



The contribution of the Islamic and social banks to the concept of sustainable development

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Abstract

Islamic banking is a financial structure based on Islamic law (Sharia law) and driven by Islamic economics. The Islamic financial system, which offers alternative funding sources, is supported by four major pillars: the Islamic banking system, the Islamic money market, Islamic insurance, or takaful, and the Islamic capital market. On the other hand, social banks are founded on using financial services to “create a positive impact on the society and the environment; respectively, customers see Islamic banks, depositors, and the broader community as having a social as well as an economic role. In this respect, the main pillars of the United Nations Sustainable Development Goals (SDGs) include ending poverty and promoting sustainable development. This paper will investigate the similarities between Islamic and social banks. Furthermore, this research will highlight the contribution of the two banks toward achieving the UN Sustainable Development Goals (SDGs).

Keywords: Sustainable Development Goals (SDGs); Islamic banking; Islamic finance; Social banking; Corporate social responsibility (CSR); Charity Bank

1. Introduction

Islamic finance is one of the fastest-growing segments of the global financial industry. In some countries, it has become extremely important; in others, it is too big to be ignored. It is estimated that the size of the Islamic banking industry at the global level was close to \$820 billion at end-2008. The largest Islamic banks are located in the countries of the Gulf Cooperation Council (Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates). The total asset of the Indonesian Islamic banking sector grew by 43.43% from 2015 to 2018, and there are now 13 Islamic banks, up from 12 in 2015. The assets of Islamic banks were 213.423 billion in 2015; however, by 2018, they had grown to 306.121 billion. In Indonesia, the market proportion of Islamic banks increased from 0.25% in 2001 to 3.98% in 2011, 4.86% in 2015, and 5.74% in 2017.

Although Islamic banks perform functions that conventional banks do as well, the two banks vary fundamentally. The primary distinction between Islamic and conventional banks is that the former adheres to Shariah, the legal code of Islam. The central concept in Islamic banking and finance is justice, which is achieved mainly through risk sharing. Stakeholders are supposed to share profits and losses, and charging interest is prohibited.



In this regard, Islamic banks operate under the supervision of Shari'ah supervisory board that guides that bank or the Islamic window in designing and implementing its products and conducting its banking activities., accordingly, the three main objectives of Shariah (maqasid al-Shariah) are broken down into three main goals. Firstly, educating the individual, which is related to awareness and knowledge to make an improved living for sustained well-being.

The second goal is establishing justice, which calls for treating everyone equally in our community. The third goal is encouraging welfare that contributes to the formation and growth of people in our area of influence. Therefore, it is essential to have a high level of transparency in internal controls by the Council of Shariah, which performs a role similar to that of ethics committees but in accordance with Islamic ethical-legal rules.

On the other hand, social banks' entails to provide greater value to society and environment indirectly through the lending projects that help the poor and needy people.

Social banks create impact indirectly through lending activities, whereas social entrepreneurs create impact directly through business activity. In that respect, social banks are similar to mainstream (conventional) banks in that they require the project to be financially sound, but they do not focus on a single goal of profit maximization. Social banks "are prepared to accept lower margins or higher risks to stimulate certain activities"

The poor are usually perceived by conventional banks as high-risk borrowers due to the difficulties in assessing their credit worthiness and their inability to provide collateral to pledge against potential risk .Accordingly, providing services to the poor was one of the main arguments for the formal creation of the Islamic banking sector.

In that regard, it is anticipated that Islamic banks, which typically manage sizable sums of money, will contribute to making such charitable donations. Islamic society and the bank's shareholders both have a right to know how the bank contributes to society's well-being by assisting the less fortunate and whether it meets these standards. Islamic banks are required to make public the following information: (a) the charitable and social activities they finance; (b) the amount spent on these activities; and (c) the sources of the funds used for charity (which may include the bank's own funds and earnings from sources that are forbidden by Sharia.

Alternatively, the Islamic bond market has grown significantly in popularity over the past ten years, even among traditional investors, due to the fact that these instruments are connected to tangible assets and therefore offer a high level of security. Given the financial crisis in 2008 that was primarily brought on by the circulation of instruments with unsafe mechanisms, despite their official adherence to Islamic principles, these securities are currently traded in the biggest marketplaces due to their security features and simplicity of use.

The development of Islamic banking became a successful story by showing continued growth and being stable during crises. A recent IMF study compared the performance of Islamic banks and conventional banks during the 2008 financial crisis, and finds that Islamic banks, on average, showed stronger resilience during the global financial crisis.

However, compared to conventional banks, Islamic banks employ less debt, which calls for a review of Islamic banking's capital structure models. However, the paradigm change calls for more research because some studies have claimed that the products of Islamic and conventional banks are similar.

According to some studies, the return on the average for assets was higher in the Islamic banks than in the conventional banks. The reason was that the Islamic banks were more invested in assets and less involved in debt contracts while the return on the average equity was the same for both bank systems. The revenue ratios, other operating income, net interest margin, and return on investment were higher in the Islamic banks than in the conventional banking system.

It is worth mentioning that the first established Islamic bank "Nasser Social Bank" was established as a social bank that aims 1971 to provides social services to the poor and low-income, the reason of establishing the first Islamic bank as a social bank might be for political reasons or to gain the required acceptance to the idea of establishing a bank that doesn't provide fixed interest rates on the deposit accounts, consequently , the establishment of the first Islamic Bank as a social bank doesn't mean that they are same but it might indicates that the two banks have many things in common regarding the main objectives of the two banks .

A main difference between Islamic and conventional banks is the prohibition of all transactions in which some or all of the following components are present: Any return on money that is predetermined in amount (or percentage) and therefore includes Interest. (Riba) Uncertainty (gharar), which means prohibition on the sale of items whose existence or characteristics are not certain, and which are ambiguous upon contractual terms.



The Qur'an and hadith specifically mention economic, social, and environmental factors that promote sustainable development, such as aiding the needy and poor, enhancing social justice, and building capacity at both the individual and societal levels. Environmental issues like protecting the environment and animals are also mentioned. In addition, Islamic ontology forbade wasting natural resources because they are regarded as a gift from Allah, suggesting a moral standard for economic and social behavior.

To identify the mutual role of Islamic and social banks in promoting social development initiatives, this research will deploy a comparative research approach to illustrate the main similarities and differences between Islamic and Social banks. Moreover, this study will highlight the two banks' potential to contribute to attaining the UN Sustainable Development Goals (SDGs).

2. LITERATURE REVIEW

Corporate social responsibility (CSR) is a voluntary integration by companies of social and environmental concerns into their commercial activities and their relations with stakeholders.

Historically, the CSR method had to be based on three main elements: economy, growth, environmental protection, and social justice, which served as an economic driver and an institution concerned with the social environment. Whether it encompasses the environmental sustainability sector and the building and improvement of community welfare. Tok & Yesuf (2022) classified banks into investment banks, global banks, local banks, retail banks, social banks, green banks, community banks, church banks, and development banks.

Social banking services are often referred to as a type of bank that collaborates with various stakeholders in interactive social networks to provide complete banking services, with many competitive advantages. Some of these benefits include: elevating the bank's status as a pioneer in the field of social networks; developing a long-term strategy for sustainable development, having a distinct, consistent, and reliable online presence that boosts the bank brand; and providing integrated and comprehensive banking services on a consistent social platform.

Respectively, Bosheim & Aspevik (2013) considered social banks as interconnected to ethical banking, socially responsible investment (SRI), corporate social responsibility (CSR), and impact investing.

Accordingly, social banks are designed to offer banking services using the triple bottom line of people, profit, and the environment as their main business strategy. Profit is necessary but not the only or even the main objective. The mission statements of social banks emphasize positive effects and sustainable human and environmental development through a transparent business process.

In a similar context, San-Jose et al. (2009) defined ethical banking as having two main characteristics: obtaining social profitability, funding economic activities with social-added value, and obtaining economic profitability.

On the other hand, The early Islamic banks, such as The Farmers' Credit Union (established in Pakistan in the late 1950s) and the Mit Ghamer Savings Bank (established in Egypt in 1963), were based on social initiatives to achieve social objectives, Islamic banks, therefore, are seen by customers, depositors, and the broader community as having a social as well as an economic role.

Due to its ethical business practices and resemblance to socially responsible investments, Islamic banking has gained popularity in Western countries, as well as its ability to attract investors, regulators, and financial institutions as an alternative option to conventional banks.

Accordingly, Luthfi Hamidi & Worthington (2018) investigated the principles and practices of both Islamic Banking and Social Banks to examine the potential of incorporating some elements into a new type of banking known as Islamic Social Banking (ISB). The study concluded that three major operations must be considered to convert the Islamic Bank into a Social Islamic Bank, which are Profit, Planet, and People.

Relaño (2011) finds that social banks have more assets in client transactions, whereas conventional banks have most assets in financial transactions. This supports the argument, as allocating the money to clients is to allocate credit to the real economy – whereas the financial transactions illustrate detachment of conventional banks from the real economy.

In this regard, the two banks have in common a claim of contributing to positive social and environmental impact. They both have transparency as a strong value connected to their business activity and provide information on specific projects they lend to through storytelling.



According to Alwabel (2013), Islamic accounting depends on the Macro-Economy while Conventional accounting depends entirely on the Micro-Economy due to its dedication to growing the economic unity interest itself, disregarding the whole structure, so it was impossible to provide the desired benefits. The Islamic Sharia, on the other hand, has achieved social justice on the level of society by implementing the "Zakah: Alms" system and on the level of the household by implementing the "Nafakah: Expenditure" and "Mawareeth: Legacy" systems. The transition from a collective obligation to an individual duty creates a distinct line (interface) between social accounting and economic unity accounting.

Another main objective that commonly connects social and Islamic banks is "poverty alleviating," which is expected to be considered a primary objective in countries with lower scores on the Human Development Indicators (HDI) and focus on sustaining access to credit and human development.

In this respect, most banks nowadays aspire to be more socially and environmentally responsible and are encouraged to apply Sustainable financing based on Sustainable Development Goals (SDGs).

No doubt that imperialism and global capitalism limit the ability of Islamic banks and an Islamic financial system to bring the spiritual and secular concepts of social justice found in Islamic teachings to life. Therefore, expecting Islamic banks to end poverty and advance social equity independently is unrealistic. They must be a part of a vast network that activates the various Islamic finance system options.

2.1 The adoption of the concept of corporate social responsibility (CSR) in Islamic and Social Banking

From an Islamic perspective, human, social, economic, and environmental development are all part of the circular economy model and are scientifically linked with Maqasid al-Shariah (Islamic principles). Subsequently, there is a significant overlap between socially responsible investment principles and Islamic principles or Maqasid-al-Shariah objectives.

Alternatively, From an Islamic point of view, sustainable Development means achieving the ideal balance (Mizan) Between economic and social progress and the effectual and Efficient exploitation of natural resources.

In this respect, Islamic and conventional finance support the main concepts of corporate social responsibility (CSR). Moreover, Islamic principles promote social responsibility initiatives by inspiring Muslims to make charitable contributions to benefit the individual and the community (Waqf). To accomplish these obligations, both on an individual and institutional level, the Sharia law encourages charitable giving and extremely precise acts of philanthropy.

Maali et al. (2006) insisted that the concept of social responsibility is one of the main values of Islamic Shariah Concepts; accordingly, the term 'brotherhood' (Akhowa) is widely used in Islamic societies. All Muslims are considered brothers and should take care of each other, and no cheating or exploitation is allowed, whatever the reasons. Muslims are supposed to take care of others in society—the prophet Mohammed said: 'The Muslims in their mercy towards each other are like a body, if a single part of it complains, the other parts would be affected' (Sahih Al-Bukhari—Ali, 1961).

The concept of social accountability is broad in Islam. Islam emphasizes that the rights of Allah are primary, followed by the rights of society. Hence, by considering the rights of Allah, Muslims should act and behave accordingly. Muslims should always ensure that everything he or she does, including their deeds and words, comply with Islamic values. From this point of view, Muslims should maintain their good relationship with each other and Islamic society to fulfill their rights.

To fulfill these rights, Muslims will encourage themselves to be accountable for their actions, including to society.

According to Ahmad (2021), the philosophy of CSR in Islam is based on the Qur'an and Sunnah and the habits that develop in Muslim society. So that the study of CSR methods originating from the values of Islamic teachings becomes an obligation, especially related to companies such as the Islamic banking sector.

The notion of CSR is also an implication of Islamic ownership principles, because Allah is the ultimate owner. Humans, on the other hand, are simply transitory owners who serve as beneficiaries of trust. Humans are urged to seek survival, but not at the expense of the interests of the hereafter, hence Allah orders humans to transfer some of their property to those who are entitled to it. Essentially, Islam emphasizes philanthropic principles in order to create a space and opportunity for a Muslim with surplus riches to communicate his feelings with people around him, one of which is through zakat.

According to Aracil (2019) to compete with conventional banking, Islamic banks must implement a long-term strategy that includes CSR, which should be a fundamental component of Islamic finance by nature. Furthermore, Islamic banks must address formal institutional voids such as financial exclusion. Furthermore, a shift away from philanthropy and towards



specialized forms of CSR related to their primary business may assist Islamic banks in contributing to human well-being by Shariah.

Respectively, Social finance (SF) was founded to help social enterprises with their financial needs. Even though SF can generate both social and commercial benefits, in this regard, social finance creates an ideal environment for the expansion and demand for corporate social responsibility (CSR) in the financial and banking sectors.

According to Krause & Battenfeld (2017), consumers obtain a mixed value return by investing in social banking products, combining financial and social gains. Social banking, having a significantly different business model, goes beyond the logic of corporate social responsibility, which is sometimes utilized as a mere window-dressing device focused on profit maximization.

In the literature, many studies (Cornée et al., 2022; Hussienet al., 2019) investigated the performance of Islamic and social banks during the 2008 Global Financial Crisis. Additionally, a growing body of literature (Carè, 2018; Sadiq & Mushtaq, 2015; Dourtmes & Andrikopoulos, 2021) demonstrated the contribution of the Islamic and social banks to the sustainable development concept, respectively. Many studies (Kamdzhlov, 2022; Maali et al., 2006) have reviewed the social responsibility values incorporated by the two banks. Previous study has tended to focus on the contribution of Islamic or Social banking to social development, sustainable development or economic growth. This article uses a comparative method to demonstrate the potential contribution of the two banks toward achieving the UN Sustainable Development Goals (SDGs).

In the subsequent section, we demonstrate the main features of the social and Islamic banking system.

2.2 Islamic and Social Banks' main values

Mohd Nor (2016) referred to the following characteristics demonstrated in Table 1 as the main features that differentiate social banking operations from conventional banking operations, interestingly many of the social banking features are similar or included in Islamic banking operations, for instance, to ensure transparency, Cornée et al. (2016) suggested that to give investors concrete evidence, the majority of social banks should share thorough lists of the projects they fund.

Additionally, social banks typically forbid complex financial transactions; in this respect, social banks provide evidence for their "internal interest rate channel" and demonstrate how they allocate assets and manage risks; accordingly, Lahrechet et al. (2014) assert that Islamic institutions typically follow the norms and guidelines set forth by the Islamic Financial Services Board (IFSB), these standards enable financial market participants, such as investors and financial institutions, to assess the main business operations carried out by Islamic financial institutions while taking into account the profit-and-loss sharing (PLS) principle, which is necessary to adhere to Shariah regulations. Profit-sharing investment account holders (PSIAHs) require greater access to the degree of risk and return associated with their participation in evaluating their investments.

In this respect, the two banks also refuse to operate in speculative operations of the financial market. According to Benedikter (2010), social banks are defined by reviewing three different criteria to assess investment and lending opportunities; Profit (correspondingly, economic prudence; losses cannot jeopardize the bank's overall growth), Environment (natural habitat, protection, and resource management in a sustainable manner), and People (the primacy of the community and the balanced advancement of society, seen as a whole),

Consequently, according to Hussien et al. (2019), Shari'ah law bans Islamic Banks from financing socially immoral activities and those forbidden in Shari'ah, such as alcohol, gambling, speculation, etc. Islamic banking transactions also assume a minimum of imperfect information (asymmetric information and moral hazard).

Respectively, according to Dourtmes & Andrikopoulos (2021), the two banks considered the social and environmental aspects of the financed projects. Unlike conventional banks, which solely focus on profit maximization, social banks offer loans to create a social or environmental value.

Furthermore the two banking systems focuses in the operations that have impact in the real economy, for instance, Cornée et al. (2022) acknowledged that social banks' financial activities are more focused on supporting the real economy than trading in speculative markets, as was evident during the 2007–2008 financial crisis, when many regular banks were found to have insufficient capital and had to be bailed out by taxpayers after taking excessive risks. Accordingly, Gani et al. (2021) examined the contribution of the Islamic banking sector to the Malaysian real economy; the research found that Islamic banking has a significant impact on Malaysian economic development based on GDP growth data from 1998 to 2017. According to study findings, a rise in Islamic bank deposits of 1% results in a 0.62% increase in Malaysia's GDP.

However, some differences between the two banking operations primarily distinguish Islamic and non-Islamic banks. For instance, Islamic regulations forbid any fixed interest rates on bank savings accounts; in this aspect, Zucchelli (2022) proposed that in Islamic philosophy, obtaining interest discourages charitable giving because those who do so are less encouraged to



produce value and, consequently, less motivated to create cohesive societies that benefit everyone. Additionally, many errors are thought to result from interest-based financing. For instance, high debt and hazardous risks linked to trading on financial markets expose economies to instability.

On the other hand, Sharing risks and benefits enables the parties involved to reduce risk and benefit from it collectively. Additionally, Islamic law forbids any form of bank financial intermediation activity based on the profit and loss sharing (PLS) principle. In this regard, Hassan & Aliyu (2018) suggested that the founding scholars of the concept of Islamic banking constructed a profit and loss sharing system (PLS) to provide an alternative to a fixed rate of return on loans.

In contrast, social banks encourage loans at reduced interest rates for projects worthy in social, ethical, or environmental terms. In this respect, Mitić et al. (2017) revealed that many social banks, like Charity Bank and GLS Bank, provide unique savings invested in social protection projects. If the customers agree to a lower interest rate, then the difference in the interest rate, from lower to standard, is invested in these projects.

Due in large part to their exceptional resilience under conditions of financial problems, considerably, social banking gained popularity during the 2008 financial crisis. Further, Sadiq & Mushtaq (2015) investigated the commitment of Islamic financial institutions to environmental and social objectives that more or less align with the main objectives of Islamic Finance (maqasid). Moreover, the research highlighted that the "Takaful" concept in Islamic banking encourages investors to direct their investments toward projects that upgrade the versatility of the poor. However, the research suggested that the role of Islamic banking in sustainable development projects requires further investigation.

Table 1. Main similarities and differences between Islamic and social banks

No	Characteristics of Social and Islamic Banks	Social	Islamic
1	Refuse to operate in speculative operations of financial market.	Benedikter (2010)	Hussien, M. E., Alam, M. M., Murad, W., & Abu N.M. Wahid. (2019)
2	Concentration on real economy example; Savings collections and credit distributions.	Cornée, Kalmi, & Szafarz (2022).	Gani & Bahari (2021)
3	Give privilege to social, ethical, or environmental aspects of projects they financed, henceforth, solidarity is encouraged between depositors and borrowers.	(Dourtmes & Andrikopoulos, 2021)	Sadiq, & Mushtaq (2015)
4	Encouraging loans at reduced interest rates for projects that are worthy in social, ethical or environmental terms.	Mitić & Rakić (2017)	
5	Transparency in business management.	Cornée, Kalmi and Szafarz (2016)	Lahrech, N, Lahrech, A., & Boulaksil (2014).
6	Give privilege to social, ethical, or environmental aspects of projects they financed.	Bosheim & Aspevik (2013).	Tok, & Yesuf (2022)
7	The different types of financial intermediation activity of banks are based on the principle of profit and loss sharing (PLS).		Hassan, & Aliyu (2018); Maali, Casson, & Napier (2006)
8	The prohibition of all forms of risk-free "increases" set beforehand.		Zucchelli (2022)

Source: Author elaboration

3. EFFECTIVENESS OF ISLAMIC and SOCIAL BANKING TO THE REDUCTION OF INCOME INEQUALITY

The rising rate of global inflation has impacted not just developing countries but also developed countries. As of August 2022, inflation has reached or approached double-digit levels in the European Union (10.1%) and the Euro area (9.1%), and surpassed 20% in several Baltic and Eastern European Member States. As current inflation is driven mainly by soaring food and energy prices, households in less wealthy EU countries or with low income are impacted more strongly, due to higher relative spending on such essential items.



Higher interest rates will result in greater debt costs and leave consumers with fewer financial resources to spend on other categories. Fiscal measures implemented by governments, which helped to cap some of the inflationary effects for consumers and support purchasing power, especially of lower-income families, are also expected to come under scrutiny, as countries will face higher borrowing costs.

In general, the poor tend to save their money at a diminishing rate of return in comparison with the wealthy people, especially during high inflation. Moreover, they need more access to the bank's financial instruments. On the other hand, the wealthy are more creditworthy and have better access to financial instruments that allow currency depreciation hedging. As a result, a decline in the currency's value is sometimes viewed as taxation that takes from the poor and gives to the rich. When inflation happens, the poor are typically the most disadvantaged group. Henceforth, the conventional bank business model might contribute in one way or another to the increasing gap between the poor and rich within the same country, or in other words, make the rich get richer and the poor get poorer.

A significant income disparity prevents the poor from accessing loans in an imperfect credit market. Asymmetric information, in which the lender and borrower know little about each other, limits the capacity to make well-informed judgments. This restricts borrowing capacity and investment returns. Furthermore, faulty rules make it harder for creditors to collect on failed loans because the law may prevent the borrower's assets from being repossessed as collateral. Such regulations limit debt collection, resulting in the harsh terms and conditions that potential creditors confront. This makes credit unavailable to some people, particularly the impoverished. Given that investment is determined by an individual's income and assets, the impoverished (with fewer assets) are disadvantaged.

Finance or credit availability drives the rich-poor divide and influences how much that divide widens or closes across dynasties. Credit shocks to some industries can also alter capital distribution, economic growth rate, and the search for production inputs (especially manpower), negatively affecting poverty and income inequality.

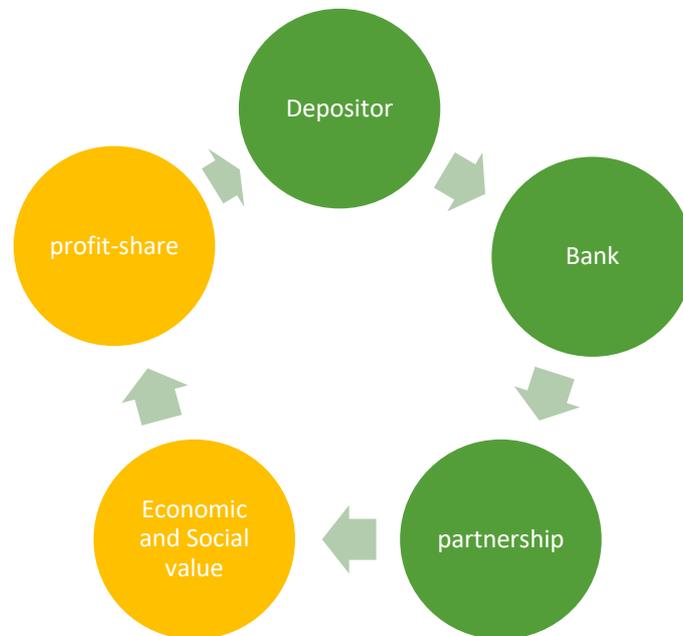
Respectively, entrepreneurs have limited access to financial instruments that help them to create employment opportunities, increase output, and improve the welfare of the previously poor, because the current conventional banking system promotes inequitable distribution by shifting all the risks to the borrowers.

According to Setiawan (2016), poverty is one of the challenges connected with wealth in society. The causes of poverty can be explained in a variety of ways. First, micro poverty arises due to unequal resource ownership patterns, which results in unequal income distribution. Poor people need more adequate resources. Second, poverty results from disparities in the quality of human resources. Low productivity results from low human resource quality, influencing low salaries. A lack of education causes low human resource quality, the fate of the less fortunate, discrimination, or inheritance. Third, poverty results from disparities in capital access.

According to Dourtmes & Andrikopoulos (2021), social banks tend to follow two core pursuits (1) a positive impact on the communities, the environment, and sustainable economic development and (2) a sustainable financial profit. Moreover, discounted interest rates are offered, especially for social or environment-friendly construction projects. Clients may also, for instance, choose to exchange part of their interest income that they would receive from deposits to contribute to environmental projects with stable interest rates.

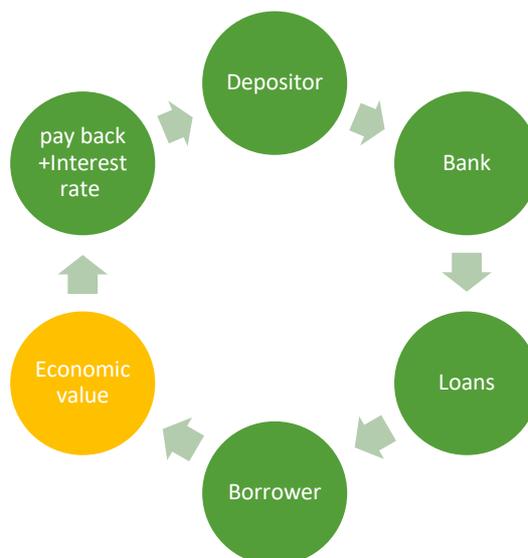
The following three charts (Figure 1-2-3) demonstrate the economic or business cycle in the Islamic, conventional, and social banks; one of the main differences between the conventional banks and the social and Islamic banks is the value creation approach implemented by each bank, as the social and Islamic banks economic model or value creation process are structured to encourage financial transactions with a principal focus on charity and community development, while, the high-interest rates that the conventional focuses on the economic value regardless of the business nature, the economic model or value creation model adopted by each bank affect the gap between the rich and poor within the same society.

Figure 1. Islamic banks' economic cycle



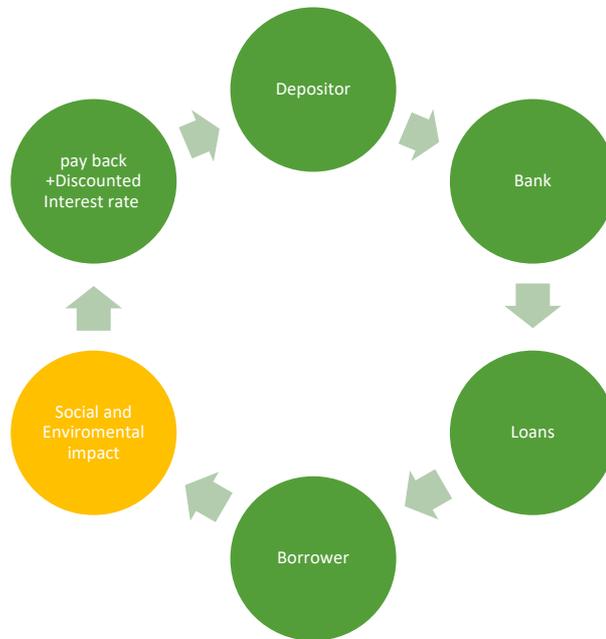
Source: Author elaboration

Figure 2. Commercial banks' economic cycle



Source: Author elaboration

Figure 3. Social banks' economic cycle



Source: Author elaboration

4. ISLAMIC AND SOCIAL BANKS ROLE IN SUSTAINABLE ECONOMIC DEVELOPMENT

All UN Member States agreed to the 2030 Agenda for Sustainable Development in 2015, which offers a shared road map for peace and prosperity for people and the earth both now and in the future. The SDGs are a follow-up to the Millennium Development Goals (MDGs), which were established in the year 2000, and are comprised of 17 quantitative and qualitative SDGs. To promote peace and prosperity for people and the planet while forming a strong global network of collaboration movements between countries. The eight Millennium Development Goals (MDGs) had 21 goals set for eradicating poverty (MDG 1), human deprivation in education, gender, and health (MDGs 2-6), and promoting sustainable development (MDG 7), all to be supported by a global partnership.

Islamic finance has the potential to play a role in supporting development, particularly as found in the SDGs, as it can allow for more robust growth, support outcomes with positive social impact, improve financial inclusion, and enhance financial sector resilience.

Muslims are urged to benefit their local communities and ensure that the impoverished are cared for in the first instance. According to the 2020 OECD report on Islamic finance, Islamic finance works to equalize wealth allocation by redistributing assets among communities. In this respect, Islamic social finance concepts like zakat and awqaf are a way to fulfill this requirement through ongoing altruism and are one of the religious duties that Muslims have (and the only one having a financial dimension). As a result, Islamic social finance's redistributive and social equity components are crucial to achieving SDG1.

Zakat directly translates as "to increase," in terms of meaning; it denotes "that purifies money" Islam's fundamental principle suggests that a person's annual income should be purified. Any excess income, including cash on hand or in a bank account, gold or silver jewelry, farm products, livestock earnings, stock, and investment profits, must be included in the zakat calculation.

Zakat, as one of the fundamental pillars of Islam, directly impacts how money is distributed and how the impoverished are freed from poverty. Muslims who have wealth above a certain threshold (nisab) are required to yearly share a certain proportion of their wealth and income among certain heads, and this is regarded as one of the fundamental forms of worship. The amount of zakat differs, ranging from 2.5% paid on financial assets like cash, gold, and silver to 5% on agricultural products if the



crops are irrigated to 10% if they use water from natural sources like rivers, springs, or rain. Early Islamic history demonstrates that zakat was used as an effective distributive scheme in caring for the poorer sections of the population in Muslim societies.

In this respect, Zakat and CSR are mutually because CSR will expose the Zakat money that corporations manage and employ for CSR initiatives. With such a policy, it is possible to conclude that state institutions such as sharia banking serve a dual function, particularly in terms of distributing zakat to the masses, as well as legal entities charged with collecting social funds such as zakat, grants, infaq, and sodaqoh originating from the public.

According to Kamdzhlov (2022), conventional and Islamic finance are important to corporate social responsibility (CSR). The function of philanthropy is the crucial difference between traditional corporate social responsibility and its Islamic counterpart. Sharia law promotes philanthropy and charity by advocating specific actions in carrying out these duties at the individual and institutional levels.

On the other hand, Islamic waqf is a type of investment intended to benefit both Muslims and non-Muslims for a very long time (perpetuity investment). In this regard, waqf was created to provide financial assistance to the poor and the needy and social benefits like public utilities, education, health care, research, service animals, and environmental protection.

In most Muslim countries, the sizable stock of waqf assets is stagnant and not utilized for socioeconomic development. For instance, Indonesia has 1400 sq. km. of waqf property worth US\$ 60 billion. \$3 billion in US dollars could be used for different socioeconomic purposes if these assets return 5% annually. Considering other forms of waqf assets, the potential of utilizing waqf for effective social development schemes is huge but still needs to be explored.

Carè (2018) suggested that social banks are, by nature, sustainable banks, while the opposite is not true. Sustainable banks are by nature, “profit-oriented banks” that pursue their sustainable aims strategically. The Sustainable banks are attempting to be sustainable, as evidenced by their new sustainable products, risk management techniques, and disclosure policies, but they also have an eye on their success overall, as well as their reputation, brand image, and market share.

Accordingly, the Global Reporting Initiative GRI Guidelines have prompted businesses to publish a stand-alone sustainability report. The integrated report is crucial for businesses to make more sustainable decisions and for investors and other stakeholders to understand how well a business is doing. Additionally, it creates a fuller image of the organization within the parameters of the materiality criteria.

In this respect, Novokmet & Rogošić (2016) analyzed the sustainability reports prepared by the commercial banks listed on the stock markets of ten European countries - Denmark, Finland, France, Germany, Italy, the Netherlands, Norway, Spain, Sweden, and the United Kingdom during the period 2001-2013; the research findings demonstrated the need for the banking sector to continue progressing with its commitment to sustainability. And consequently, there should be joint efforts by financial institutions, national governments, and international organizations to commit to sustainability to gain quality, visibility, and credibility for the investment community.

5. Discussion

The successive decisions taken by the American federal bank to increase the interest rates make the value of the dollar soar that increase in the interest rate didn't only affect inflation in the United States even as it raises the costs of many dollar-priced imports for other countries, with the worldwide inflation rate rises to the highest level in decades, under this circumstances accomplishing SDG 1 that aims to end poverty became more challenges, in this respect, the business approach of the conventional banks focuses in maximizing wealth or utility which calls for an alternative business approaches that are more committed to the societal and environmental values, In this respect, the Islamic and social banks consider the social and environmental impact of the financed projects. However, Islamic bank follows cost-plus financing “Murabaha” instead of discounted interest rates in financing sustainable projects, and it is good to mention that the largest growth of Islamic banking assets relevant to the social banks might be due to the commitment of the Islamic banks towards it values by having Shariah supervisor (Islamic Scholar) on board to provide consultancy and advise on the funded projects.

6. Conclusion

Islamic banks that follow shariah law don't finance uncertain activities nor take excessive risks. Moreover, shariah law bans Islamic banks from financing socially immoral activities and those forbidden in Shariah, such as alcohol, gambling, and speculation, representing a major difference between Islamic banks mainly and conventional banks.



Impact investing, socially responsible investing (SRI), business social responsibility (CSR), and ethical banking are all related to social banks. As their primary business strategy, social banks offer banking services while focusing on the triple bottom line of people, profit, and the environment. Profit is necessary but not the only or even the main objective. The mission statements of social banks emphasize positive effects and sustainable human and environmental development through a transparent business process.

Islamic banks can be viewed as entities that promote social justice and responsibility. Social duties in the Islamic setting represent the concept of brotherhood, "ukhuwah" from one to another. As a result, Islamic banks play a vital social function and might be defined as banks with a social duty.

The social and Islamic banks share similar values in this regard, such as refusing to engage in financial market speculation, giving preference to social, ethical, or environmental aspects of the projects they finance, and encouraging cooperation between depositors and borrowers. However, the Islamic banks' distinctive operations through murabaha and mudaraba primarily set them apart from the social banks.

The 2030 Sustainable Development Goals SDGs adopted by all United Nations Member States in 2015 include environmental sustainability, economic prosperity, social equity, human, social, economic, and environmental development, which are linked in one way or another with Islamic and social banks' main objectives.

The evidence from this study suggests that the two banks could positively contribute to the United Nations Sustainable Development Goals SDGs, such as SDG1 'No Poverty', SDG2 'Zero Hunger', SDG3 'Good Health and Well-Being', SDG4 'Quality Education', SDG6 'Clean Water and Sanitation', SDG8 'Decent Work and Economic Growth' and SDG10 'Reduced Inequalities'.

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