	1. Peace Index 2. Values Index
Protection of Life	1. Labour participation rate (% of total population ages 15+) 2. Freedom Index 3. Safety Index 4. Political Stability Index
Protection of Lineage	1. Health expenditure (% of GDP) 2. Prevalence rate of tobacco consumption (%) 3. Life expectancy at birth (ages) 4. Fertility Rate (births per woman)
Protection of Intellect	1. Articles published (numbers) 2. Education expenditure (% of GDP) 3. Patent grants by Filing Office (numbers) 4. Total researchers (numbers) 5. Internet users (per 100 persons)
Protection of Wealth	1. GDP per capita (current price) 2. Gross domestic savings (% of GDP) 3. Household consumption share in total consumption (%)

(Source: Esen (2015))

This study proposes a new concept of social impact from an Islamic perspective using maqasid al-shariah as the underlying framework. Thus, social impact can be defined as the positive impact generated from activities taken by an individual or organization (IDEO & The Rockefeller Foundation, 2008; Center for Social Impact, 2014), that aims to protect and preserve the five major interests in Islam, which are faith, life, intellect, posterity and wealth. By protecting and preserving these five interests, the activities undertaken may improve and enhance the living condition of every member in the society, particularly the poor and marginalised group by ensuring that they have equal opportunities as the other members of the society (Mohammed & Abdul Razak, 2008; Laldin & Furqani, 2013; Asutay & Harningtyas, 2015).

Although there are debates regarding the minimal social impacts created by the Islamic finance industry, past studies have found that the industry has contributed to the social development in the countries that they are operating in. For example, the study done by Wan Yusoff, Idris, Adeyemi, and Babatunde (2013) has revealed that there is statistically significant relationship between Islamic banks' corporate social responsibility programs with the societal development in Malaysia. The study uses a set of questionnaires and societal development is based on perception of respondents. In addition, Aminuzzaman, Bakar, and Islam (2016) did a study to investigate the contributions of Islami Bank Bangladesh Limited (IBBL) to the socio-economic impact and economic development in Bangladesh. Their study revealed that IBBL has provided both social and economic impact in Bangladesh through various investment and profit sharing schemes. Among the social impacts created by IBBL are generating employments, strengthening rural economy, developing housing sector, supporting SME program to eradicate poverty and hunger, supporting woman empowerment and providing scholarships. However, these studies only identified the social impact of Islamic finance without actually measuring it.

With Islamic finance having yet to live its full potential and the lack of studies that attempt to actually measure the social impact generated by the industry, there is a pressing need to initiate researches that fill the gaps in the literature and practice. This paper proposes parameters and measurement method to assess the degree of impact that the industry has contributed to the society. Various stakeholders in Islamic finance industry can use the newly proposed parameters and measurement method to evaluate whether Islamic finance can achieve the objectives of its establishment and thus fulfils the principles of maqasid al-shariah (the objectives of shariah).

MEASUREMENT METHODOLOGIES AND PARAMETERS

In order to assess the level of social impact contributed by Islamic finance, there is a need for a development of measurement tools. In measuring such impacts there are two possible approaches. One is to use established measurement tools to measure social impact of Islamic finance. Secondly, as Islamic finance itself represents a distinct field with a unique underlying concept and principles, it is possible that the idea of social impact entails an alternative perspective which leads to a different measurement framework.

A survey of literature reveals over 30 social impact measurement methodologies developed throughout the years. Some methods are designed particularly for certain organizations while some methods are general which can be adopted by anyone. With the existence of various methodologies, it is difficult for firms and organizations to select the most suitable methodology to measure the social impact of their businesses and activities. The difficulty is due to the absence of consensus on the definition of social impact and the lack of methodology categorization system (Bengo, Arena, Azzone, & Calderini, 2016).

Several past studies have attempted to group various social impact measurement methods into some meaningful categories. For example, Maas and Liket (2011) categorized 30 social impact measurement method into several groups based on its purpose, time frame, orientation, length of time, perspective and approach. Their categorization can assist businesses in finding the most suitable method. In addition, Florman, Klingler-Vidra, and Facada (2016) evaluated 20 social impact assessment methodologies and analysed the strengths and weaknesses of each methodology. They also categorized the methodologies into two groups; general or specific. General methodologies broadly capture all impacts (social, economic and environmental), while specific methodologies only capture one type of impact. However, some methodologies are more prominent than the others. The methodologies that are listed in Table 3 have been used widely in many organizations.

Table 3: Social Impact Measurement Methods, Primary Application and Purposes

Methodology	Primary Application: For Profit Organization	Primary Application: Non Profit Organization	Purposes
Theories of Change	✔		1. Management operation
Balanced Scorecard	✔		1. Management operation
Acumen Fund Scorecard	✔	✔	1. Management operation 2. External reporting
Social Return Assessment		✔	1. Management operation 2. External reporting
AtKisson Compass Assessment for Investors		✔	1. Screening 2. External reporting
Ongoing Assessment of Social Impacts (OASIS)	✔		1. Management operation 2. Retrospective evaluation
Social Return on Investment (SROI)	✔		1. Screening 2. External reporting 3. Retrospective evaluation
Social Cost-Benefit Analysis	✔		1. Retrospective evaluation
Poverty and Social Impact Analysis (PSIA)	✔	✔	1. Screening 2. Retrospective evaluation

According to Clark, Rosenzweig, Long, and Olsen (2004), the methodologies listed in Table 2 are flexible. Some methods are popular with profit organizations while some methods are mostly applied in non profit organization. However, Acumen Fund Scorecard method is used in both for profit and non profit organization. All of these methods can be applied in a comprehensive manner or they can be applied in a simpler way, depending on the users. In addition, each method has different purposes and is suitable for certain needs of the organizations. Social Return on Investment (SROI) is the most comprehensive method as it can be used for three purposes; screening, external reporting & retrospective evaluation.

The choice of measurement method depends on a number of factors and users need to decide which among the many is most appropriate. Firstly, users have to decide the purpose of them carrying out the social impact measurement, either for management operation for daily operation monitoring, external reporting to various stakeholders, investment screening or retrospective evaluation of historical social impact. Some methods can be used for many purposes while some methods are developed for one specific purpose. Then, the users have to weigh and balance between the need for having highly credible method and the costs that must be incurred in implementing them. A more comprehensive method produces more credible results but it is costly, complicated, take more time to be applied and sometimes infeasible for some users. On the other hand, a simpler method is relatively inexpensive, practical, easier to be implemented and requires less time, but the results are less credible.

Among the methods listed in Table 2, the Social Return on Investment (SROI) method is the most favourable and the most commonly used method to measure social impact. SROI framework, launched in 1997 by Robert Enterprise Development Fund (REDF), was the first comprehensive quantitative social impact assessment methodology as it can be used for three purposes; screening, external reporting and retrospective evaluation. SROI is a holistic impact measurement framework that is derived from cost-benefit analysis and social accounting. SROI is a general measurement method that is able to measure and account for a "broader concept of value", going beyond the financial returns to include social, economic and environmental costs and benefits (Pathak & Dattani, 2014). According to The SROI Network (2009), in order to measure the impacts, SROI put monetary values to represent the social, environmental and economic outcomes which enable a benefit-cost ratio to be calculated. For example, a SROI ratio of 2:1 means that an investment of $1 delivers $2 of returns including social value.

SROI analysis is very flexible and can take many forms. It can measure the social impact of the entire of organization or focuses on one particular project of the organization. It is also suitable to be used by for profit organizations. Hence, this study proposes the use of SROI in measuring the social impact of the Islamic finance industry. However, one size will not suit all. Many companies are employing the adapted version of SROI that is catered to the company's specific needs (Grieco, 2015; Florman, Klingler-Vidra, & Facada, 2016). Therefore, there is a need to adapt the SROI method to fit the objectives of the Malaysian Islamic finance industry.

MEASURING SOCIAL IMPACT FROM AN ISLAMIC PERSPECTIVE

The measurement of social impact of the Islamic finance industry is a relatively new research topic. Thus, this study will be exploratory in nature with the purpose of identifying and proposing the underlying parameters of measurement from an Islamic perspective. In order to measure the social impact of Malaysian Islamic financial institutions (IFIs), the study proposes the use of SROI. Different organizations use different approach in using SROI. However, generally SROI analysis involves six stages as illustrated in Figure 1.

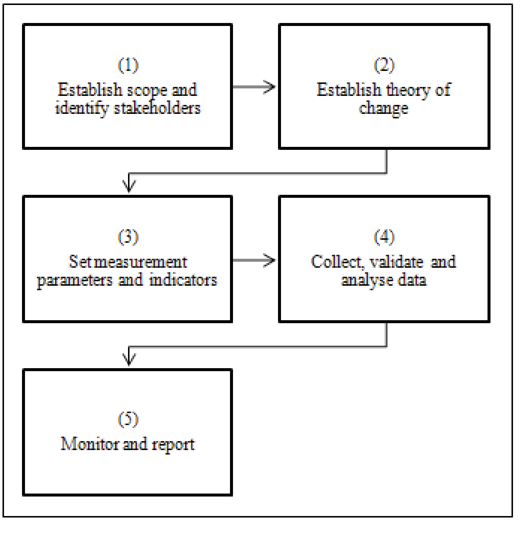

Figure 1: Six stages of SROI
(Source: The SROI Network (2009))

Firstly, the scope of this SROI analysis will cover all of the activities of the Malaysian IFIs. It is good to include a SROI report together with annual financial report, thus this study proposes to measure SROI over one calendar year. The key stakeholders are the customers, employees, shareholders, investors, industry associations, educational institutions, communities and government. Secondly, the theory of change needs to be established whereby the inputs, outputs, outcomes and impacts are identified. Then, using maqasid al-shariah as the theoretical underpinning, the study comes up with a recommendation of suitable parameters for measuring the social impact of Islamic finance industry from Islamic perspective. The selected parameters represent the aspects that need to be fulfilled by the Islamic finance industry in order to preserve the five objectives of shariah, which are the protection of religion, protection of life, protection of lineage, protection of intellect and protection of wealth. Meanwhile, the indicators are the measurable information that represents the parameters. The most appropriate parameters and indicators to be used in the measurement of social impact of Islamic finance industry are proposed in Table 4.

Table 4: Proposed Parameters for Measurement of Social Impact from Islamic Perspective for Islamic Finance Industry

Maqasid al-shariah variables	Proposed parameters	Indicators
Protection of Religion	Commitment in fulfilling Islamic principles	1. Shariah-related index 2. Number of interest free products 3. Islamic asset under management 4. Religious and spiritual programs organized by IFIs
	Promoting interest free products	1. Publicity and marketing expenses
Protection of Life	Occupational safety management	1. Safety policy in operated buildings 2. Expenditure on group Takaful plan 3. Women friendly security programs
	Healthcare and lifestyle	1. Staff medical policy 2. Staff health policy 3. Medical expenses on staffs 4. Expenses on promotion of healthy lifestyle 5. Healthy lifestyle activities 6. Working hours

Protection of Lineage	Elimination of prohibited income	1. Interest free income 2. Purified income
	Women/family friendly policy	1. Maternity and paternity leaves 2. On-site child care facilities 3. Programs on marriage and family development 4. Company-family events
Protection of Intellect	Advancement of knowledge	1. Scholarships 2. Research grants and activities
	Embedding new skills and knowledge	Education and training expenses Collaboration with educational institutions Classes, workshop, seminars
	Human capital	1. *Shariah* scholars 2. Islamic finance experts
Protection of Wealth	Employment	1. Job creation 2. Wages and compensation policy 3. Takaful policy 4. Employee ownership and shares
	Fair returns	1. Profit equalization reserve
	Social/ financial inclusion	1. Investment in SME, rural economy and real sector 2. *Zakat* payment 3. Risk sharing products 4. Amount of micro-financing 5. Allocations for CSR activities

After collecting the needed data, SROI of the IFIs can be measured using the following formula:

$$\text{SROI} = \frac{\text{Net present value of benefits}}{\text{Net present value of costs}}$$

In the final stage, the SROI report shall be prepared and presented to stakeholders of the Islamic finance industry. From the report, various stakeholders can assess and monitor the social performance of the IFIs. They can observe whether the Malaysian Islamic finance industry is successful in achieving the ideal objectives of its establishment.

CONCLUSION

Islam promotes economic development based on the principle of maqasid al-shariah which upholds the concept of social justice and welfare, equality, benevolence, cooperation and brotherhood. The true spirit of Islamic finance also goes hand in hand with the United Nations' SDG that aims to end all poverty and inequality all around the world. In spite of its idealistic objectives, the Islamic finance industry remains very much outside the concern of majority of Muslims. In addition, by using conventional performance measure that solely focused on financial measure, the industry is also seen to be failing in capturing the multi objectives and the social impacts, both good and bad, that the industry has created. On top of financial performance measure, there is a need to assess and measure the impact that the industry has contributed to the social sector. This study proposed new parameters in measuring the social impact of the Islamic finance industry using maqasid al-shariah as the theoretical underpinning. 35 indicators representing 12 parameters are proposed to be measured. These parameters are the aspects that Islamic finance needs to fulfil to realize the objectives of its establishment. To measure the social impact, the study proposed the use of Social Return on Investment (SROI) method that is tailor-made to the unique objectives of Islamic finance.

Islamic finance is much more than elimination of interest and conforming to legal shariah requirements. It is a comprehensive financial system that aims to contribute towards sustainable socio-economic development and creation of just society, as manifested in the principles of maqasid al-shariah. Thus, by having the right parameters and method to measure the degree of social impact contributed by the Islamic finance industry, various stakeholders can examine whether the industry has achieved the objectives of its establishment and thus fulfils the principles of maqasid al-shariah (the objectives of shariah), promoting the maslahah (public interest) and contributing towards social sustainability

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