

Islamic Social Banking: The Way Forward

Perbankan Sosial Islam: Langkah Ke hadapan?

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ABSTRACT

This paper discusses Islamic social banking (ISB). We first critically examine current practice in Islamic banking (IB) and any deviations from core Islamic principles. These can lead to the apparent social failure of IB given that it will then fail to improve on the economic development of ordinary people. We draw comparison with the generally positive contribution of social banking (SB) to be inserted in IB as a means to create a synthesis in the form of ISB. Theoretically, we find IB and SB share similar 3P principles (Profit, Planet, People) in their operations. We extend these principles to another P (for Prophet) to cover the thoughts and guidance of Islam as ethical guidance for ISB to develop framework based on 4P. We suggest an approach to evaluate the social outcomes of ISB and some good SB practices to be considered.

Keywords: Islamic banking; social banking; Islamic social banking; quadruple bottom-line principles

ABSTRAK

Kertas ini membincangkan mengenai perbankan sosial Islam. Kajian ini terlebih dahulu meneliti amalan semasa perbankan Islam bagi mengenal pasti perbezaan yang wujud di antara amalan dan prinsip teras Islam. Perbezaan ini menggambarkan kegagalan perbankan Islam dalam aspek sosial, iaitu kegagalan untuk memperbaiki pembangunan ekonomi masyarakat. Seterusnya, kajian ini membuat perbandingan di antara perbankan sosial dengan perbankan Islam bertujuan memasukkan elemen postif perbankan sosial ke dalam perbankan Islam bagi mewujudkan sintesis bagi membentuk perbankan sosial Islam. Secara teori, kajian ini mendapati bahawa kedua-dua perbankan Islam dan sosial mempunyai prinsip 3P (Keuntungan, Planet, Manusia) yang sama dalam operasi masing-masing. Kajian ini selanjutnya memperkenalkan P tambahan bagi mewakili 'Nabi' bertujuan memastikan perbankan sosial Islam menjadikan pemikiran dan panduan Islam sebagai panduan etika untuk membangunkan rangka kerja berdasarkan 4P. Kertas ini turut mencadangkan satu pendekatan untuk menilai hasil sosial perbankan sosial Islam, serta beberapa amalan baik perbankan sosial untuk dipertimbangkan dalam pembentukan perbankan Islam sosial.

Kata kunci: Perbankan Islam; perbankan sosial; perbankan sosial Islam; prinsip quadruple bottom-line

INTRODUCTION

Islamic banking (IB) has developed globally and rapidly over the last three decades, despite significant economic and political uncertainty worldwide, especially in regions where it has been historically concentrated, like the Middle East and North Africa. While affected adversely by the global financial crisis, IB has been arguably more resilient than its conventional counterparts to financial shocks (Hasan & Dridi 2010; Kasim & Majid 2010). Furthermore, IB has been apparently better able to control costs, and is thus considered more efficient than conventional banking (Rahman & Rosman 2013), while there are suggestions IB offers more effective intermediation and displays better asset quality (Beck et al. 2013).

However, IB is not without its critics, even from inside the Islamic banking sector. For instance, Aggarwal

and Yousef (2000) argue that the profit-loss sharing concept is absent in most Islamic banking financing products. Instead, debt-like instruments are much more common than what *Shari'ah* would suggest. Chong and Liu (2009) even assert that IBs are in reality not very different from conventional banks, suggesting that most IBs are closer to interest-based than interest-free, though Mohd. Yusof et al. (2015) argue the opposite. Elsewhere, Asutay (2007) suggests that the development of IB has been mainly to endorse a neoclassical approach, which contradicts Islamic financial teaching.

Despite its strong growth and several attractive features in product and service delivery, some argue that Islamic banks have failed in delivering tangible social outcomes (Asutay 2007, 2012; Mohd. Nor 2016; Mohd. Nor et al. 2016; Sairally 2007), suggesting its reinvention through adopting social banking (SB) practices as a means to enhance its oft-desired but seldom delivered



social ends. Asutay (2012) argues that IB has failed to achieve its social objectives. First, in relation to the conventional monetary system, IB has tended to use interest rates as its benchmarks, indicating a convergence between IB and conventional banking. Second, IBs are expected to promote the financing of the real economy. However, in reality they increasingly adopt financial engineering, which is partly deemed to be responsible for financial crisis the world over. Third, profit and loss-sharing in IB has been largely superseded by debt-like instruments (*murabahah*). As the result, the growth of IB is argued to have no great effect on the social and economic development of ordinary people (Asutay & Zaman 2009).

Accordingly, Asutay (2007) recommends a strong need to develop an Islamic social bank (ISB). He considers the establishment of ISB will overcome the social failure of IB, because by internalising social banking (SB) principles in its business, IB may improve its capacity building and social justice. In this regard, ISB is expected to provide more funding to empower poor people and other social projects. To achieve these aims, Mohammad (2011) suggests the use of *waqf* (endowment) funds as a source for establishing ISB.

Research often finds that many communities support the concept of an ISB. Mohd. Nor et al. (2016) use a sample of 17 Islamic banks in Malaysia to see whether SB is supported by their stakeholders. While nearly half of the bank customers (45.7%) considered that current IB practice included elements of SB, most (80.9%) recommended that IB should operate closer to an ISB, thereby suggesting that many Islamic currently make only a weak social contribution. Accordingly, Mohd. Nor et al. (2016) recommend that a formal SB framework should be introduced in current IB practice. However, almost no comprehensive ISB framework that has been proposed by scholars. Hence, there is a strong need to develop the framework and use this as guidance for its future establishment. Furthermore, once the framework has been constructed, there is a need to simulate its outcomes to gauge the social achievements of individual Islamic banks.

This paper discusses the principals and practice of both IB and SB as a means of examining the possibility of incorporating selected elements into a new form of banking known as Islamic social banking (ISB). For this reason, the paper proposes quadruple bottom-line principles as a solid basis for ISB and develops approaches to its measurement and evaluation in any future establishment. Because of space limitations, there is no detailed discussion of the potential products and services within this ISB framework.

The structure of the remainder of the paper is as follows. The literature review in the following section will be divided into two parts: examining the basic concepts and principles of IB and a critique regarding its apparent social failure; followed by assessing SB, including

its definition and principles, historical background, performance, and attempt to improve its social outcomes. Section 3 formulates the methodology. Section 4 discusses an ISB initiative, introducing its quadruple bottom-line principles (QBLP), possible means of simulation, and some practices of SB that can be readily inserted in ISB. Section 5 provides some concluding remarks.

LITERATURE REVIEW

IB is a way of banking that conforms or complies with *Shari'ah* (Islamic law), as principally derived from the *Qur'an* (Muslim's Holy Scripture), *Hadiths* (the sayings of the Prophet Muhammad, Peace Be Upon Him, PBUH), *Ijma'* (the consensus of scholar) and *Qiyas* (the legal reasoning of Islamic scholars). The main features of IB are the prohibition of *riba* (charging interest or usury) and the promotion of profit-and-loss sharing (PLS). Chapra (2006) asserts that in the Islamic world there is no difference in viewpoint about the abolition of *riba* from both the perspective of the *Qur'an* and the *Hadiths*. However, the principle of PLS is derived from the maxim *al-ghurm bi-l-ghunm* (الغرم بالغنم): that is, "the earning of profit is legitimized only by engaging in an economic venture" (Zineb & Bellalah 2013, p. 22). In this regard, IB favours a real economic contribution, and this should yield greater macroeconomic stability (Zarqa 1983). In addition, this principle does not permit borrowers to bear risk alone as the provider and receiver of funds should share risk and loss according to some predetermined agreement, with the expectation this should promote equity and justice in society (Khan 2010).

Another principal of IB is the avoidance of *haram* (or sinful) business. Hence, IB cannot finance firms that produce and sell alcohol, drugs and intoxicants, pork-related product, armaments, and indecent entertainment (Zineb & Bellalah 2013). The law also prohibits any *gharar* (uncertainty and high risk that may cause injustice to other parties) and *maisir* (gambling and speculation). The premise behind the abolition of *gharar* is to encourage businesses to act on an ethical basis as well as avoiding injustice among the parties involved in permitting no allowance for asymmetric information (Zineb & Bellalah 2013). In principal, IB is designed to avoid derivative and other sophisticated financial engineering products such as credit-default swaps and speculative trading in over-the-counter derivatives that usually constitute both sources of uncertainty and speculation, and to certain degree, have a proven role in financial crisis (Siddiqi 2009; Stout 2011), thereby violating any implied contract with society as a whole. The argument here was that the subprime mortgage crisis in the US involved derivatives that accounted for caused a spreading financial crisis that worsened the economy. As a consequence, many with otherwise unrelated healthy businesses bore its impact.

TABLE 1. Islamic Finance Segments by Region (USD billions, 2015)

Region	Banking	%	Sukuk	%	Funds	%	Takaful	%
Asia	209.3	14.0	174.7	60.1	23.2	32.5	5.2	22.4
GCC	598.8	40.0	103.7	35.7	31.2	43.8	10.4	44.8
MENA	607.5	40.6	9.4	3.2	0.3	0.4	7.1	30.6
Sub-Sahara	24.0	1.6	0.7	0.2	1.4	2.0	0.5	2.2
Others	56.9	3.8	2.1	0.7	15.2	21.3	-	-
Total	1496.5	100.0	290.6	100.0	71.3	100.0	23.2	100.0

Source: IFSB (2016)

We trace the first interest-free financial institutions to Egypt and Malaysia. In 1963, the Mit Ghamr local savings bank was the first Islamic bank established in Egypt, coinciding with the creation of the Tabung Haji (Pilgrim's Savings Corporation) in Malaysia (Zineb & Bellalah 2013). Since then, IB has expanded significantly in both countries, their regions, and worldwide. In 2015, the total assets of IB reached USD 1.49 trillion or around 80 percent of total Islamic finance assets of worldwide (IFSB 2016). As shown in Table 1, there are six regions where IB dominates, namely Asia, the Arab states of the Persian Gulf represented by the Gulf Cooperation Council (comprising Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates), the Middle East and North Africa (MENA) (excluding the GCC), and Sub-Saharan Africa.

Overall, these regions constitute 31 countries in which there is an IB system or IB representation. Most have dual-banking systems where Islamic and conventional banking operate and compete side by side, except for Iran where there is only IB. In recent years, the market share of IB has increased in 17 of these countries; another eight countries (including Iran and Sudan) have experienced a stagnant market share, while elsewhere (Saudi Arabia, Turkey, and the United Kingdom) there has been a slight relative decline in IB. In only 11 countries does IB enjoy a market share of 15 percent or more of total domestic banking assets, comprising Iran and Sudan (100.0% market share), Brunei and Saudi Arabia (49.0%), Kuwait (38.9%), Yemen (33%), Qatar (26.1%), Malaysia (23.0%), Bangladesh (19.4%), UEA (18.4%), and Djibouti (15.0%) (IFSB 2016).

Nonetheless, global asset growth rate in IB is estimated at 16 percent per year with currently more than 100 million individual customers (EY 2016), but it is thought the actual potential market size is at least six times larger than that currently tapped. However, this market demands a distinct banking channel, and one suggested method to wider the customer base for IB is through digital channels, blending user-friendly technology to induce clients with simple end-to-end experiences (EY 2016).

In general, IB offers some distinct underlying principles, which subsequently manifest themselves in unique financial products and services not offered by

conventional banking. However, even when there is an apparently close observance of the principles of IB, there is often a significant divergence between theory and practice. For instance, the oft-quoted principle of PLS is not well implemented. Typically, it is common that IB products are mostly dominated by *murabahah* (debt-like contracts) rather than *mudharabah* (partnership contract, wherein one side provides capital to other side or partner) or *musyarakah* (joint ventures), the latter being more consistent with the aspiration of a genuine PLS arrangement (Chong & Liu 2009; Khan 2010; Yousef 2004; Iqbal & Molyneux 2005; Guney 2015). For instance, up to 90% of financing in some countries uses *murabahah* (Vogel & Hayes 1998; Agarwal & Yousef 2000; Ali 2011). As a result, the differences between IB and conventional banking can be subtle.

Furthermore, despite the presence of Islamic financial services like *zakat* (alms giving) and *qardhul hasan* (benevolent loans), IB still faces accusations that it has failed to deliver on its promises of social responsibility. This apparent failure in demonstrating social ends seems to suggest IB prioritises serving well-off customers rather than the community as a whole (Asutay 2007). Consequently, the services of IBs have no significant impact on the life of marginal people in society (Asutay & Zaman 2009). Moreover, given the need to accumulate profit, IBs are moving towards fulfilling a legal form in order to adhere *Fiqh* (jurisprudence) limitation, but ignoring their primary *Shari'ah* objectives (Nienhaus 2011; Ahmed 2011). In other words, Islamic ethics as the (de facto) bedrock of IB, is in practice diluted in a mere "formal" make up, while neglecting the "substance" of *Syari'ah* aspirations to secure business financially and socially acceptable (Asutay & Harningtyas 2015; Nienhaus 2011). As a result, the ethical dimension of IBs might not be fully integrated (Mansour et al. 2015; Musa 2015). This further leads to a weakening of *Maqashid al-Syari'ah* (the objectives of Islamic law). According to Al-Ghazali (1937) as cited by (Mansour et al. 2015) the main mission of *Maqashid al-Syari'ah* is to deliver "benefits and preventing harm", so if *Maqashid* is undelivered then the maximum benefits for social and developmental outcomes are not possible.

SOCIAL BANKING

Most banks nowadays aspire to be more socially and environmentally responsible and encouraged to apply sustainable financing based on Sustainable Development Goals (SDGs¹). These strategies lead many banks to align their operations with a corporate social responsibility (CSR) framework. Yet other banks focus on social achievement. The latter is widely recognised as a bank with a social mission or so-called social banking (SB) (Burgess & Pande 2005; Buttle 2007; Cornée & Szafarz 2014; Guene & Mayo 2001; Platschorre & Bulte 2011; Rajalaxmi 2007). Guene and Mayo (2001, p. 1) define “Social banking as where the supplier of financial services take a positive interest in the social outcomes and effects of their activities”. Alternatively, Cornée and Szafarz (2014, p. 361) simply contend that SB is “... financial intermediaries paying attention to noneconomic (i.e., social, ethical, and environmental) criteria”. Some researchers use the term “green banking” instead of SB (Biswas 2016; Biswas 2011; Kaur 2016). Others use the term “SB” interchangeably with ethical bank (Chew et al. 2016; Paulet et al. 2015; San-Jose et al. 2011). Yet others refer to a bank with a social mission as a “sustainable bank” (Korlund & Spengler 2012) or an “alternative bank” (Butzbach & von Mettenheim 2015).

Although SB has range of definitions, in essence it embraces the principle of a triple-bottom line in its daily activities, i.e., three criterions, being profit (securing profit to keep the bank sustainable), people (serving communities as social mission), and planet (paying attention to environment and its sustainability for future usage) (Benedikter 2011; de Clerck 2009; Weber 2014). However, as part of the triple-bottom line, SB displays a number of additional principles. First, it has considerably more transparency than other forms of banking, allowing its stakeholders to observe details such as where the collected funds are distributed and in what kind of investment. In this case, its customers have knowledge about whether their money is invested in the most appropriate manner, either financially, socially, or environmentally (Benedikter 2011; San-Jose et al. 2011). Second, it promotes ‘human development’ through engaging and emancipating communities (Benedikter 2011; San-Jose et al. 2011). This qualification negates the traditional banking shareholder’s right, as a broader set of stakeholders control or influence and supervise or monitor management (Butzbach & von Mettenheim 2015).

SB as is currently recognised, likely first appeared in medieval times (de Clerck 2009). During this time, both Christianity and Islam had defined rules in dealing with financial transactions and money, with Christianity setting in place laws dealing with usury, while Islam strongly prohibited the charging of interest (*riba*). Both these religions promoted economic activities characterised by virtuous behaviour between individuals and groups

within society based on religious values. Later, the growth of individualism gradually changed how people treated each other, particularly in relation to financial matters. On the positive side, individualism can be a source of an individual incentive to foster investment, innovation, and accumulating growth (Kyriacou & Kyriacou 2016). On the negative side, Reifner (1992, p. 25) argues that the “...capitalist economy tends to produce poverty, to ignore social ends and accumulate wealth as a goal in itself”. In this regard, he states that the system does not remove inequality, instead leaving inequality unsolved (Reifner 1992).

Because of this unaddressed inequality, mainstream financial services can exclude those who are struggling to maintain their lives and livelihoods. This in turn provides fertile ground for SB. Accordingly, from an early stage, alternative financial institutions, which promote collaboration and mutual help, began to flourish. For instance, the cooperative movement largely dates from the beginning of the 20th century (de Clerck 2009), with the growth of cooperatives in Germany illustrating the point. In 1920, for example, there were around 40,000 cooperatives in German, with about three-quarters being rural cooperatives providing about 60 percent of all credit (Prinz 2002). Later financial institutions began to take on other forms, including as credit unions and microfinance movements. Among the champions of microfinance institutions are the Grameen Bank in Bangladesh (established in 1983), BancoSol in Bolivia (1992), and K-Rep in Kenya (1999) (Copestake et al. 2016). Some of these microfinance institutions not only provide and contribute to financial wellbeing, but also education, health, and community building. This in turn can transform microfinance into a fully flagged banking entity such as Oikocredit (launched in 1975 by the World Council of Churches), the Triodos Microfinance Funds (1994 and 2002), ShoreBank and Shorecap International (1988 and 2003) and many other institutions (de Clerck 2009).

Several indicators in previous studies are available to assess whether SB really delivers its core social promises. Bank objectives, the response to financial crisis, transparency, and guarantees can be starting point to evaluate whether SB works (Table 2). First, does SB help the poor and disadvantage groups? The answer to this question might be different depend on cases. In India, for instance, SB is associated with delivering bank services to the unbanked poor. However, according to Burgess and Pande (2005) the SB policies promoted by the Indian government have not actually reduced the number of poor people, but opening new traditional bank branches in “unbanked locations” have.

In 1977, India’s central bank carried out so-called 1:4 regulation. This policy obliged banks to open four new branches in unbanked (typically rural) locations for every new branch opened in a banked (usually urban) location. As a result, up until 1990 about 30,000 new

TABLE 2. Comparison between CB, IB, and IB Promises

#	Promises	CB	IB	SB
1	Objective	Profit for shareholders is utmost priority	IB is not solely place emphasis on financial profit, but also distributive justice and socially responsible (Taqi-Usmani 2002; Al-Zuhayli 2003; Haniffa & Hudaib 2007).	Gaining financial as well as social and environmental results (Benedikter 2011; De Clerck 2009; Weber 2014)
2	Response to financial crisis	More prone to financial and banking shock	Affected by financial crisis, but it has been arguably more resilient to financial shock (Kasim & Majid 2010; Hasan & Dridi 2011)	More resilient to financial meltdown (Korslund & Spengler 2012)
3	Transparency	No detailed information about clients. Taking care of the privacy of the debtors	It seems similar to CB.	More transparent as they provide detailed information as to where the collected fund is distribute to clients (Benedikter 2011; San-Jose et al. 2011)
4	Guarantee	Certain collateral guarantee	IB requires collateral (Aggarwal & Yousef 2000)	Developing alternative guarantee system (San-Jose et al. 2011).

Note: CB (Conventional bank), IB (Islamic bank), and SB (Social bank)

branches opened in unbanked locations. In terms of further impact, while traditional banks only disbursed 3% of rural household credit in 1971, this drastically increased to 29% in 1991. Other results suggested that opening a traditional rural branch in an unbanked location decreased rural poverty by 4.18 percentage points (Burgess & Pande 2005). The promise that SB also services targeted disadvantaged group is likely irrelevant too. Burgess and Pande (2005) further indicate that financially disadvantaged women were more likely to receive bank loans when traditional bank branches were serving the community.

Examining from similar case, Platschorre and Bulte (2011) find a contradicted conclusion. They use another measurement to address impact in the form of the poverty gap. Their result is slightly different. The opening new bank branches in unbanked locations might drive some people out of poverty, but it may add the depth of poverty of others. The earlier research in the result of SB in India, suggest that SB delivered credit for disadvantaged groups mainly for agricultural sector and poverty eradication. Although its role is deemed to improve rural poor people to access credit, but “the impact was not as great as envisaged” (Joshi 2006, p. 126).

A different account comes from SB in the UK. Chew et al. (2016) use qualitative survey data collected from UK Cooperative Banks to suggest that the bank has adhered to the sustainable principles of SB practice, with significant implications for socio environmental development in the UK. As one result, the bank won the World’s Most Sustainable Bank three years in row from 2010 to 2012. The bank is also considered community friendly as it won the Community and Environmental Responsibility Award in Management Today’s Most Admired Companies Survey 2012 (The Cooperative

Bank Financial Statement, 2012 as cited by Chew et al. (2016)).

Second, is SB more resilience in the case of crisis? Korslund and Spengler (2012) compare the financial ratios of 13 SBs to Global Systemically Important Financial Institutions (GSIFIs) after the financial crisis meltdown, 2008. The average Return on asset (ROA) these SBs in 2009 and 2010 were 0.21% and 0.61% respectively, while GSIFIs hold ROA 0.14% and 0.46% respectively. While return on equity (ROE) indicator holds the same pattern. The ROE of SBs in 2009 was 5.31%, while GSIFIs’ ROE was 2.17%. The suggestion is that social banks can in fact be more resilient.

Third, is SB more transparent than conventional banking? Developing a Radical Affinity Index, San-Jose et al. (2011) demonstrate that SB confirms most of its principles. Employing a sample of 114 credit institution from 10 countries (Denmark, France, Italy, Netherlands, Norway, Spain, Sweden, Switzerland, Germany and the UK), they prove that traditional banks do not have high transparency in their credit allocation, evidenced by the fact that no commercial banks (of the 40 banks included) provide sufficient information on asset placement for gauging socialness. In contrast, most SBs provide details about the companies and individuals financed by the bank, thus SBs are more transparent. Finally, does SB demand no guarantees in its funding? San-Jose et al. (2011) create a value for banks from 0 to 3 (4 levels) to observe whether SBs demand fewer guarantees and thereby satisfy an additional measure of socialness. The finding is quite surprising, traditional banks score a minimum (0), in the sense that they use the traditional guarantee system as a prerequisite for funding. In contrast, SB scored a maximum (3), meaning that SB disburses funding to the excluded, without the requirement of a guarantee.

Improving IB's Social Outcomes Reifner (1992) argues alternative banking (including those with any religious motive) is part of the SB family. In other words, IB by default is just another kind of SB. The plausible reason behind this claim is that both banking models share a common goal: securing financially, socially, and environmentally sustainable businesses (see Table 3). By mimicking almost all kinds of conventional banks, IB indeed performs well in term of development and growth. Its asset has reached nearly USD1.5 trillion in 2015 worldwide (IFSB 2016), with a growth rate of 16 percent annually (EY 2016), indicating that IB is commercially acceptable. Despite the positive financial performance, however, some researchers claim that IB has not yet fulfilled its objective of socioeconomic justice characterised by a balance between successful financial and social outcomes, save through minor aspects like charity and zakat (Asutay 2012; Mohd. Nor 2016; Sairally 2007).

In this regard, there is a need for a new resolution to out IB back on the correct track. Incorporating CSR within IB practices is one option. Originally, CSR sought to overcome problems faced by corporations pertaining to social issues such as poverty, unemployment, gender bias, and discrimination. From the Islamic perspective, Dusuki (2008) asserts that “Islam... envisages business firms as stewards or caretakers, not jots of shareholder’s financial resources, but also for benefit of society as a whole and ultimately attaining the blessing of God”. Dusuki (2008) further emphasises that implementation of CSR will have a significant impact on IBs in dealing with projects that require attention to environment impact, creating social benefits, and encouraging positive initiatives.

As an alternative, Raimi et al. (2014) suggest combining CSR with the *waqf* (endowment in Islam) and *zakat* systems. Using two different simulation cases, Shahimi et al. (2013) argue that cash *waqf* contributes to alleviating poverty by up to 50% in Malaysia. Others radically propose to establish Islamic Social Banking (ISB) as a response to the apparent failure of IB in

delivering social outcomes (Asutay 2012; Mohd. Nor 2016). Figure 1 provides a simple decision-making model. The attempt to establish ISB is significant at least for two reasons. First, even, after incorporating CSR some IB institutions still do not or cannot attain significant social ends. Asutay and Harningtyas (2015) evaluate the implementation of *Maqashid al-Syari'ah* in 13 Islamic banks from six countries and found that the best banks only scored 59.41% of all possible points and the worst scored just 7.01%. They concluded that the performance of IBs in general is “unimpressive, with lack of achievements in social and environmental responsibilities”. Second, although the idea to combine CSR with the *zakat* and *waqf* systems deserves consideration, there is no empirical evidence that would even demonstrate its feasibility.

METHODOLOGY

This study employs a comparative research. In comparative research “a researcher examines specific contexts, note similarities and differences, then generalizes” (Neuman 2007). The basic idea is to gather information from institutions or countries and then make a comparison between or among the observed objects (Kalof et al. 2008). The process is as follows. First, construct the framework for ISB. In this stage, the well-known 3Ps adopted by SB will be extended to the principles derived from *Maqashid al-Syari'ah*. Second, in a practical sense, draw a comparison between IB and SB in their practices by assessing IB’s apparent social failure and inserting some good practices of SB into ISB. Third, using the framework developed to measure the social performance of ISB. We propose a mathematical formulation to assess and rank the social performance of ISB and its social responsiveness, followed by a simulation.

We argue that ISB should include the original 3P principles of SB with an additional P for “Prophet” (will be discussed further in discussion section). Figure 2 (b)

TABLE 3. Comparison of SBs and IBs

SBs	IBs (de jure)	IBs (de facto)
Business model		
Profit-making, but parallel optimization of social added value	Mixed, financially and socially acceptable	Tend to focus on profit-making rather than social motive, with exception on zakat and qardhul hasan channels
Products and services		
Focus on banking basics: Saving collection and credit distribution	Focus on common banking service, with special attention on profit-loss sharing projects	Mostly replicating conventional bank financial engineering tools. Profit-loss sharing in many cases are trivial
Credit policy		
Based on triple bottom line analysis (environmental, social and financial)	Islamic ethics system encourage IB to adopt triple bottom line analysis	Financial outcome (single bottom line) mostly adopted as measurement.

Source: Paulet et al. (2015) extended

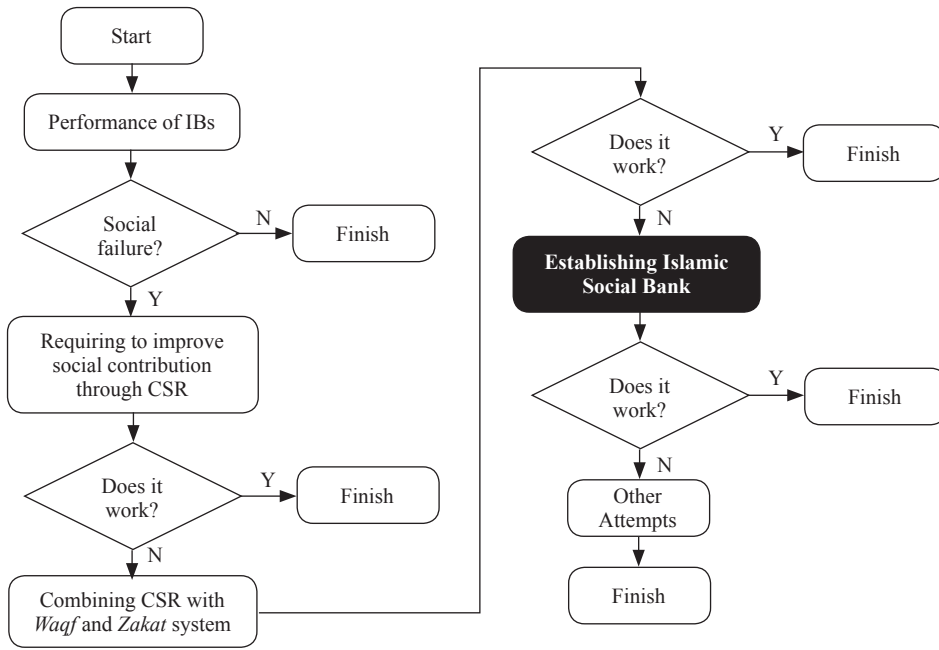


FIGURE 1. Options to Improve IB Social Outcomes

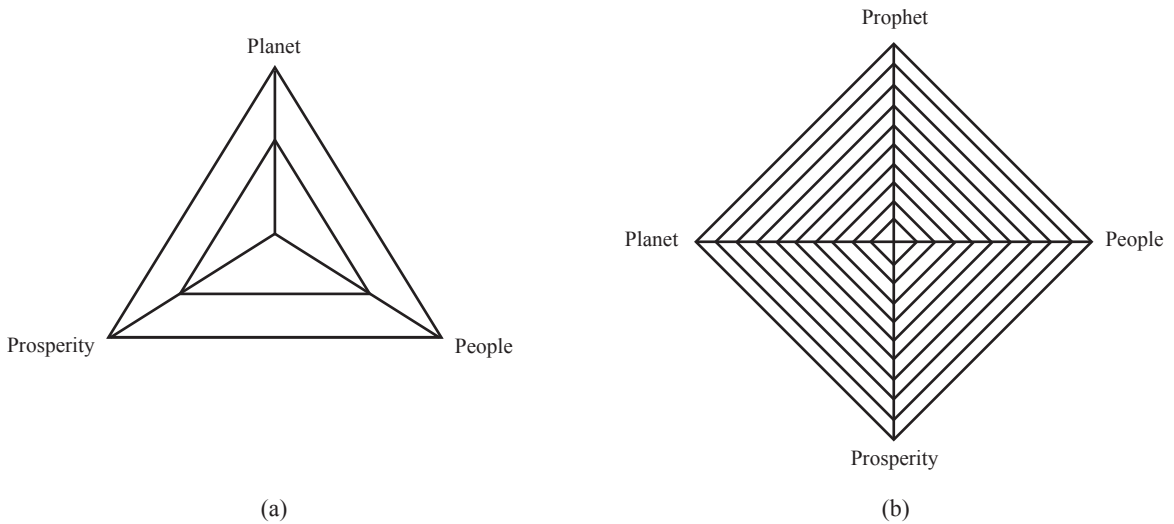


FIGURE 2. QBL Principles

depicts the resulting Quadruple Bottom Line Principles (QBLP). One requirement is then how to assess these QBLP. Following Bedoui and Mansur’s (2015) proposed performance measurement metric for SB in (a), we propose measuring the areas of the additional dimension as follows:

$$\begin{aligned}
 GP &= \frac{\sin\left(\frac{2\pi}{3}\right)}{2} \left(\sum_{i=1}^{i=2} p_i p_{i+3} + p_1 p_3 \right) \\
 &= \frac{\sqrt{3}}{4} (p_1 p_2 + p_2 p_3 + p_1 p_3) \quad (1)
 \end{aligned}$$

Bedoui and Mansur (2015) outline the following dimensions of 3P; p_1 is the performance of environment (Planet), p_2 is the performance of social (People), and p_3 is the performance of economic (Profit or Prosperity). If $p = p_1 = p_2 = p_3$, then the equation is changing to Balanced Global Performance (BGP):

$$BGP = \frac{3\sqrt{3}}{4} p^2$$

Similar to above formulation, with additional p_4 is the performance of *Syari’ah* compliance (Prophet), if $p = p_1 = p_2 = p_3 = p_4$ then to assess tetragon shaped with four pillars can be formulated as:

$$\begin{aligned}
 \text{BQBLP} &= \frac{\sin\left(\frac{2\pi}{4}\right)}{2} \left(\sum_{i=1}^{i=3} p_i p_{i+1} + p_1 p_4 \right) \\
 &= \frac{\sin \frac{180}{2}}{2} (p_1 p_2 + p_2 p_3 + p_1 p_3 + p_1 p_4) \quad (3)
 \end{aligned}$$

$$\begin{aligned}
 \text{BQBLP} &= \frac{1}{2} (p_1 p_2 + p_2 p_3 + p_1 p_3 + p_1 p_4) \\
 &= \frac{1}{2} (4p^2) = 2p^2 \quad (4)
 \end{aligned}$$

where BQBLP is the Balanced Quadruple Bottom Line Principles. When $p_1 \neq p_2 \neq p_3 \neq p_4$, then the actual area QBL is,

$$\text{AQBL} = \frac{1}{2} (p_1 p_2 + p_2 p_3 + p_1 p_3 + p_1 p_4) \quad (5)$$

where AQBLP is the Actual Quadruple Bottom Line Principles. In most cases, equation (5) is likely to be used, because it is almost impossible to achieve a similar value of p . After knowing the area AQBLP, the question whether a business is lacking social outcomes or not arises. To value a corporate social responsiveness, some researches introduced terms like reactive, defensive, accommodative, and proactive (Carroll 1979, Wartick & Cochran 1985). Clarkson (1995) adopted this approach and transformed into the RDAP scale (Table 4).

While Clarkson’s RDAP scale is very useful, it is somewhat difficult to calculate unless there is an exact number that explicitly refers to the QBLP area. We do this

TABLE 4. The Reactive-Defensive-Accommodative-Proactive (RDAP) Scale

Rating	Posture or Strategy	Performance
1. Reactive	Deny responsibility	Doing less than required
2. Defensive	Admit responsibility but fight it	Doing the least that is required
3. Accommodative	Accept responsibility	Doing all that is required
4. Proactive	Anticipate responsibility	Doing more than is required

Source: Clarkson (1995)

using the following ratio:

$$\text{RQBL} = \frac{\text{AQBL}}{\text{BQBL}} \times 100\% \quad (6)$$

where RQBLP is the Ratio QBLP, AQBLP is the actual area of QBLP, and BQBLP is the balanced area of QBLP. The ratio of RQBLP is depicted in Table 5.

RESULT AND DISCUSSION

As discussed, SB is mainly characterised by the triple bottom line of “Prosperity” (sustainable profit), “Planet” (environmentally sound), and “People” (socially oriented). The 3Ps are coherently relevant with the SDGs. In fact, all these principles to a certain degree are actually in IB, but with some different emphasis. For instance, SB aims to secure financial profit as well social outcomes. In IB, both financial and social benefits are of interest, although it is almost undeniable from the empirical evidence that financial matters matter most (Hassan & Bashir 2003; Hassoune, 2002). However, while IB includes some social features and objectives, the funds allocated for these purposes are trivial, with the possible exception of Islamic microfinance (Widiyanto et al. 2011). Nonetheless, in theory IB aligns with “People”.

In regards to the environment, the Qur’an (30:41) declares that “*Mischief has appeared on land and sea because of (the meed) that the hands of men have earned, that (Allah) may give them a taste of some of their deeds: in order that they may turn back (from Evil)*” (Ali 2016). Referring this verse, Islam clearly advocates the protection and preservation of nature (Islam 2004) especially as environmental crisis originates in the hunger of spiritual crisis (Murad, 2012). As a result, Murad (2012) further states that Islam suggests “modern humanity may make peace with the environment, itself, and most importantly, God”. In this context, IB can be environmentally friendly, although in practice this approach seems ignored in favour of profitability.

To provide a practical framework for ISB, we recommend combining the 3Ps in SB with an additional of P for “Prophet.” The latter reflects all things relating to *Syari’ah* law thought by the Prophet Muhammad (PBUH) that should be adhered to by all Islamic financial institutions. All the values and philosophical stances of IB are derived from the Qur’an and Hadiths, both delivered by the Prophet. It is said in the Qur’an (59:7),”

TABLE 5. Ratio of Quadruple Bottom Line (RQBLP) Area

%	Rating	Posture or Strategy	Performance
0-40	Reactive	Deny responsibility	Doing less than required
41-50	Defensive	Admit responsibility but fight it	Doing the least that is required
51-60	Accommodative	Accept responsibility	Doing all that is required
61-100	Proactive	Anticipate responsibility	Doing more than is required

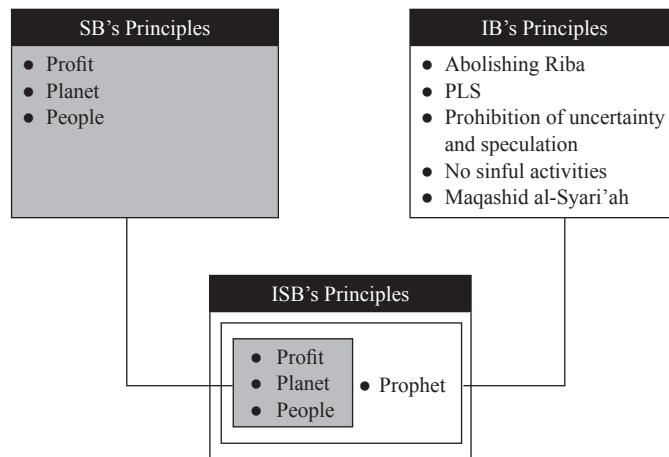


FIGURE 3. Quadruple Bottom Line Principles (QBLP) of ISB

And whatever the Messenger [the Prophet Muhammad PBUH] has given you - take; and what he has forbidden you - refrain from. And fear Allah; indeed, Allah is severe in penalty” (Ali 2016). This implies that the Prophet has a significant role from God’s perspective in that all his thoughts can be referred to as guidance, not only for worldly matters, but also the hereafter. Later, these 4Ps are referred to Quadruple Bottom Line Principles (Figure 3) in which all the principles are basically consistent with *Maqashid al-Syari’ah*.

In regard of general practices, there are some noticeable issues that have been done in SB as described by Relaño (2011) but somewhat unaddressed in IB such as financing for social and environmental projects, transparency, collateral, participation, and equality (Table 6). These practiced can be considered to be inserted within ISB.

To assess the QBLP in term of social responsiveness, we apply simulation using Equation 6. Consider two banks (A and B) with the QBLP total performance shown in Figure 4. Their respective RQBLP and rating is then in Table 7. We can say that the social performance of bank B is “Reactive” in that it denies its social responsibilities because it is performing social outcomes less than that required, while bank A is “Proactive” in that the bank delivers social outcomes more than is required.

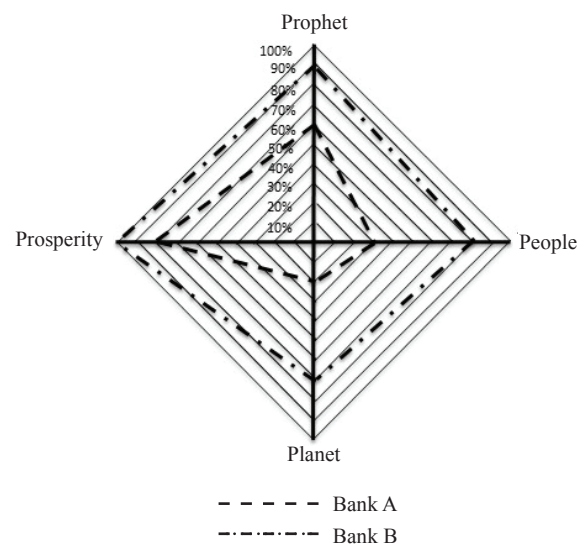


FIGURE 4. The Performance of QBL (Bank A vs. Bank B)

TABLE 7. Social Responsiveness Bank A vs. Bank B

Bank	AQBL	BQBL	RQBL	Rating
A	13,500	20,000	67.5%	Proactive
B	4,400	20,000	22%	Reactive

TABLE 6. Adapting some of SB’s good practices to ISB

No	SB practice	IB	ISB
1	Avoiding speculative transaction	Yes	Yes
2	Concentration on the real economy	Yes	Yes
3	Financing social, ethical, and environmental projects	Minor	Needs improvement
4	Transparency (customers may know where fund collected are distributed)	No	Yes
5	Collateral (designing an alternative system to provide productive access to credit)	No	Yes
6	Encouraging participation and democratic decisions	No	Yes
7	Promoting equality	Minor	Needs improvement

Note: ‘Yes’ indicates that the practice is in place, ‘Minor’ that the practice has only limited implementation.

CONCLUSION

IB has developed rapidly in the globe within last three decade. However, despite its remarkable growth, some argue that IB has failed to deliver its social promise, thus neglecting its fundamental commitment to balance financial and social outcomes. Meanwhile, SB is a typical bank that is able to cater both economic and non-economic criteria. Its principles rely on three bottom lines, being profit (financial and social outcomes), planet (the securing of environmental soundness), people (engage people to participate and emancipate, especially those who are excluding to access conventional bank).

Some options to amend the failure of IB on the table include incorporating CSR and combining CSR with the *Waqf* and *Zakat* systems. However, neither option has delivered improved outcomes to date. Another option is to address the problem is by establishing ISB. We consider this as a more plausible option to revitalise IB given the many similarities between IB and SB. Hence, we could make some modifications to SB suit a new type of Islamic bank. ISB would run under quadruple bottom-line principles (QBLP), which are profit, planet, people, and prophet. The latter reflects all things related to *Syari'ah* law thought by the Prophet Muhammad (PBUH).

This paper contributes in providing a framework for ISB. We do this by augmenting the 3P principles in SB with another P (Prophet) to construct Quadruple Bottom-Line Principles (QBLP). To ensure these QBLPs are met, we offer a mathematical measurement to calculate both the balanced and actual area of QBLP, and using these can potentially empirically assess and rank the social outcomes and responsiveness of individual ISB institutions. The framework provided can thus be used as guidance for the establishment of ISB as well as to assess whether IB has fulfilled its social objectives.

In the future, we recommend developing a research program dealing with the alternative channels through which QBLP could be implemented, including as a new ISB, as a *Waqf* venture bank, as a *Shari'ah* cooperative such as *Baitul Maal wat Tamwil*, or by encouraging existing IBs to combine its CSR and *Zakat-Waqf* programs. The research would particularly explore the characteristics, products, and services associated with the respective channels.

NOTE

- 1 The SDGs work with the Millennium Development Goals (MDGs), which commenced in 2000, with targets concerning (1) poverty and hunger, (2) primary education, (3) gender equality and empower women, (4) child mortality, (5) maternal health, (6) deadly diseases, (7) environmental sustainability, and (8) developing global partnership. The SDGs transform eight MDGs into 17 primary goals, among them being clean water and sanitation, affordable and clean energy, decent work and economic growth, securing on environment (climate

action, life below water, and life on land), peace, and industry innovation and infrastructure (United Nation, n.d.). Currently, 193 member-countries of the United Nations have adopted the SDGs, committing each of their governments to move their financial institutions toward synchronising the achievement of economic development and social-environmental outcomes (Sachs, 2015). Thus, the SDGs are expected to provide a boost to sustainable finance.

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