

INTEGRATION OF SOCIAL RESPONSIBILITY IN ISLAMIC FINANCIAL COMMUNITIES



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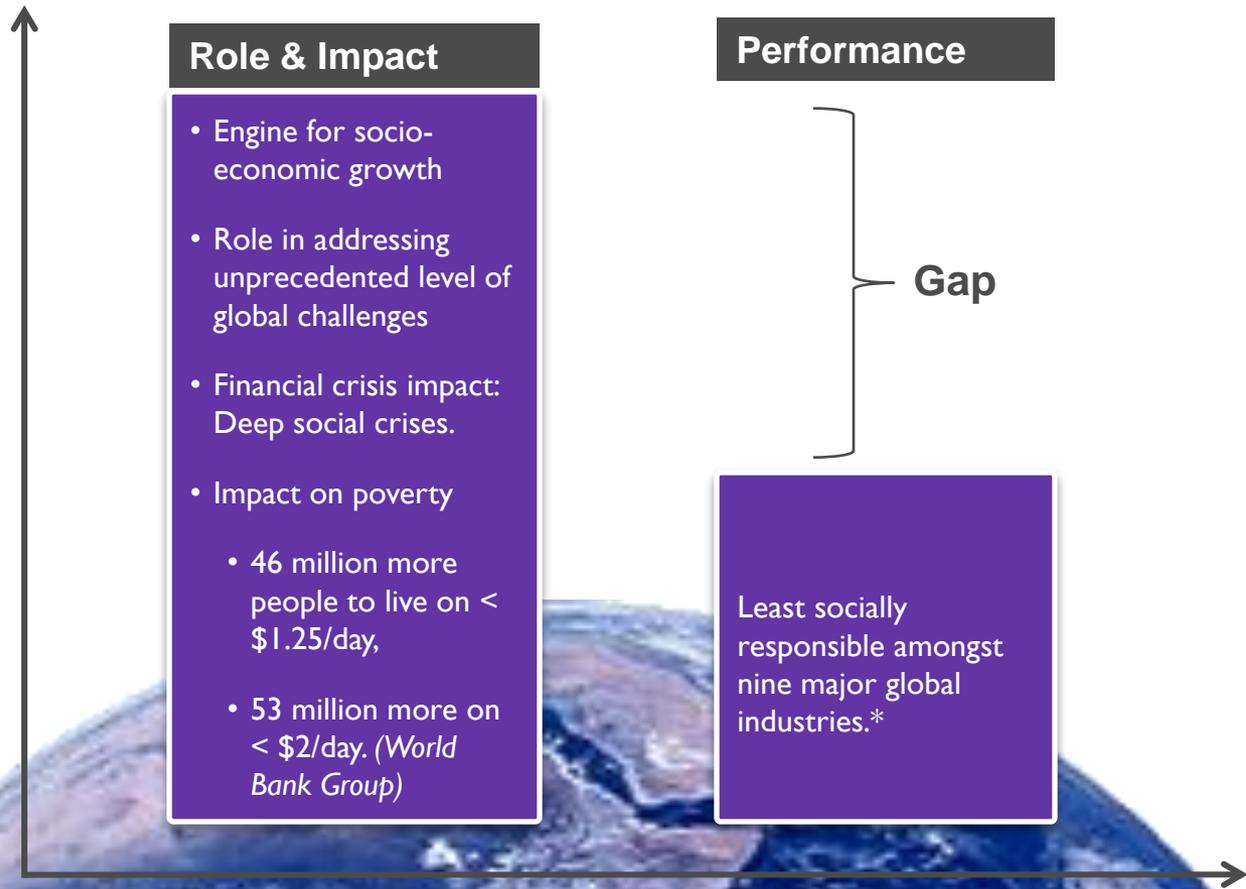


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FRAMING THE DISCUSSION

With great power comes great responsibility...

FINANCIAL INSTITUTIONS...



Role & Impact

- Engine for socio-economic growth
- Role in addressing unprecedented level of global challenges
- Financial crisis impact: Deep social crises.
- Impact on poverty
 - 46 million more people to live on < \$1.25/day,
 - 53 million more on < \$2/day. (World Bank Group)

Performance

Least socially responsible amongst nine major global industries.*

Gap

Responsibility?

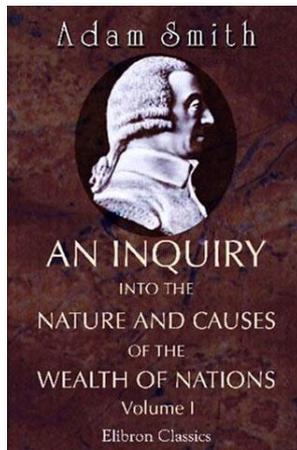


FOUNDATIONAL PRECEPTS: CONTEMPORARY BUSINESS

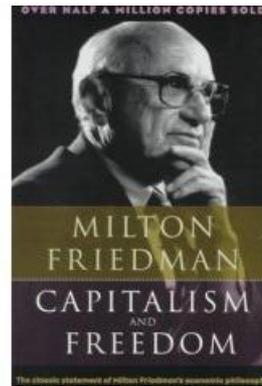
Serving customers

Maximizing shareholder value

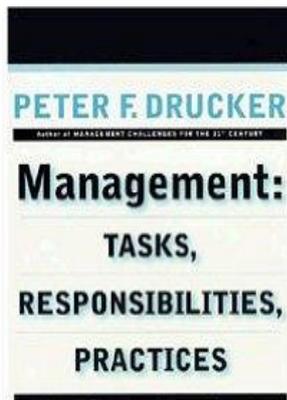
Enlightened self-interest



“The great object of the political economy of every country is to increase the riches and power of that country.”



“there is one and only one social responsibility of business—to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engages in open and free competition without deception or fraud.”



“There is only one valid definition of business purpose: *to create a customer*...It is the customer who determines what a business is...The customer is the foundation of a business and keeps it in existence. He alone gives employment.”



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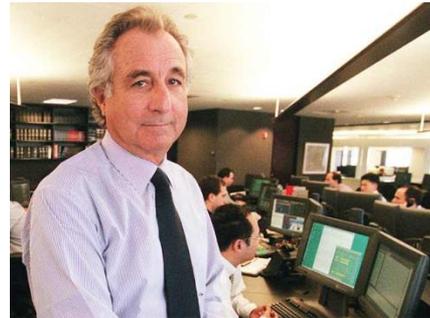
Serving customers

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Foundational drivers & social responsibility?



Foundational Precepts of Islam

'Taqwa-centricity'
(God consciousness)

“So fear Allah. For it is God that teaches you.
And Allah is well.”
2.228



Accountability

Human beings as
vicegerents on Earth

“Allah takes careful account of everything”
–Ali, A.Y. (1989) *The Holy Qur'an: Text, Translation and
Commentary*, Surat Al Nisa (Women) verse 86.

“Then anyone who has done an atom's weight
of good shall see it and anyone who has done
an atom's weight of evil, shall see it.”
–Ibid, Surat Al Zalzala (The Earthquake) verse 7-8)



Foundational Precepts of Islam

Primary Responsibilities:
Objective of Islamic Laws

Educate an Individual
in 'Taqwa'



Establish Justice



Education “seeks to make each individual a trustworthy agent just so as to strive to realize these values which benefit himself and the community”

Kamali, M.H. (1989A) Sources, Nature and Objectives of Shari'ah The Islamic Quarterly, pp 215-235 at p 216.

“The Believers, men and women...enjoin what is just (accepted), and forbid what is unjust (rejected)...”

Ali, Surat Tawba (The Repentance), verse 71.

Foundational Precepts of Islam

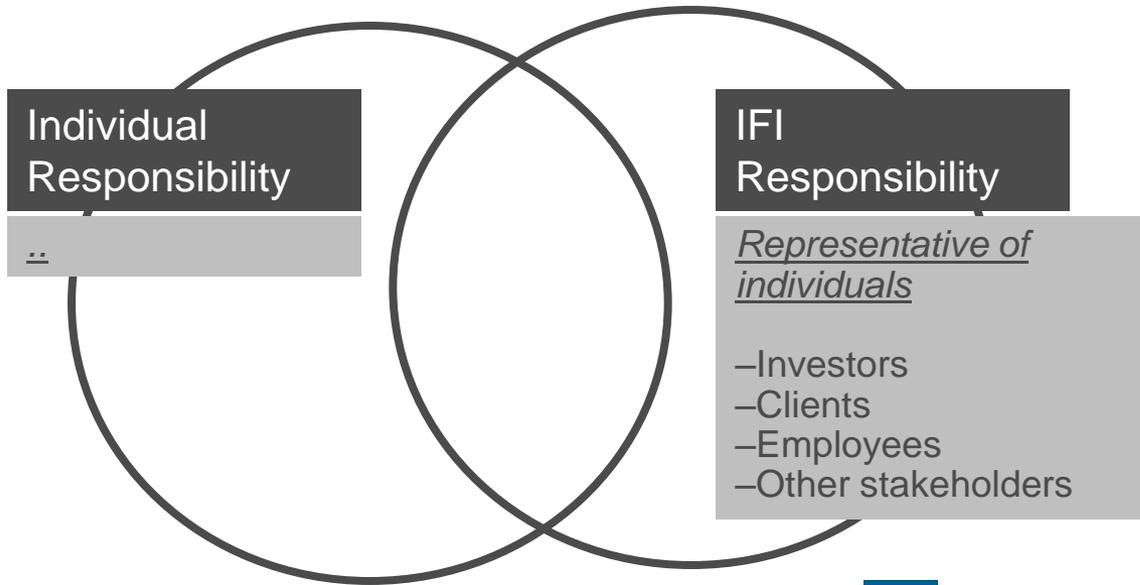
Individual vs. Institutional
Responsibility



Ability-Based Focus

Social Responsibility Mandate for IFIs

'Taqwa-centricity' Accountability Educate Establish Justice



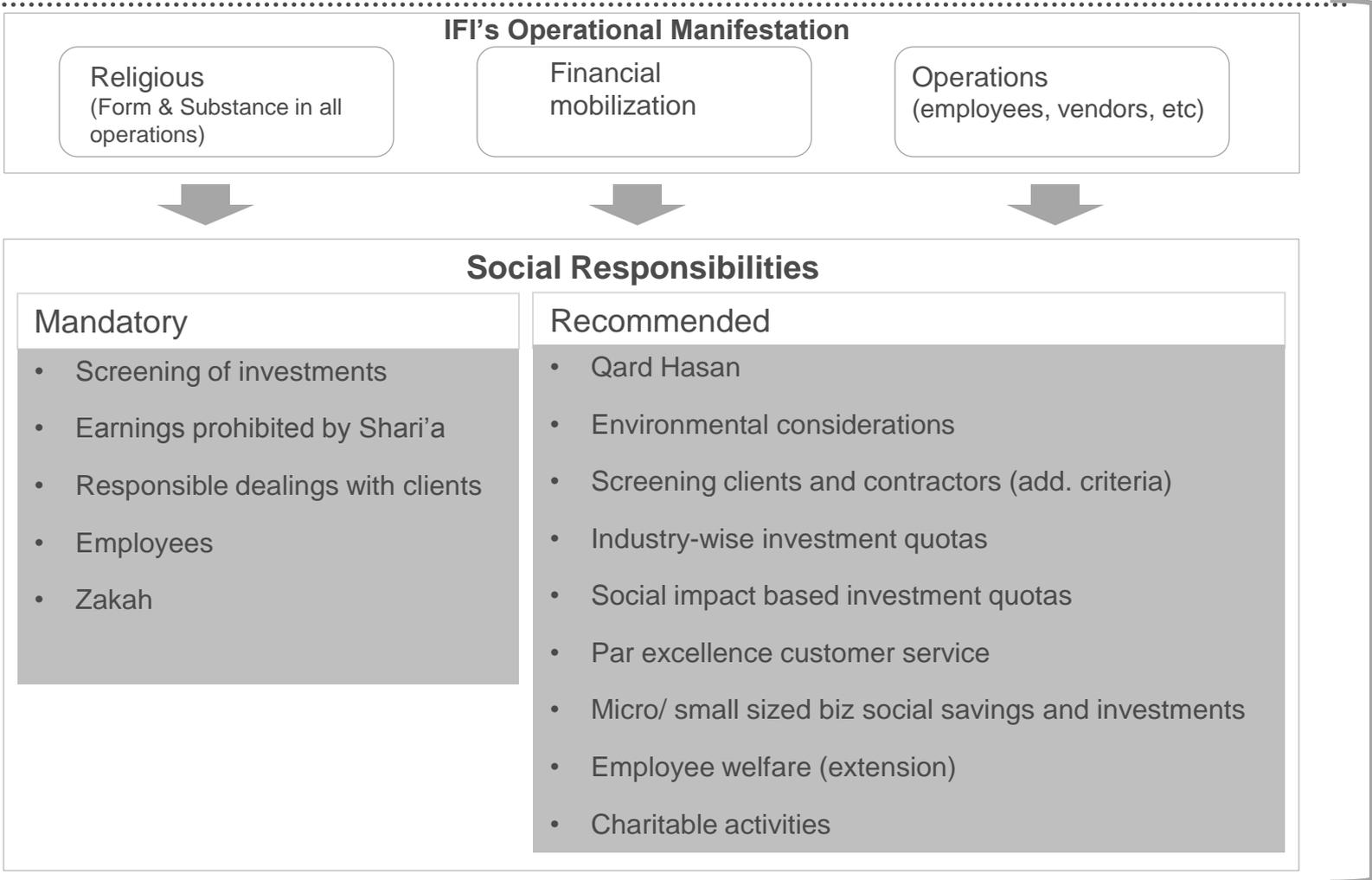
IFI's Special Obligation

- Community obligation to avoid usury
- Financial intermediary with special allocation powers
- Highly visible institutions that are role models

Conflicting Ideologues within Islamic Finance

- Some say - IF responsibility is only structural compliance
- Possible reasons:
 - historical and political influence
 - the old guard of professionals
 - differing Shari'a opinions
- But, there are other Point of views

A framework for IFI Social Responsibility



Current Global Practices

- Sophistication of the existing CSR processes, benchmarking tools, and operations
- *Wal-Mart - Sustainable Product Index*: measure sustainability of products for first time. Survey 100,000+ suppliers around four areas: energy and climate, material efficiency, natural resources, and people and community. *Ability-based* initiative.
- *Socially Responsible Investing*: In the U.S., 2.71 trillion in total assets under management based on three core socially responsible investing strategies—screening, shareholder advocacy, and community investing
- *Social Entrepreneurship*: Kiva and Grameen. more than 30,000 such social enterprises, together representing some \$40 billion in revenue

•*Social Investment Forum's 2007 Report on Socially Responsible Investing Trends*

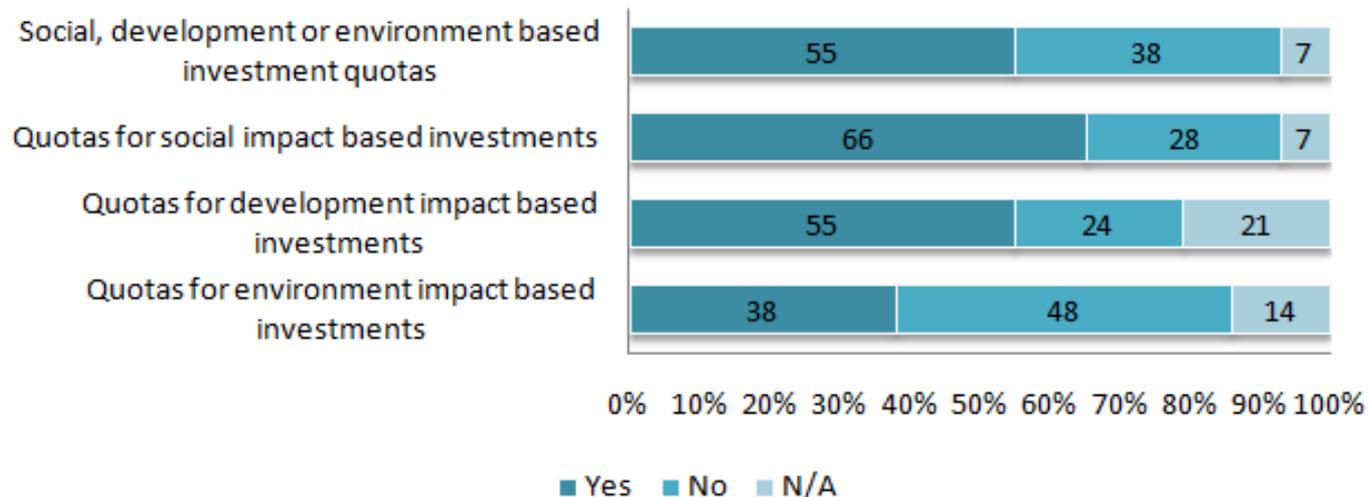
•*B Lab, a nonprofit organization that certifies these purpose-driven companies*



Current IFI Practices

- *2009 Social Responsibility Survey of Islamic Financial Institutions:*
 - Yet to move from the negative screening framework which is primarily based on avoidance (first generation) to the positive action framework which is based on both avoidance and engagement in socially responsible activities (second generation.)

Policy on social, development and environment investments



Exemplary Conduct

Charitable activities

- Charitable takaful savings plan – Taz'ur

Social Welfare and development

- Professionals & craftsmen micro-financing – Jordan Islamic bank

Environmental preservation

- Target based impact reduction on environment – HSBC

Employee Welfare

- Second generation affirmative action – Al Baraka South Africa

Room for growth?

- **Pro-active development, social welfare & environmental targets?**
- **Affirmative action policies & targets for employees?**
- **Empowering impure income for social development goals?**



CRITICAL QUESTION:

How do you incentivise management to implement CSR policies?

- Link it to 'selfish' material targets & profitability
- Higher productivity
- Higher employee retention & lower turnover
- Lower stakeholder discontent
- Less likelihood of government intervention

If management is incentivised, employees are already there..



Concluding Thoughts

- Purpose drivers
- IFI's and Conventional FI's – lessons learned.
- Holistic perspective is not an 'option'
- Social Responsibility - redefine business leadership versus constraining business activity

*Remember there's no such thing as a small act of kindness.
Every act creates a ripple with no logical end."*

Scott Adams