

## Islamic Social Bank: An Adaptation of Islamic Banking?

(*Bank Sosial Islam: Adaptasi daripada Perbankan Islam?*)

Shifa Mohd Nor

(Faculty of Economics and Management, Universiti Kebangsaan Malaysia)

### ABSTRACT

*Islamic banking is an experiment of the viability of Islamic economy with the aim to fulfil the socioeconomic justice that balances the material and social aspects of finance. However, the current practice of Islamic banking has yet to address the moral issues in promoting a balance between social and economic justice. Consequently, some scholars suggested that it is timely to learn from the experience of social banking model; that is an articulation of a sustainable and CSR oriented banking model in fulfilling the developmental needs of Muslim societies. Therefore, the purpose of this study is to introduce the idea of Islamic social banking based on the aspiration of Islamic moral economy. This paper will also discuss the social and sustainable features of social banking from an Islamic view which importantly will lead to social and economic development. The implication of the study is to fulfil the developmental needs of the Muslims in alleviating poverty and uplifting the social status by introducing a social bank which is Shari'ah compliance.*

*Keywords: Social banking; Islamic banking; sustainable development; Islamic moral economy*

### ABSTRAK

*Perbankan Islam merupakan satu eksperimen berdaya maju dalam ekonomi Islam yang bertujuan memenuhi keadilan sosioekonomi dengan menyeimbangi aspek material dan sosial dalam kewangan. Namun, amalan semasa perbankan Islam dilihat tidak menangani isu-isu moral dalam menggalakkan keseimbangan keadilan sosial dan ekonomi. Oleh yang demikian, beberapa ilmuwan mencadangkan bahawa sudah tiba masanya untuk perbankan Islam mempelajari daripada pengalaman model perbankan sosial yang merupakan artikulasi model perbankan mampan dan berorientasikan tanggungjawab sosial korporat yang memenuhi keperluan pembangunan masyarakat muslim. Justeru itu, kajian ini dijalankan untuk memperkenalkan idea perbankan sosial Islam yang berteraskan kepada aspirasi ekonomi moral Islam. Kajian ini juga akan membincangkan ciri-ciri sosial dan kemampuan perbankan sosial daripada pendekatan Islam di mana ianya akan menjurus kepada pembangunan sosial dan ekonomi. Implikasi kajian ini adalah untuk memenuhi keperluan pembangunan orang-orang Islam dalam membasmi kemiskinan dan sekaligus meningkatkan status sosial masyarakat dengan memperkenalkan bank sosial yang patuh shari'ah.*

*Kata kunci: Perbankan sosial; perbankan Islam; pembangunan mampan; ekonomi moral Islam*

### INTRODUCTION

The experimentation of Islamic banking as a subset of the Islamic economic system aims to facilitate the financial and socioeconomic needs of Muslims who are concerned about the non-permissibility of their earnings and other financial activities (Ahmad 1994; Ariff 1988; Zaher & Hassan 2001; Al-Jarhi 2007; Dusuki 2008a). The fundamental of financial activities of Islamic banking is to offer a *riba*'-free banking products and services in which the transactions are free from the other important elements of Shari'ah particularly on 'interest' (*riba*) 'uncertainty' (*gharar*), 'gambling' (*maysir*) and 'unethical' conducts (Ahmad 1994; Iqbal 2004; Derigs & Marzban 2008; Ismail 2010). These elements are among the important aspects in the implementation of Islamic banking to fulfil the socioeconomic justice that balances the material and social aspects of finance (Zaher & Hassan 2001; Al-Jarhi 2005, 2007; Iqbal & Molyneux 2005; Tripp 2006; Dusuki 2008a).

Nevertheless, the founding fathers of Islamic economics such as Chapra (1979), Ahmad (1980), Siddiqi

(1980) and Khan (1984), have claimed that the current practice of Islamic banking has yet to address on the moral issues (Asutay 2007, 2012). This is evident from the financial products offered by Islamic banks that mimic the conventional banks' products; thus, indicating that Islamic banks emphasis in fulfilling the 'form' or legal requirement while neglecting its 'substance' which is social aspect that connotes to the Shariah rulings (Asutay & Harningtyas 2015). Thus, Tripp (2006) introduced Islamic Moral Economy (IME) which is a reincarnation of the concept of Islamic economy that incorporates moral elements. The idea of introducing Islamic moral economy is not to diminish or dilute the aspirational idea of Islamic economy founded by earlier scholars (i.e. Chapra 1979; Khan 1984; Ahmad 1980; Siddiqi 1980), but to enhance the moral and social aspects in the Islamic economy which are neglected by the current Islamic banking practices (Asutay 2012; Mohd Nor 2012b). Asutay (2007, 2008, 2012) affirmed that it is a timely move particularly after the Islamic banks have failed to deliver their social obligations to promote a balance between social and economic justice. Islamic banking must promote the *homoislamicus* behavior

overpowering the *homoeconomicus*. The Malaysian Islamic banks, however, have proved otherwise whereby social responsibility is promoted in each bank as to ensure it upholds the social aspiration of IME (Dusuki 2005; Mohd Nor 2012a). To strengthen the socioeconomic roles in Islamic banking, Islamic social banking should be established, learning from the Western social banking system to fulfil the developmental needs of Muslim societies and also perceived to be closer to the concept of Islamic moral economy (Asutay 2007).

The notion of social banking has received interest in the academic field (Scheire & Maertelaere 2009) but in fragments and in different contexts. This is evident from the study of ethical banking which has been addressed in few Western countries such as Germany, Italy, Sweden and Switzerland (Mayo 2001; Mayo & Guene 2001; Reifner 2001; Weber & Remer 2011) while social developmental issue is given priority in Asian nations such as Bangladesh and India (Tilakarantna 1993). To our knowledge, not many researchers have attended the issue of social banking from the Islamic perspective. Thus, the objective of this paper is to introduce a social bank that is Shari'ah compliance that could fulfil the developmental needs of Muslims in particular. This Islamic social bank also promotes the idea of sustainable banking which is an alternative to the mainstream banking system.

The remainder of the paper is organised as follows. The next section briefly discusses on the purpose of establishment of Islamic banking. This is followed by elaborating on the concept of social banking as an alternative banking institution. Next, the objective and aspiration of social banking are offered. The introduction of Islamic social bank is discussed in the next section supporting the idea of Islamic social bank as sustainable banking institution. The summary is presented in the final section.

#### THE ESTABLISHMENT OF ISLAMIC BANKING

The first modern Islamic bank that catered for social demands of the local community was established in Egypt in 1963, implementing the aspiration of Islamic economy through MitGhamr Saving Bank. Although this bank survived for only two years, the idea of having Islamic banking continued to live with the establishment of Nasser Social bank in 1971. The main objectives of these banks were to fulfil the social demand of the local people in alleviating poverty and to promote socioeconomic justice (Mayer 1985) through products such as interest-free loans, educational scholarship and micro-credits for the poor and needy (Ariff 1988; Iqbal & Molyneux 2005; Mayer 1985; Warde 2010; Zaher & Hassan 2001).

It is noted that during that period, the banks' names remained inconspicuous from Islamic branding due to political, economic and religious sensitivity for fears of being associated with Islamic fundamentalists known as the Muslim Brotherhood or *Ikhwanul Muslimin* (Sultan 2008). Concurrent with the establishment of MitGhamr in

Egypt, Malaysia in 1963 established the first pilgrimage or *Hajj* fund named *Tabung Haji* to assist Muslim community in Malaysia to accumulate sufficient funds needed to perform their pilgrimage using saving facilities which comply to the Shari'ah principles. *Tabung Haji* continues operating to the present day with lots of improvements and diverse operational activities, proving that Islamic banking is needed as it can sustain in the increasingly competitive financial market (Securities Commissions Malaysia 2009). In a nutshell, these Islamic financial institutions represent the implementation of social banking or social financial institution to facilitate the specific needs of Muslim communities.

#### SOCIAL BANKING: AN ALTERNATIVE BANKING INSTITUTION

The idea of providing financial assistance for socioeconomic development has already begun since the 1960s as noted from the Malaysian and Egyptian stories. Only two decades later, the concept of social banking as a new banking system was introduced in the West (Mayo 2001; Relaño 2011). Sairally (2007) discovered that it took another decade before the social banking system spread widely to the United States, Europe and the rest of the world. This unique banking system is a community financing centre that measures profitability through financial and social returns.

The definition of a social bank according to Weber and Duan (2012), Relaño (2011), Weber and Remer (2011), Mayo (2001), Mayo and Guene (2001) and Reifner (2001): the practice of financial institutions that gives priority to social outcomes and positive impact of their financial activities to society, the environment, culture and/or sustainable development. As reported in Gartner (Social Banking: It's All About the Money and Customer Focus 2009), social banking deems more than that:

...an emerging approaches to retail banking that makes depositing, lending and the connections between depositors, borrowers and financial institutions transparent. It has its roots in social/consumer trends, including social responsibility and social-network participation, and financial and banking trends, such as financial social networks, microfinance and personal finance management.

Meanwhile, De Clerk (2009) emphasized on three essential core elements in defining social banking: i) triple bottom line (people, profit, planet); ii) maximised transparency; and iii) human development. In short, the purpose of social banking is not just to maximise profit but also to cater for the developmental needs of the society in uplifting their social status and improving their standard of living (Tilakarantna 1993). Hence, the target customers would be the financially and socially excluded group which includes women, ethnic minorities and low income individuals who do not meet the financial criteria of the mainstream banking system (Sairally 2007). In addition, social banking must meet the ethical requirement of the financial standards to remain unique and resilient

in the competitive financial market. Therefore, the dynamic forces of the social banking practices capitulate to the marriage between banking for the financially and socially excluded groups and banking with ethical conducts. In fact, the practice of social banking across the world is divided into these two groups. A number of banks in the Western countries such as Alternative Bank Schweiz AG (Switzerland), Banca Popolare Etica (Italy), Ekobanken (Sweden), Cultura Spare Bank (Norway), GLS Gemeinschafts Bank (Germany), Merkur Bank (Denmark), Shore Bank (USA), Societefinanciere de la NEF (France), and Triodos Bank (Netherlands) (Benedikter 2011; Weber & Duan 2012; Weber & Remer 2011) have been promoting the social responsibility, ethical, transparency and sustainability images. In Asia, Bangladesh and India have implemented banking for the poor, such as in the BRAC Bank and Grameen Bank (Hashemi 1997) and Indian Social Banking (Burgess & Pande 2005).

#### THE OBJECTIVE AND ASPIRATION OF SOCIAL BANKING

The goal of social banking is twofold; on one hand, it acts as a basic traditional banking, which demands profit orientation and cost cutting as its main economic activities. On the other hand, it seeks to comply with the non-material values that involve social and moral commitments (Reifner 2001: 198; Relaño 2011). Within such an operative paradigm, the main purpose of social banking is to uphold social solidarity. As such, to ensure that it achieves this objective, the banks must operate according to this purpose, ensuring that both the means and the outcome cohere to its aim (Mayo & Guene 2001: 5). It is therefore, important to ensure that how the bank operates its financial activities conforms to the social requirement, rather than focusing only on the outcome. This factor is also significant in measuring the effectiveness of the social banking system.

Mayo and Guene (2001: 4) indicated that the target groups of social banking are the low-income consumer, small business enterprise, micro-enterprise for

individuals and families, third system social enterprise, and ecological enterprise. These are the groups of people who have lacked access to the bank, also known as financial exclusion. In Sri Lanka in the year 1993, social banking successfully provided financial assistance to nearly 20,000 women in rural areas, not only through saving and credit purposes, but also through improving their socio-economic conditions (Tilakarantna 1993). Considering that the poor have either little access to financial services or else are provided only with low quality services, social banking can provide structural solution to the problem (Reifner 2001: 200).

With the definition and objective of social banking described earlier, it is worth noting the main features or characteristics of social banking viewed from external and internal dimensions as described in Table 1 (Relaño 2011: 279-280).

#### INSTITUTIONALISING ISLAMIC SOCIAL BANK

Considering the social failure of Islamic banks, and considering the developmental needs of the Muslim societies, social banking can be considered as the next institutional development. It is therefore relevant to introduce Islamic social banking that would serve the same purpose but with proper guidance from Shari'ah law. Asutay (2008) highlighted that the role of corporate social responsibility<sup>1</sup> (CSR) in Islamic banks has only undertaken the issue of *zakah* distribution and charitable activities rather than developing systematic strategies working to resolve social problems and developing initiatives for community development. Therefore, Islamic banking is still far reaching from the overall objective of shaping and developing society, a situation termed as 'social failure' (Asutay 2007, 2008). In that sense, Asutay (2007: 16) suggested that the social banking concept, which at present is practiced in some European and Asian countries, should be introduced to the Islamic banking sphere; thus making it closer to the ideal concept of Islamic moral economy by accentuating

TABLE 1. Characteristics of social bank

No.	Characteristics of Social Bank	Dimension
1	Refuse to participate in speculative operations of financial market	External (the kind of financial activities promoted by social banks)
2	Concentration to real economy e.g. savings collections and credit distributions	
3	Give privilege to social, ethical or environmental aspects of projects they financed	
4	Solidarity is encouraged between depositor and borrower to enable loans at reduced interest rates for projects that are worthy in social, ethical or environmental terms	
5	Local or regional coverage so that have good knowledge of the region, projects and people they finance. Part of community development.	
6	Since operational costs are higher, leads to cost cutting in building premises. Social banks operate via phone, internet or e-mail	Internal (functioning of the institution)
7	Transparency in business and management	
8	Participation and democratic requirements	
9	Attempt to exercise equality at all levels	

Source: Relaño (2011)

ethical values and social justice in finance, albeit observing Shari'ah rulings. Similarly, El-Gamal (2006: xii) proposed that Islamic finance should reorient its practice and focus on the roots of Islamic economics in emphasising social and economic aspects by promoting community development, socially responsible investment, microfinance, *etc.* According to a study done in Malaysia, there is positive demand to promote social banking; however, the finding suggests that social banking model needs to be internalized by the existing Islamic banks (Mohd Nor et al. 2015).

The resurgence of Islamic moral economy in a modern sense is a product of the twentieth century is based on the integration of spiritual, moral and material aspects. Fundamentally, it revolves around the dimension of *taqwa*, or, as one could translate it, God-consciousness or spiritual accountability. Islamic moral economy is a model introduced by Tripp (2006) inspired by the concept of moral economy that resembles the aspiration of Islamic economy in promoting socioeconomic justice. The traditional moral economy concept which includes three main elements: i) faith, ii) economic activities, and iii) moral and ethical values, emphasizes on justice, fairness and equity. Moreover, moral economy is well known to be operating in a small community that honours strong sense of brotherhood (Mohd Nor & Asutay 2011). Figure 1 illustrates the integration of core elements in Islamic moral economy. In a nutshell, Islamic moral economy is a morally-oriented alternative economic system based on Shari'ah principles that defines social and economic justice as its bedrock.

Islamic social banking is not something entirely new within Islamic moral economy paradigm, as the idea of social banking within an Islamic sphere has already been institutionalised in Egypt. The pioneering yet short-lived effort, Mit Ghamr saving bank, began operating in the year 1962 by imitating the German saving and loan banks model and lasted only a few years due to political change. Then, in the 1970s Nasser Social Bank (NSB) and Faisal Islamic Bank (FIB) emerged, with their purpose was to improve Egypt's social structure by providing credit to the poor, artisans and small entrepreneurs (Mayer 1985: 33; Sairally 2007: 21). Thus, in responding to the aspirational expectations of Islamic moral economy, Islamic banking should consider 'social banking' as the new institutional form.

The characteristics of an Islamic social bank can be replicated from the Western view of social bank as presented in Table 1 earlier. Moreover, the characteristics offered by social banks fit perfectly with the Islamic teachings to reach *mardhatillah* (the blessing of God) that rewards paradise in the Hereafter as prescribed in the Al-Quran (Surah Al-Fajr: 27-30):

[To the righteous it will be said], "O reassured soul, Return to your Lord, well-pleased and pleasing [to Him], And enter among My [righteous] servants, And enter My Paradise.

Table 2 below offers the characteristics of Islamic social bank supporting the Western views.

The characteristics of Islamic social bank described in the table above suggest the importance of the bank's operation to have clear social objective that contributes to the social goods of the internal and external stakeholders. To be competitive, these banks should consider providing products and services that could generate real economy to ensure the developmental needs of the society are realised. Hence, *musharakah* and *mudharabah* products could be promoted. Recently, the CSR models in Islamic banks are introduced to integrate with other elements of Islamic philanthropy such as *waqf* and *zakah* (Raimi et al. 2014). Another innovative financial instrument which is growing fast nowadays is crowdfunding that empowers entrepreneurs. In this context, Islamic social bank may offer two types of crowd funding models: (i) lending-based crowd funding and/or (ii) equity-based crowd funding (Marzban et al. 2014)

Therefore, the characteristics of Islamic social banking offered in Table 2 will realize the objective of Islamic moral economy that promotes social, environmental and economic balance.

#### ISLAMIC SOCIAL BANKING: A SUSTAINABLE BANKING INSTITUTION

Robustness and resilience have dynamically changed an organization to be competitive. The stakeholder theory is one of the motivators for banking sector to achieve sustainability. Various internal and external stakeholders play important roles which influence banking industry to be more sustainable and do not only maximize profit. The main objective for having a sustainable banking is to integrate social and commercial activities through stimulation of sustainable character (Jeucken 2001: 74).

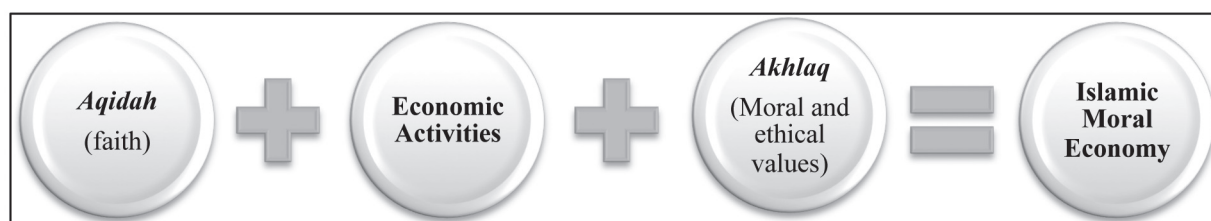


FIGURE 1. The core elements of Islamic moral economy  
Source: Mohd Nor and Asutay (2011)

TABLE 2. Characteristics of social bank: Western and Islamic

No.	Characteristics of Social Bank	Characteristics of Islamic Social Bank	
1	Refuse to participate in speculative operations of financial market	Avoid excessive risk, uncertainties ( <i>gharar</i> ) and gambling in financial activities ( <i>maysir</i> ) (Ahmad 1994; Al-Jarhi 2007; Ariff 1988; Haniffa & Hudaib 2007; Wilson 1997; Zaher & Hassan 2001)	
2	Concentration to real economy e.g. savings collections and credit distributions	Financial transaction must linked with real economic activity (Ahmed 2010; Pollard, Pollard & Samers, 2007; Qorchi 2005; Warde 2010). Products that are equity based could be promoted such as <i>musharakah</i> and <i>mudharabah</i> . Products based on third sector (voluntary) such as <i>Qard al-hasan</i> , <i>waqf</i> , <i>infaq</i> , <i>sadaqah</i> and crowdfunding can empower the community.	
3	Give privilege to social, ethical or environmental aspects of projects they financed	Operational and financial activities must be conducted in morally, ethically and socially responsible manner (Abdul Rahman 2007; Dusuki 2007; Dusuki 2005; Rosly & Au Bakar 2003; Wilson 2002)  Ensure financing projects that are not detrimental to social and environmental well-being (Dusuki 2007, 2008a, 2008b; Dusuki & Abozaid 2007; Dusuki 2005; Dusuki and Abdullah 2007; Dusuki & Dar, 2005; Samad, Gardner & Cook 2005)	External (the kind of financial activities promoted by social banks)
4	Solidarity is encouraged between depositor and borrower to enable loans at reduced interest rates for projects that are worthy in social, ethical or environmental terms	Promotes the concept of vicegerent ( <i>khalifah</i> ), brotherhood ( <i>ukhuwwah</i> ) and unity (Buckley 2000; Iqbal & Mirakhor, 2007; Yousri 2005).	
5	Local or regional coverage so that have good knowledge of the region, projects and people they finance. Part of community development.	Financial institutions engage in community development program to realise social solidarity in (Scheire and Maertelaere 2009)	
6	Since operational costs are high, there is pressing need to cut cost in building physical premises. Social banks operate via phone, internet or e-mail	Islamic banks need to go green by reducing waste, recycling, and reducing energy.	
7	Transparency in business and management	Incorporation of corporate and Shari'ah governance to ensure corporate fairness, transparency and accountability (Hasan 2009)	Internal (functioning of the institution)
8	Participation and democratic requirements	Promoting profit loss sharing (PLS) to promote economic growth (Chapra 1992; Mills & Presley 1999)	
9	Attempt to exercise equality at all levels	Promotes justice, equity and fairness, emphasising on ' <i>adl wal ihsan</i> ' ( <i>justice and beneficence</i> ) (Abbasi, Hollman & Murrey 1989; Naqvi 1994, 2003; Nomani & Rahnema 1994)	

In articulating sustainable banking, social banking is proposed to incorporate CSR and sustainable development model since the objectives of CSR are intertwined with sustainable development. The evolving concept of CSR has resulted in the extension of the scope of CSR to include more elements. In fact, organisations have attempted to

comply with the objective of sustainable development through participation in CSR contributions since the 1990s (Relaño 2011: 277). Moon (2007: 305) suggested that interest in CSR has resulted in increased socialisation of the market and also the changing of governance at national and global levels in line with ethical expectations. In fact, CSR

is said to have contributed to the concept of sustainable development through conceptual and practical expansion in terms of its scope by endogenising environmental issues and social sustainability in business.

In relation to the banking industry, Relaño (2011: 277) believed that the equator principles and Social Responsible Investments (SRI) are the two instruments employed to respond to the challenge of sustainable development. Relaño (2011) further explained that these tools are actually a set of environmental and social benchmarks that enable banks to comply with the demand for environmental and social accountability. The first instrument, equator principles, relates to project financing while the latter tool, the SRI, relates to the investment domain. In addition, microfinance and microcredit become among the main products of social bank since the winner of Nobel Laureate Prize, Prof Muhammad Yunus of Grameen Bank, Bangladesh has proved that it was a successful poverty reduction tool and alleviator of social problems (Weber 2010; Weber & Duan 2012).

The idea of Islamic social banking that emerged from sustainable banking model became significant since it complies with the Islamic paradigm. Youstri (2005: 25-26) clearly identified that the conventional definition of sustainable development concept has a different meaning in relation to the Islamic definition suggested by him. The sustainable development as emphasised by conventional economics focuses only on material benefits in economic, social and environmental issues while neglecting the social outcomes. The Islamic definition is more comprehensive in that it regards not only material and social position, but it emphasises on moral and spiritual aspects as well (Hornby 2007: 7; Kahf 2002: 33). It embeds the values of tazkiyyah (growth and development) which is an exclusive approach that takes an individual through the process of self-purification with regard to the enjoyment of wealth, fame, power etc., as recommended in the Qur'an that will lead to improving the quality of life (Nomani & Rahnema 1994: 35).

In locating the relationship between Islamic and conventional sustainable development, Hasan (2006: 8) further enlightened that for the most part, the definition described by the Commission<sup>2</sup> is in harmony with the Islamic aspirations as it addresses the concept of development to mankind as a whole and not only to Muslims. Clearly, the holy sources of Islam provide support for this; the *Qur'an* and *hadith* specifically mention economics, social and the environmental elements that promote sustainable development, such as helping the poor and needy, enhancing social justice and capacity building in individual and society level, environmental issues such as conserving elements and protecting animals. Also, the Islamic ontology prescribed utilising natural resources in a beneficial way and never wasting them, as they are considered as trust from Allah, thus implying the moral filter in economic and social life<sup>3</sup>.

In demonstrating the proactive nature of Islamic sustainable development, it is important to note that the

purpose of environmental protection from an Islamic perspective has no similarities with conventional thinking. Conventional concerns for conserving the environment emerged from the fear of damage done which would result in natural resources becoming insufficient to meet human needs in the future (Yousri 2005: 29). Islamic moral economy, however, imposes an obligation to conserve the environment to fulfil the responsibility commanded by God by defining it as a matter of faith, and faith is an essential part of the Islamic teaching.

#### SUMMARY

Generally, the number of social banking institutions across the globe is not very promising; in fact in most of the countries such breed of banking institutions does not exist at all. Furthermore, an Islamic social bank can moderate the expanding gap between the aspirations and realities of Islamic banking by placing more emphasis on social cohesion rather than focussing simply on commercialisation, as well as operating within the Shari'ah parameters. It is therefore interesting to introduce to the market a social banking that is Shari'ah compliant and provides alternative financial services from the mainstream banks.

The pertinent question is indeed why should we establish an Islamic social bank when Islamic (commercial) banks are already a success and cater to the economic growth? Despite the positive social contribution made by Islamic banks, Asutay (2008), Dusuki (2007), Hassan and Latiff (2009), Hanifa and Hudaib (2007) and Sairally (2006) are among those who view this differently. Acknowledging the social contribution made by Islamic banks, they discovered that Islamic banks have yet to develop a systematic means of giving back to society to enhance socioeconomic development as a whole rather than just individual development *per se*. Usually, such activities involved charity or *sadaqah*, but a better structured social economic activity that ensures sustainability is needed. Islamic banks are still behind in focusing on the financially excluded groups. This is evidenced in Mohd Nor's (2012a) study which revealed that Islamic banks' objectives to alleviate poverty and ensure better standard of living for society in future are among the lowest. Moreover, implementation of the *qard al-hassan* (benevolence loan) concept is still under in-depth discussion since Islamic banks foresee that this method is risky, while microfinance is not practised widely despite encouragement from the government. Thus, the dream of creating a financial institution that is Islamic by nature with a special concern for socioeconomic development since the Mit Ghamr continues to be realised.

For that reason, the establishment of Islamic social bank would be one of the strategies to increase economic growth. This is supported by a study in Malaysia that believed social banks can moderate the gap between the rich and the poor through wealth circulation and

also focus on the socioeconomic development of the minority groups (Mohd Nor 2012a). This does not only imply poverty alleviation and community development, but also it suggests to the practice of an environmental friendly economy.

## END NOTES

- <sup>1</sup> Bowen (1953: 44) defined CSR as “refer[ing] to the obligations of businessmen to pursue those policies, to make those decisions, or to follow those lines of actions which are desirable in terms of the objectives and values of our society”. Carroll’s (1979: 500) widely known model articulates that CSR comprises of four domains: (i) economic, (ii) legal, (iii) ethical and (iv) discretionary (philanthropic) with particular emphasis on philanthropic or voluntary activities as part of defining proactivity in CSR.
- <sup>2</sup> The World Commission on Environment and Development’s 1987 report entitled, ‘Our Common Future’, often known as ‘Brundtland Report’ (WCED 1987: 43) has provided the most commonly used definition for the concept of sustainable development: “seeking to meet the needs of the present without compromising the ability to meet the future generation to meet their own needs”.
- <sup>3</sup> Example from the Holy *Qur’an* (17: 26-27): And give the relative his right, and [also] the poor and the traveler, and do not spend wastefully. Indeed, the wasteful are brothers of the devils, and ever has Satan been to his Lord ungrateful.

## REFERENCES

- Abbasi, S.M., Hollman, K.W. & Murrey, J.H.J. 1989. Islamic economics: Foundations and practices. *International Journal of Social Economics* 16(5): 5-17.
- Abdul Rahman, A.R. 2007. Islamic microfinance: A missing component in Islamic Banking. *Kyoto Bulletin of Area Studies* 1-2: 38-53.
- Ahmad, K. 1980. Economic Development in an Islamic Framework. In *Studies in Islamic Economics*, edited by K. Ahmad, 171-190. Leicester, United Kingdom: The Islamic Foundation.
- Ahmad, Z. 1994. *Islamic Banking: State of the Art*. Jeddah: IRTI.
- Ahmed, A. 2010. Global financial crisis: An Islamic finance perspective. *International Journal of Islamic and Middle Eastern Finance and Management* 3(4): 306-320.
- Al-Jarhi, M.A. 2005. Islamic finance and development. In *Islamic Finance and Economic Development*, edited by M. Iqbal & A. Ahmad, 16-28. New York: Palgrave Macmillan.
- Al-Jarhi, M.A. 2007. Islamic banking and finance: Philosophical underpinnings. In *Islamic Banking and Finance: Fundamentals and Contemporary Issues*, edited by S. Syed Ali & A. Ahmad. Jeddah: Islamic Development Bank.
- Ariff, M. 1988. Islamic banking. *Asian-Pacific Economic Literature* 2(2): 48-64.
- Asutay, M. 2007. Conceptualisation of the second best solution in overcoming the social failure of Islamic finance: Examining the overpowering of homoislamicus by homoeconomicus. *IJUM Journal of Economics and Management* 15(2): 167-195.
- Asutay, M. 2008. Islamic banking and finance - Social failure. NewHorizon.
- Asutay, M. 2012. Conceptualising and locating the social failure of Islamic finance: Aspirations of Islamic moral economy vs the realities of Islamic finance. *Asian and African Area Studies* 11(2): 93-113.
- Asutay, M. & Harningtyas, A.F. 2015. Developing Maqasid al-Shari’ah Index to evaluate social performance of Islamic Banks: A conceptual and empirical attempt. *International Journal of Islamic Economics and Finance Studies* 1(1): 5-64.
- Benedikter, R. 2011. *Social Banking and Social Finance: Answers to the Economic Crisis*. New York: Springer.
- Buckley, S.L. 2000. *Teachings on Usury in Judaism, Christianity and Islam*. United Kingdom: The Edwin Mellen Press, Ltd.
- Burgess, R. & Pande, R. 2005. Do rural banks matter? Evidence from the Indian Social Banking experience. *The American Economic Review* 95(3): 780-795.
- Chapra, M.U. 1979. *Objectives of the Islamic Economic Order*. Leicester, United Kingdom: The Islamic Foundation.
- Chapra, M.U. 1992. *Islam and the Economic Challenge*. Leicester, United Kingdom: The Islamic Foundation and the International Institute of Islamic Thought.
- De Clerk, F. 2009. Ethical Banking. In *Ethical Prospects: Economy, Society and Environment*, edited by L. Zsolnai, Z. Boda & L. Fekete. Budapest: Springer.
- Derigs, U. & Marzban, S. 2008. Review and analysis of current shariah-compliant equity screening practices. *International Journal of Islamic and Middle Eastern Finance and Management* 1(4): 285-303.
- Dusuki, A. 2007. The ideal of Islamic banking: A survey of stakeholder’s perceptions. *Review of Islamic Economics* II (Special Issue): 29-52.
- Dusuki, A. 2008a. Understanding the Objectives of Islamic Banking: A survey of stakeholders’ perspectives. *International Journal of Islamic and Middle Eastern Finance and Management* 1(2): 132-148.
- Dusuki, A. 2008b. What does Islam say about corporate social responsibility. *Review of Islamic Economics* 12(1): 5-28.
- Dusuki, A. & Abozaid, A. 2007. A critical appraisal on the challenges of realizing Maqasid Al-Shariah in Islamic banking and finance. *IJUM Journal of Economics and Management* 15(2): 143-165.
- Dusuki, A.W. 2005. *Corporate Social Responsibility of Islamic Banks in Malaysia: A Synthesis of Islamic and Stakeholders’ Perspectives*. Loughborough: Loughborough University.
- Dusuki, A.W. & Abdullah, N.I. 2007. Maqasid al-Shari’ah, masalah, and corporate social responsibility. *The American Journal of Islamic Social Sciences* 24(1): 25-45.
- Dusuki, A.W. & Dar, H. 2005. *Does corporate social responsibility pay off? An empirical examination of stakeholder perspectives*. Paper presented at the International Conference on Business Performance & CSR - Measuring CSR Effectiveness/Sustainable Community Development.
- El-Gamal, M.A. 2006. *Islamic Finance: Law, Economics, and Practice*. New York: Cambridge University Press.
- Haniffa, R.M. & Hudaib, M. 2007. Exploring the ethical identity of Islamic Banks via communication in annual reports. *Journal of Business Ethics* 76: 97-116.
- Hasan, Z. 2006. Sustainable development from Islamic perspective: Meaning, implications and policy concerns. *J.KAU: Islamic Econ.* 19(1): 3-18.

- Hashemi, S.M. 1997. Building up capacity for banking with the poor: The Grameen Bank in Bangladesh. In *Microfinance for the Poor*, edited by H. Schneider. Paris: IFAD/OECD.
- Hassan, A. & Latiff, S.A. 2009. Corporate social responsibility of Islamic financial institutions and businesses: Optimizing charity value. *Humanomics* 25(3): 177-188.
- Hornby, A.S. 2007. *Oxford Advanced Learner's Dictionary*. 7th edition. Oxford: Oxford University Press.
- Iqbal, M. 2004. Islamic banking in practice. *European Journal of Management and Public Policy* 3(1): 12-40.
- Iqbal, M. & Molyneux, P. 2005. *Thirty Years of Islamic Banking: History, Performance, and Prospects*. Basingstoke: Palgrave Macmillan.
- Iqbal, Z. & Mirakhor, A. 2007. *An Introduction to Islamic Finance: Theory and Practice*. Singapore: John Wiley & Sons (Asia).
- Ismail, A.G. 2010. *Money, Islamic Banks and the Real Economy*. Singapore: Cengage Learning Asia Pte. Ltd.
- Jeucken, M. 2001. *Sustainable Finance and Banking: The Financial Sector and the Future of the Planet*. London: Earthscan Publication Ltd.
- Kahf, M. 2002. *Sustainable Development in the Muslim Countries*. Jeddah: IDB, IRTI.
- Khan, M.A. 1984. Islamic economics: Nature and needs. *Journal of Economic Perspectives* 9(4): 155-173.
- Malaysia, S.C. 2009. *Introduction to Islamic Capital Market*. Malaysia: LexisNexis Malaysia Sdn Bhd.
- Marzban, S., Asutay, M. & Boseli, A. 2014. *Shariah-compliant crowd funding: An efficient framework for entrepreneurship development in Islamic countries*. Paper presented at the Harvard Islamic Finance Forum 2014.
- Mayer, A.E. 1985. Islamic banking and credit policies in the Sadat era: The social origins of Islamic banking in Egypt. *Arab Law Quarterly* 1(1): 32-50.
- Mayo, E. 2001. *Social Banking Made Sense*. Paper presented at the Social Banking Seminar, London.
- Mayo, E. & Guene, C. 2001. A problem here to stay. In *Banking and Social Cohesion*, edited by C. Guene & E. Mayo. Oxfordshire: Jon Carpenter Publishing.
- Mills, P.S. & Presley, J.R. 1999. *Islamic Finance: Theory and Practice*. Basingstoke: Macmillan.
- Mohd Nor, S. 2012a. *Exploring CSR and Sustainable Development Practices of Islamic Banking in Malaysia*. Durham, United Kingdom: Durham University.
- Mohd Nor, S. 2012b. Integrating moral in a dynamic model of corporate social responsibility in Islamic economics and finance. *Asian and African Area Studies* 11(2): 137-150.
- Mohd Nor, S. & Asutay, M. 2011. *Re-Considering CSR and Sustainability Identity of Islamic Banks in Malaysia: An Empirical Analysis*. Paper presented at the 8th International Conference on Islamic Economics and Finance, Doha, Qatar.
- Mohd Nor, S., Rahim, R.A. & Senik, Z.C. 2015. The potentials of internalising social banking among the Malaysian Islamic banks. *Environment, Development and Sustainability* 18(2): 347-372.
- Moon, J. 2007. The contribution of corporate social responsibility to sustainable development. *Sustainable Development* 15: 296-306.
- Naqvi, S.N.H. 1994. *Islam, Economics and Society*. London: Kegan Paul International Ltd.
- Naqvi, S.N.H. 2003. *Perspectives on Morality and Human Well-Being: A Contribution to Islamic Economics*. Leicester: Islamic Foundation.
- Nomani, F. & Rahnama, A. 1994. *Islamic Economic Systems*. London, UK: London Zed Books.
- Pollard, J., Pollard, J. & Samers, M. 2007. Islamic banking and finance: Postcolonial political economy and the decentring of economic geography. *Transactions of the Institute of British Geographers* 32(3): 313-320.
- Qorchi, M.E. 2005. Islamic finance gear up. *Finance & Development* 42(4).
- Raimi, L., Patel, A. & Adelopo, I. 2014. Corporate social responsibility, waqf system and zakat system as faith-based model for poverty reduction. *World Journal of Entrepreneurship, Management and Sustainable Development* 10(3): 228-242.
- Reifner, U. 2001. Social banking: Products for community development. In *Banking and Social Cohesion*, edited by C. Guene & E. Mayo, 198-213. Oxfordshire: Jon Carpenter Publishing.
- Relaño, F. 2011. Maximizing social return in the banking sector. *Corporate Governance* 11(3): 274-284.
- Rosly, S.A. & Abu Bakar, M.A. 2003. Performance of Islamic and mainstream banks in Malaysia. *International Journal of Social Economics* 30(12): 1249-1265
- Sairally, S. 2006. *A Study on the Corporate Social Responsibility of Islamic Financial Institutions: Learning from the Experience of Socially Responsible Financial Institutions in the UK*. Loughborough, United Kingdom: Loughborough University.
- Sairally, S. 2007. Community development financial institutions: Lessons in social banking for the Islamic financial industry. *Kyoto Bulletin of Islamic Area Studies* 1(2): 19-37.
- Samad, A., Gardner, N.D. & Cook, B.J. 2005. Islamic banking and finance in theory and practice: The experience of Malaysia and Bahrain. *The American Journal of Islamic Social Sciences* 22(2): 69-86.
- Scheire, C. & Maertelaere, S.D. 2009. *Banking to Make a Difference*. Flanders: Artevelde University College.
- Siddiqi, M.N. 1980. Muslim economic thinking: A survey of contemporary literature. In *Studies in Islamic Economics*, edited by K. Ahmad, 191-316. Leicester, United Kingdom: The Islamic Foundation.
- Stessa, B.C. & Alistair, N. 2009. *Social Banking: It's All About the Money and Customer Focus*. The Gartner Inc.
- Sultan, S.A.M. 2008. Islamic banking: Trend, development and challenges. In *Essential Readings in Islamic Finance*, edited by M.D. Bakar & E.R.A.E. Ali. Kuala Lumpur: CERT Publications Sdn Bhd.
- Tilakarantna, S. 1993. *Social Banking to Meet Needs of the Poor*. Sri Lanka: University of Sri Jayawardenapura.
- Tripp, C. 2006. *Islam and the Moral Economy: The Challenge of Capitalism*. London: Cambridge University Press.
- Warde, I. 2010. *Islamic Finance in the Global Economy*. 2nd edition. Edinburgh: Edinburgh University Press.
- WCED. 1987. *Our Common Future*. World Commission on Environment and Development.
- Weber, O. 2010. Social banking: Products and services. Available at <http://ssrn.com/paper=1621822>
- Weber, O. & Duan, Y. 2012. Social finance and banking. In *Socially Responsible Finance and Investing: Financial Institutions, Corporations, Investors, and Activists*, edited by H.K. Baker & J.R. Nofsinger. United States of America: John Wiley & Sons, Inc.
- Weber, O. & Remer, S. 2011. Social banking: Introduction. In *Social Banks and the Future of Sustainable Finance*, edited by O. Weber & S. Remer. Oxon: Routledge.



- Wilson, R. 1997. *Economics, Ethics, and Religion: Jewish, Christian, and Muslim Economic Thought*. Basingstoke: Macmillan in association with University of Durham.
- Wilson, R. 2002. Parallel between Islamic and ethical banking. *Review of Islamic Economics* 11: 51-62
- Yousri, A.A.-R. 2005. Sustainable development: An evaluation of conventional and Islamic perspectives. In *Islamic Perspectives on Sustainable Development*, edited by M. Iqbal, 22-51. United Kingdom: Palgrave Macmillan.
- Zaher, T.S. & Hassan, M.K. 2001. A comparative literature survey of islamic finance and banking. *Financial Markets, Institutions and Instruments* 10(4): 155-199.

Shifa Mohd Nor  
Faculty of Economics & Management  
Universiti Kebangsaan Malaysia  
43600 UKM Bangi, Selangor, MALAYSIA.  
E-Mail: shifa@ukm.edu.my

