The Potential of Innovative Financial Tools: Social Impact Bond (SIB) and Sustainable and Responsible Investment (SRI) sukuk, Towards The Sustainable Growth of The Islamic Finance Industry

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Abstract— **The purpose of this paper is to explicate the congruence of innovative financial tools: Social Impact Bond (SIB) and Sustainable and Responsible Investment (SRI) sukuk with the principles of Islamic Finance, and explore their potential contribution towards the sustainable growth of the Islamic finance and societal wellbeing. Using various literature, the paper takes a comparative approach in explaining and relating the two innovative tools with the development of Islamic finance. The paper finds that there is a growing interest in innovative tools such as SIB and SRI sukuk globally. Furthermore, these tools exemplify the spirit of risk-sharing and social responsibility which are the major essences of Islamic finance that are currently missing in practice. The paper provides a reference towards understanding the mechanism and concepts of SIB and SRI sukuk. It also provides insight to the emerging interest in these innovative tools, and assesses the current innovative efforts in the Islamic finance industry. Additionally, it highlights the potential of these tools towards the sustainable growth of the Islamic finance industry through risk-sharing and societal impact. The paper is exploratory and conceptual in nature therefore further empirical studies can be done.**

Keywords - Social Impact Bonds; SRI sukuk; Risk-sharing; Innovative financial tools; Social responsibility.

I. INTRODUCTION

The Islamic finance industry has seen significant growth since its emergence in the 1970s where it started as a nascent sector mainly focusing on Shari‘ah compliant banking, and later grew into a comprehensive financial system which includes banking, capital market, and takaful. The growth of the industry has been consistently upward, growing a compound annual growth rate (CAGR) of 17% from 2009 to 2013 [1]. Currently, the industry’s assets are estimated to be worth USD 2 trillion and are set to become USD 5 trillion in 2020. These growth figures are a result of improved infrastructure, robust and comprehensive industry, broader customer and issuer base, and interconnected cross-border transactions [2]. Overall, the industry is concentrated in the Middle East and Asia with the GCC region accounting for the largest proportion of Islamic financial assets (37.6%), followed by the Middle East and North Africa (MENA) region (34.4%), while Asia has 22.4% of the share from the total global Islamic financial assets. Although there is significant interest from other regions, the contribution from regions such as Europe remains low. Nonetheless, the future growth remains promising with a number of developments and initiatives taking place [1].

Despite the encouraging progress, the full potential of the Islamic finance industry is yet to be realised. More needs to be done to enhance Islamic Financial Institutions (IFIs) and expand innovative financial tools in order to maintain and achieve sustainable growth of the Islamic finance industry. Furthermore, there have been calls to bridge the gap between Islamic finance theory and practice by developing more sustainable tools that also embody principles of Islamic finance such as risk-sharing and social responsibility [3]. Therefore, this paper aims to highlight two relatively new innovative financial tools, the Social Impact Bond (SIB) and the SRI sukuk, which have the potential to be further utilised and developed in the Islamic finance industry. These tools can add to the diversity of Islamic finance instruments and provide the much needed social impact that is currently lacking from the industry. This paper is conceptual in nature but may have some practical relevance for IFIs and parties interested to innovate Shari‘ah compliant and socially impactful tools. Essentially, the paper will fill an important gap within the literature of SIB, SRI sukuk, risk-sharing and the practice of Islamic finance. The structure of this paper is as follows: The following sections explain the concepts of SIB and SRI sukuk, then compare and contrast these innovative tools. This will be followed by a section that explains their congruence with Islamic finance principles and a section that provides arguments why they can become the new frontier for the sustainable growth of the Islamic finance industry. Finally, several suggestions and a conclusion will be provided.

II. SOCIAL IMPACT BOND (SIB)

In recent years, there has been a growing global interest in SIB, especially from western governments that are seeking additional funds to help cover their dwindling resources amidst global financial constraints. Quite a number of countries including the UK and the US have implemented SIB for a variety of social programmes that address the issues such as recidivism, homelessness, education, unemployment, and care for troubled children. Albeit being a relatively new financial tool that does not have sufficient track records, early pilot SIBs have shown promising results and "proof of concept" [4]. Therefore it is no surprise that other countries such as Australia, New Zealand, and Canada are developing SIBs for their respective countries. The following section explains and defines the SIB model.

A. Definition

A review from various literature shows that the SIB does not have a fixed definition. Kohli, Besharov [5] define SIB as "an arrangement between one or more government agencies and an external organization where the government specifies an outcome (or outcomes) and promises to pay the external organization a pre-agreed sum (or sums) if it is able to accomplish the outcome(s)". Henderson [6] defines SIB as a financial instrument where investors pay for a set of interventions to improve social outcomes that are of financial interest to the government commissioner. If the social outcome improves, the government commissioner will repay the investors for their initial investment, plus a return for the financial risk that they have undertaken. However, if the results do not improve above the pre-agreed threshold, then the investors will lose their investment. According to Costa, Shah [7], SIBs can be understood as contractual relationships between the government and private enterprises with the aim to deliver positive social outcomes. There are various versions of its name, where "Social Impact Bond" is generally used in the UK and Canada, while the term "Pay for Success Bonds" and "Human Capital Performance Bonds" is used in the US, whereas in Australia it is called the "Social Benefits Bond" [8]. In this paper, "SIB" will be used to represent this tool due to the more common usage in literature.

B. Mechanism

The SIB model intersects the public, private, and the social sector by encompassing a multi-stakeholder partnership approach. The following figure illustrates the mechanism of SIB and the relationship between the stakeholders:

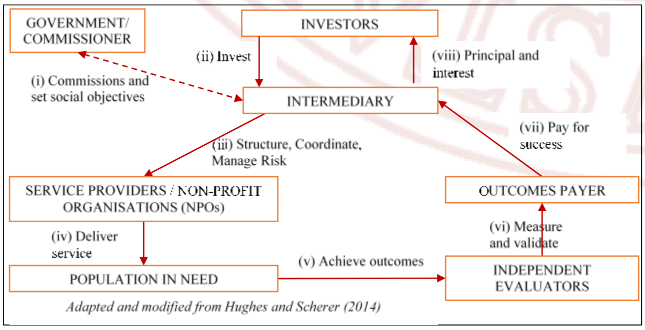

Figure 1. SIB process flow

As shown in the above figure, there are a number of stakeholders involved in a SIB. Firstly, the commissioner identifies the social area of interest. The commissioner then contracts with a financial intermediary where certain objectives are determined. The intermediary raises initial capital by issuing bonds to private investors. These investors invest by buying the bonds in exchange for future payments plus additional returns which are dependent on the success of the programme. The funds obtained from the bonds are then used by the intermediary to pay Non-Profit Organisations (NPOs) who will provide the social services for the targeted population. In order to assess the degree of success for the programme, independent-evaluators are hired. They will do the necessary appraisal and report the success, or failure of the programme to the stakeholders. The evaluations are undertaken with a high degree of scientific accuracy, usually involving control groups [9]. Once the report is received, the necessary funds can be paid to the investors. However, if the programme is not successful, the investors may not get any return at all.

C. SIB Structure

Despite its "bond" name, SIB is distinct from a conventional bond or any other type of fixed-income tool in the financial market. In general, a typical bond would have a guarantee on the capital and rate of return. On the other hand, the SIB's capital and return are not guaranteed as they are contingent upon the success of the social programme. The guarantee element in conventional bonds also prevent total loss towards investors (risk-shifting), while in a SIB, the outcome risks is shared amongst stakeholders (risk-sharing). From another perspective, SIBs share features of both equity and debt. SIB has a fixed term and capped upside, but similar to an equity, the return vary depending on the performance of the programme/project while the investments are not secured by real assets or cash flows [10]. It is also said to be a composite of a loan, equity, and fixed-income instrument – there may be the risk of total loss such as in an investment; returns based on the degree of success seen in dividends in an equity; and returns based on pegged rates like in a fixed-income instrument [11]. This makes the SIB model an innovative and very unique form of financially engineered tool that is built upon social impact.

D. Benefits of SIB

There are a number benefits that can be realised from SIB. So much so, that a Mckinsey & Company report by Callanan, Law [12] concluded that "SIBs have potential as a tool to help solve America's societal problems at scale". From literature, the benefits that can be anticipated from implementing SIB are that:

1) It increases the pool of capital that can be made available to fund social intervention programmes by tapping into private sector funds [13-15].

2) It encourages multi-stakeholder collaboration between the diverse organisations involved in the social services programmes by aligning incentives among stakeholders [3, 13, 15, 16].

3) It creates better market discipline and offer stable revenue streams for service providers, enabling the effective ones to thrive [13, 15, 17].

4) It aligns government funds directly with improved social outcomes. In other words, it allows for funding to shift towards effective approaches. [5, 13, 16, 18].

5) SIB helps improve performance and effectiveness of social programmes as it focuses in achieving results in a transparent manner for taxpayers. The structure also has an inherent "check and balance" mechanism with the involvement of various stakeholders. [5, 16, 18].

6) SIB helps accelerate adoption of new solutions and innovations: With the SIB, government agencies would have an incentive to invest in new strategies that have potential as opposed to funding the same old approaches that are not effective [15-17, 19].

7) Faster learning about what works: The SIB model approach incorporates rigorous and continuous evaluation of programmes, accelerating the way we learn about which approach actually works and which do not [16, 20].

8) It encourages risk-sharing between stakeholders from the public and private sector. The mechanism is somewhat similar to equity investment where each stakeholder hold their respective risks. However, the stakeholders are also rewarded for these risks if the programme succeeds [3].

9) It is an innovative financial tool that can become an alternative investment asset class that is not tied to the conventional financial market. As such, SIB is not subject to market volatility as its returns are driven by outcome of the social programme, rather than business cycles, economic shocks or market speculation. This also offers diversification benefits for investors [3].

10) SIB programme's success may result in considerable cost savings as it focuses on preventative intervention measures that solve the social problem at its core, rather than treating the symptoms. Public funds are shifted towards early intervention which will reduce the need to spend on treatment programmes [8, 21]. The figure below provides a simple illustration on how public savings can be realised through SIB:

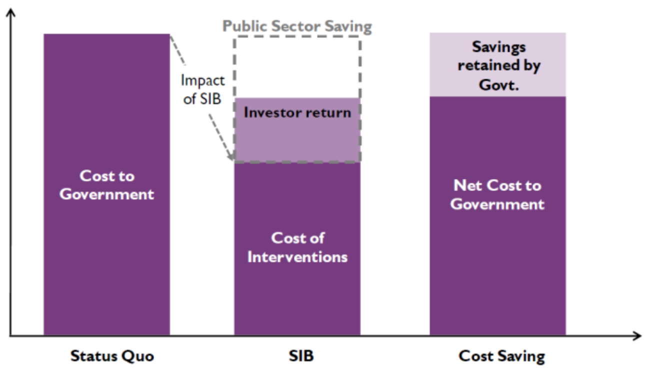

Figure 2. Cost saving from successful sib

E. Global trends

The world's first SIB was launched in the UK in 2010, addressing the issue of recidivism (reoffending). £5 million was raised by Social Finance (intermediary) from charities and private organisations to fund intervention services for short term prisoners (less than one year) at Her Majesty's Prison (HMP) Peterborough. The SIB programme provided the target group the much needed supervision and assistance upon their release from prison which was not adequately provided by the UK's Probation Service [4]. From its assessment in 2014, it was shown that the programme has successfully reduced reoffending by 8.4% from its first cohort (1000 prisoners) of the target population [22]. As of September 2015, the UK has launched almost 30 other SIB projects ranging from social issues such as homelessness to youth employment [23].

In the USA, the White House established the Office of Social Innovation and Civic Participation to develop grant programme to help NPOs to scale up effective programmes. In 2011, the White House endorsed the idea of Pay-for-Success (PfS), encouraging government agencies to look into new funding models including the SIB. $100 million was asked from the congress to implement the idea of PfS at state and city level [14]. Consequently in 2012, Goldman Sachs partnered with the City of New York, Bloomberg Philanthropies, and MDRC to initiate the first SIB in the US. It managed to raise $10 million to fund Adolescent Behavioral Learning Experience programme which aims to reduce juvenile recidivism at Rikers Island correctional facility [3]. In California, projects are currently underway for a health impact SIB targeting chronic asthma and reducing children's hospital visits related to the disease. The Harvard Kennedy School has also set up a SIB Technical Assistance Lab that offers assistance to governments considering the model. While in 2014, the Obama administration again asked congress for $195 million discretionary funds for SIB market development, and proposed a $300 million PfS incentive fund within the Department of Treasury to pilot projects for areas such as education, housing, training, and incentive funds for local governments [14]. Currently, there are 7 SIB projects in implementation in the USA and more are yet to come [23].

Australia has launched two SIBs in 2013, both focusing on foster care avoidance and child protection system. Other SIBs are being developed especially in the areas concerning family building and recidivism. Finance For Good [23] reports in its SIB tracker, as of September 2015, there are currently 50 SIB programmes globally, including from India, Portugal, Germany, Ireland, Belgium, and Netherlands. The total size of SIB contracts currently underway is estimated to be approximately CAD190 million (USD143 million). The figure below shows the breakdown of the social issue areas and the SIB values currently in implementation.

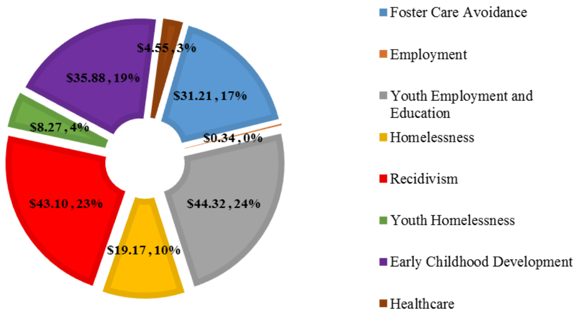

Figure 3. Value of sib market social issue areas (cad mm)

Surprisingly, this innovative and promising tool has not gained as much interest from Islamic or Muslim majority countries, despite its fund raising capabilities, risk-sharing advocacy and social impact. Nonetheless, there are some encouraging developments in the form of SRI sukuk, which will be discussed in the following sections.

III. THE SUSTAINABLE AND RESPONSIBLE INVESTMENT (SRI) INDUSTRY

Sustainable and Responsible Investment (SRI), sometimes also referred to as "socially responsible investment", is a generic term that covers any type of investment process which combines investors' financial objectives with their concerns regarding environmental, societal, and governance (ESG) issues [24].

As with the Islamic Finance and SIB industry, the area of SRI investing has gained traction and showed upward trend of growth over the past decade. In the US alone, the estimated total assets under management using SRI strategies expanded from USD3.74 trillion in 2012 to USD6.57 trillion at the start of 2014, a 76% increase [25]. While as of 2010, 28% (more than £900 billion) of assets under management in the UK are under the Sustainable and Responsible Investment (SRI) segment [26]. However, according to the UK government, the market is still embryonic and is way below its potential scale. There are £95 billion of UK charitable income and endowment assets for social investment and the government are looking at ways to unlock this area. UK investors are also very keen on the social investment market. The UK government is also constantly seeking to improve its legal and administrative environment for social innovation by looking into its "Charities Act", and reviewing its financial legislations [27]. It hosted the G8 Social Impact Investment event in 2013, which discussed the role of social finance in economic development. Additionally, a social investment bank, "Big Society Capital", was launched by the UK government to encourage the growth of the social investment market [26]. The growing awareness for sustainable and environmentally friendly development has led to more interest in SRI and "green" projects from the likes of European Commission (EU) and the World Bank – which has led the issuance of a green and socially responsible bond since 2008. As of September 2015, the World Bank has issued approximately USD8.5 billion equivalent in Green Bonds [28]. Encouragingly, the development of SRI investing has also caught the interest of one of the largest Islamic finance and sukuk market in the world, Malaysia.

A. *Malaysia's SRI Sukuk framework*

Malaysia took the lead in issuing guidelines for the Sustainable and Responsible Investment (SRI) sukuk. The SRI Sukuk framework was first mentioned in the Malaysian 2014 budget speech by the Prime Minister [29] and consequently launched by the Securities Commission Malaysia (SC) in August 2014 as an extension to the existing guideline. This framework is part of the SC's Capital Market Masterplan 2, which aims to promote socially responsible financing and investment [30]. The Masterplan sets the agenda to develop a conducive environment for investors and issuers who are interested in sustainable and responsible investments, and facilitate the growing trend of new innovative financial tools such as green bonds and SIBs [31]. The guideline covers a broad range of eligible projects which include projects that aim to: (a) preserve and protect the environment and natural resources; (b) conserve the use of energy; (c) promote the use of renewable energy; (d) reduce greenhouse gas emission; or (e) improve the quality of life for the society. Existing projects under several categories are deemed to be eligible to be categorised as a SRI project. This includes community and economic development projects relating to: (i) public hospital/medical services; (ii) public educational services; (iii) community services; (iv) urban revitalisation; (v) sustainable building projects; or (vi) affordable housing. Islamic trust and endowment (waqf) assets or any projects that undertake the development of waqf assets are also deemed eligible to be categorised under SRI [32]. Furthermore, the framework details out the disclosure requirements for the issuer which includes details of the SRI project and its impact, as well as a statement affirming that the issuer has complied with the relevant environmental, social, and governance standards, or recognised best practices relating to the Eligible SRI project. An independent party must also be appointed to undertake an assessment of the SRI project and issue a report to be included in the prospectus or disclosure document. This adds transparency, boosts investor confidence, and encourages the SRI market to grow, which is evidenced in the first SRI sukuk issuance by Khazanah recently [33].

B. *Khazanah SRI sukuk: Ihsan sukuk*

The first SRI Sukuk in Malaysia was launched by Khazanah Malaysia Berhad (Khazanah) in May 2015 [34]. The sukuk programme (Ihsan sukuk) led by a Special Purpose Vehicle (SPV) called Ihsan Sukuk Bhd (Ihsan), has a RM1.0 billion nominal value with a tenure of 25 years from its first issuance. The first issuance was fully subscribed in June 2015 with a value of RM100 million, and has a 4.3% return per annum over a 7 year tenure [35]. It was assigned a rating of AAA(s) by RAM Rating Service Berhad (RAM). The rating reflected Khazanah's role as the credit obligor under the SRI sukuk structure [34]. The sole Lead Arranger of the sukuk is CIMB Investment Bank Berhad (CIMB) while the Joint Shari'ah Advisors are CIMB Islamic Bank Berhad and Amanie Advisors Sdn Bhd. The sukuk is structured according to the Islamic principle of Wakalah bi Al-Istithmar. The figure below shows the structure of the sukuk in further detail:

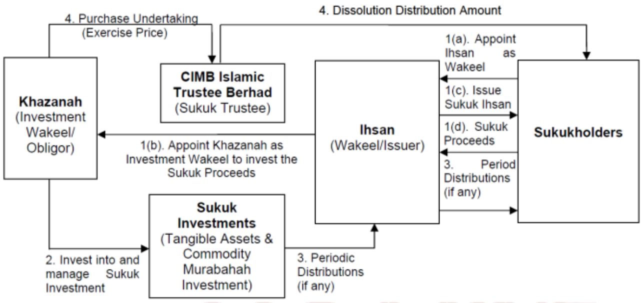

Figure 4. Ihsan sukuk structure

The proceeds from the sukuk issuance is channelled to Yayasan AMIR, which is a Non-Profit Organisation (NPO) that manages Khazanah's Trust Schools programme - a Public-Private Partnership with the Government. The objective of the programme is to improve accessibility to quality education in Malaysia. The SRI sukuk follows a "pay for success" structure which measures impact through several Key Performance Indications (KPIs) throughout a 5-year period. Prior to its maturity date, an independent auditor from either Ernst & Young, KPMG, PricewaterhouseCoopers, or Deloitte, shall evaluate the KPIs of the sukuk and provide a KPI evaluation report for the sukuk trustees, facility agent, and sukuk-holders [36].

C. Is SRI sukuk a form of SIB?

Looking at the structure, characteristics, and aims of SRI sukuk, one cannot run from associating it with the SIB model, especially when SIB itself does not have a standard definition. Therefore it should come to no surprise that RAM ratings [33] categorised SRI sukuk as a form of SIB. This is because, similar to SIB, in SRI sukuk the issuer's obligation to pay will depend on the performance of the SRI project with regards to its KPI. The notion that SRI sukuk is a form of SIB is further strengthened by looking at the definition of SIB as provided by the Centre for Social Impact Bonds [37] which defines SIB as an arrangement with four necessary features:

1) a contract between a commissioner and a legally separate entity 'the delivery agency';

2) a particular social outcome or outcomes which, if achieved by the delivery agency, will activate a payment or payments from the commissioner;

3) at least one investor that is a legally separate entity from the delivery agency and the commissioner; and

4) some or all of the financial risk of non-delivery of outcomes sits with the investor.

Accordingly, Reeder, Khalid [11] and Ng, Mirakhor [3] have both proposed several Shari'ah compliant SIB structures, which are based on contracts such as jualah (performance-based fee), musharakah (profit-and loss sharing partnership), mudarabah (investor-entrepreneur model), as well as the wakalah bi istithmar (agency to invest). The Khazanah Ihsan sukuk structure fulfils the four necessary features of SIB as defined by Centre for Social Impact Bonds [37] and applies the wakalah bi istithmar structure in its contract. Hence it can be said to be a Shari'ah compliant SIB. This is in line with the research by Ronicle, Stanworth [38] which finds that SIBs can take a number of forms as long as it shares the fundamental features, with new varying structures emerging as the SIB concept develops.

Therefore, we agree with the proposition by RAM ratings [33], SRI sukuk is a form of SIB.

IV. CONGRUENCE OF SRI AND SIB WITH ISLAMIC FINANCE

The areas of Islamic finance (IF), SRI, and SIB have been among the most rapidly growing areas in the finance industry over the past decade [24, 39]. During this period, their growth rates have grown far beyond the financial markets as a whole and the trend appears to continue upwards. The parallel growth of these areas are not coincidental as they are catalysed from the relative rise of awareness of moral values, ethics and social responsibility in certain segments of the finance industry.

There are several commonalities shared by IF, SIB, and the SRI concepts. Firstly, similar to IF, SIB and SRI have their roots from religious doctrine, specifically the objective of many practitioners of many religions to use their money in ways that are compatible with their religious beliefs [3, 39]. For example, Christian theology gives focus on the individual's moral responsibility to use their wealth consistent with one's faith [John Wesley, in 39]. Likewise in the Jewish faith where the passages from the Talmud support the use of investment as a means to promote ethical activities and social good [40], while Islamic finance is guided by the principles of the Shari'ah which acts as its authority on ethical and legal reference [24]. Undeniably these religious values have influenced investment decision-making for centuries, only to be overcome by greed and individualism as seen in reoccurring financial crises. These religious values shaped what we call "moral and ethical" investment behaviours today. Early forms of moral and ethical investing activity include the avoidance of investing or supporting "sinful" industries such as gambling, guns, and alcohol. This ethical and moral investing behaviour grew in the 1960s and 1970s to encompass a wider range of objectives such as boycotting companies that were involved in the Vietnam war or traded with apartheid-South Africa [39].

Secondly, IF, SIB, and SRI share the principal of using money or wealth in a way that conforms to certain moral standards and beliefs. This is opposed to the traditional conventional finance practice that is mainly driven by the aim to maximise risk adjusted returns. This is not to say that IF, SIB, and SRI ignore the effort to achieve strong returns on investment, but rather they take into consideration not only the pure economic returns, but also social returns gained from the practice that is compliant with their beliefs and ethics. In the modern era, moral and ethical investment concerns include human rights, labour rights, environment, and corporate governance. The most common type of strategy employed by moral and ethical investors has been "negative screening" – which is the practice of not purchasing securities or financial tools that do not meet the moral and ethical standards set by the investor. This practice screens out securities that are involved in the industry of tobacco, alcohol, gambling, weapons, and high pollutants. The new investment practice involves a more proactive form of investment usually referred to as "Impact investing" [39]. The impact investing practice practices a "positive screening" method that looks at funding efforts that can achieve positive and measurable social and economic outcome. This method is commonplace in SIB and SRI and should become the norm in IF practice as well.

Thirdly, SIB and SRI embody the principle of risk-sharing, an element that is an essence of Islamic Finance [3]. In a SIB and SRI sukuk, the risk of the programme failing to reach its targeted outcome, is shared amongst the stakeholders involved. This involves not only the financial risk towards investors, but also the reputational risk the government suffers causing loss of trust in executing its duty as the caretaker of social welfare. The society also risks losing the potential benefits that could have been gained from the SIB succeeding and creating better social outcomes.

Furthermore, SIB and SRI encourage corporate social responsibility, and protecting and preserving the benefits and interests of the society, which is in line with the principle of Maqasid al-Shari'ah embedded firmly in Islamic Finance theory [33, 41]. SIB and SRI sukuk also intend to finance measurable social outcomes which appeal to the Islamic finance principle of social justice [3].

Lastly, another commonality seen is that the growth of IF, SIB, and SRI has been mainly demand-driven [39]. As such, financial institutions have devoted their resources into these areas as a response to the increasing demand from individual investors and community.

V. SIB AND SRI SUKUK AS NEW FRONTIERS FOR SUSTAINABLE ISLAMIC FINANCE GROWTH

There are two main reasons why this paper argues that SIB and SRI sukuk have the potential to become the new frontiers of sustainable Islamic finance growth. Firstly, in the current global market there is limited overlap between conventional and Islamic financial market. Many Muslim investors invest in both conventional and Shari'ah-compliant products, yet few non-Muslims invest in Shari'ah compliant products despite the growing interest [39]. The intrinsic nature of Islamic financial products themselves does not cause this, but rather the unfamiliarity of the non-Muslim investors towards the terminology and structure of the products. Nonetheless, according to Bennet and Iqbal [39] the products can still be attractive if they offer reasonable risk-adjusted return as compared to the market – especially for Western investors that do not have enough exposure to Islamic finance. The Shari'ah-compliant products may take some time to be accepted by non-Muslim investors, but the enduring growth of SRI philosophy among conventional investors may help accelerate this acceptance. This is because Muslim and non-Muslim investors alike are increasingly looking for investments that can make positive social impacts [39]. Hence Shari'ah compliant products that focus on creating positive social impact can be an innovative tool to bridge the gap between conventional and Islamic finance. These types of SRI products can tap into the demand and appetite of the non-Muslim investors who are SRI driven. Products such as Shari'ah-compliant SIBs and SRI sukuk can most likely appeal to this appetite.

Secondly, to date IF products have been criticised for being too skewed towards fixed income or debt-based instruments. However, the prevalence of equity-based or risk-sharing arrangement is more evident in the Shari'ah approved equities. The investment in equity is more easily made compatible with the principles of IF that emphasises on equitable risk-sharing and the prohibition of interest. The main mechanism in ensuring Shari`ah compliance is by applying various activity and financial screening techniques to confirm conformity to Islamic religious and ethical standards. Both SIB and SRI in the conventional capital market have focused on equity rather than on fixed-income. Similarly, Shari`ah compliant SIB and SRI sukuk can be structured to use equity and risk-sharing contracts as well. Hence, financial intermediaries have found that creating Shari'ah compliant and SRI equity products is much easier and straightforward as compared to fixed-income ones [39]. As a result, IF and SRI practitioners are turning their attention to the development of risk-sharing tools. The "Kuala Lumpur Declaration" in 2012 is an example of this [3]. The declaration was a result of a strategic roundtable discussion by scholars and economists, jointly organised by the International Shari'ah Research Academy for Islamic Finance (ISRA), the Islamic Research and Training Institute (IRTI), and Durham University. Among others, it declared that risk-sharing is a salient characteristic of Islamic financial transactions. It recommended governments to endeavour towards risk-sharing systems and move away from interest based systems by levelling the playing field between equity and debt. Furthermore, it recommended governments to "issue macroeconomic instruments that could provide their treasuries with significant source of non-interest-rate-based financing while promoting risk-sharing, provided that these securities meet three conditions: (i) they are of low denomination; (ii) are sold on the retail market; and (iii) come with strong governance oversight" [42]. The move towards risk-sharing products that have focus on ethics and social responsibility creates a clear opportunity for the sustainable growth of the Islamic finance industry. This demand for Shari'ah compliant risk-sharing products can be conveniently filled by products in the like of Shari'ah compliant SIBs and SRI sukuk.

The potential development of innovative risk-sharing products such as SRI sukuk and SIB is very encouraging but needs to be developed further. Therefore efforts to facilitate the development of SIB and SRI sukuk tools need to be established in order to address the challenges and risks involved. For example, Sheng [43] highlights the need for professional benchmarking and measurable impact on societal issues and development. While Ng, Mirakhor [3] suggests the need for a special taskforce with authority and working groups to be set up by the government in order to catalyse and strategies the development of social impact investment market. A social investment bank or foundation can be established by the government to underwrite issuance of SIB without the need of further credit enhancement (as with the case of Khazanah AAA rating by RAM). Tax incentives to reduce the cost of capital can also be offered. Examples of these can be seen from the tax vouchers in the case of Khazanah SRI sukuk, the Social Investment Tax relief in the United Kingdom, and the New Markets Tax Credit in the United States.

VI. CONCLUSION

The Islamic finance industry has shown tremendous growth and development over the past few decades. However, it can be argued that despite this progress, the full potential of Islamic finance industry has not been realised. Additionally there are calls to bridge the gap of Islamic financial theory and practice, and also growing demands for Shari'ah compliant risk-sharing tools. This can be done through two innovative tools: the SIB and SRI sukuk, which are relatively new, but have shown promising results from SIB and SRI programmes that have been implemented. In addition to their congruence with Islamic finance principles of risk-sharing and social responsibility, the development of these products can further diversify Islamic financial tools and attract investors with SRI appetite. However, much more effort is needed especially from the governments in order to facilitate the development of SIB and SRI sukuk. Finally, the ideas and principles within of SIB and SRI need to be promoted to a wider audience in order to create greater awareness and interest in the market.

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