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Corporate Social Responsibility Contribution to Socio-Economic Development: Evidence from Indonesian Islamic Banks

Aminudin Ma'ruf², Shahbaz Alam³, Aishath Muneeza^{1*}

^{1,2,3} International Centre for Education in Islamic Finance (INCEIF), Malaysia

* muneeza@inceif.org

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Abstract

Introduction: Islamic banks play a significant role in social and environmental responsibility. It is known that Islamic finance is not merely profit-oriented but also looking at the prosperity of the society, as an ethical financial system Islamic finance give a massive contribution towards social responsibility.

Purpose/Objective Study: This exploratory study examines the relations between corporate social responsibility (CSR) practices of Indonesian Islamic banks and socio-economic development.

Design/Methodology/Approach: The evidence presented is based on the published annual reports of 13 Islamic commercial banks in 2017.

Findings: The findings of this research suggests that CSR is a priority of Indonesian Islamic banks and has correlation to the socio-economic development. Furthermore, the findings suggest that the robust guiding principles on CSR need to be developed and it has potential of Islamic banks credibility and profitability.

Paper Type: Research Article

Keywords: Corporate Social Responsibility; Socio-economic development; Indonesian Islamic banks

Introduction

Islamic finance has emerged as an alternative to conventional finance. Irrespective of the faith convictions, Islamic finance as gained popularity and it is considered as a mode of ethical financing. Corporate social responsibility (CSR) is one of the responsibilities owed by financial institutions including Islamic financial institutions towards the society. The objective of this study is to find out the way Islamic banks perform CSR responsibilities by gathering evidence from selected Islamic banks from Indonesia.



Kampus 4
Universitas Ahmad Dahlan
Jl. Ringroad Selatan, Tamanan
Banguntapan, Bantul
Yogyakarta 55191
e-mail : ihtifaz@uad.ac.id

The concept of CSR has been defined in many different ways by scholars; Howard R. Bowen defines CSR as the obligation of businessman to pursue those policies, to make those decisions, or to follow those lines of action that are desirable in terms of the objectives and values of our society (Taylor & Simpson, 2013). For Islamic financial institutions (IFIs) CSR refers to all activities carried out by an IFI to fulfil its religious, economic, legal, ethical and discretionary responsibilities as financial intermediaries for individuals and institutions; religious responsibility which means the obligation of IFIs to obey the laws of Islam in all its operations and dealings. Economic responsibility that means the obligation for Islamic Banks to be financially viable, profitable and efficient. Legal responsibility refers to the obligation of IFIs to respect and obey the laws and regulation of the country of operation. Ethical responsibility which is the obligation of IFIs to respect the mass of societal, religious and customary norms which are not codified in law. Discretionary responsibility that refers to the expectation from stakeholders that IFIs will perform a social role in implementing Islamic ideals over and above the religious, economic legal and ethical responsibilities (AAOIFI, 2017).

The increase of public awareness makes CSR a critical issue for many companies, it is shown by the number of companies that issued sustainability report. Around three quarters of 4900 companies from 49 countries around the world issue corporate responsibility reports and there are 78 percent of the world's top companies (G250) are including CR data in their annual reports, it is an indication that they believe CR data is relevant for their investor (KPMG, 2017). It is no doubt that researchers and practitioners have considered CSR as outcome and part of reputational risk (A. L. Friedman & Miles, 2001). In addition, in 2015 Sustainable Development Goals (SDGs) are launched as a world new guidance after 2015, a set of 17 goals are a substitute of MDGs and considered as a response towards the challenge of sustainable development at the global level (United Nations, 2015).

Islam values the circulation of wealth, thus, Islam put the right of every poor people on the rich one, so they have to pay the charity (zakat) to them as their obligation from Allah and the right of the needy, In this life, human being has the biggest credibility to keep the world, as the caliph of Allah human being should look after upon the world. Allah has ordered justice and good and forbade extravagance and injustice among Muslims.

Economic growth towards a welfare and a just and better society is one of the goals of Islamic Economy, therefore, CSR has become a fundamental pillar in the banking and finance institutions. Islamic banks generally do not have the CSR framework to follow since they have the religion obligation which is Zakat that also cover the welfare of society. The focus on Islamic banks in this paper is because they represent the largest Islamic financial institutions in the country. This

study aims to examine the relationship between CSR and the socio-economic development by considering the profitability of the banks. Currently there are 13 commercial Islamic banks in Indonesia (OJK, 2018). In this paper, annual reports of 13 commercial Islamic banks are investigated. There are some differences in the ways they report their CSR practices, to have a good understanding of CSR practices in Islamic banks, analysing the concept of CSR from regulation and Islamic perspective was done in this study.

This paper is divided into five parts. Followed by this introduction, part two deals with literature review while part three deals with methodology and part four discusses the main findings of the paper followed by recommendations and conclusion.

Literature Review

Academicians vary in the definition of CSR (Carroll, 1979; Frederick, 1960; M. Friedman, 2002; Jones, 1980; Sethi, 1975). However, there is a common used of definition is provided by the World Business Council for Sustainable Development (WBCSD) where they define CSR as: Corporate Social Responsibility is the continuing commitment by business to contribute to economic development while improving the quality of life of the workforce and their families as well as of the community and society at large (Popa, 2015). In Indonesia CSR is regulated under article 74, law number 40 of 2007 concerning Limited Liability Company, article 15 law number 25 of 2007 and government regulating number 47 of 2012 (Hidayah, 2016).

Firman Menne, Lanita Winata, & Mohammad Hossain (2016) found in their study that there is a significant relationship between CSR practices and financial performance for IFIs in Indonesia, this study align with the previous studies of Maqbool & Zameer (2018), Nguyen, Kecskés, & Mansi (2017), and Bhardwaj, Chatterjee, Demir, & Turut (2018). Islamic banks practices of CSR is not the cost for institutions rather than a gain for them; this is due to ethical system of financing that based on Islamic law. Furthermore, it reflects the important strategy in philanthropy (Belkacem & Ladraa, 2015).

Hidayah (2016) on her research has argued that because of unclear and inconsistent CSR concept of Indonesia she suggested that ISO 26000 can be the good CSR regulation based for Islamic banks in Indonesia, she further noted that ISO 26000 is according to the Islamic principles. It is also mentioned that Qard Hasan is one of models in CSR practices of Islamic banks. However, Islamic banks in Indonesia failed to have a full disclosure on all dimensions of their CSR practices (Darus et al., 2014). Amran et al., (2017) concluded in their study that Islamic banks have demonstrated ongoing efforts towards good citizenship. As vicegerent of God, Islamic banks have played their role by engaging in CSR activities, this is reflected from their CSR report and higher level of accountability,

the growing of CSR reporting practices among Islamic banks is in line with the goal of establishment of Islamic organizations and comply the Islamic law. In 2013, 61,73% of Islamic banks in Indonesia disclosed their CSR performance on their annual reports, but this percentage is lower than what the stakeholders expected from them, the expectation of CSR performance reached 100% (Saridona & Cahyandito, 2015).

The development of Islamic banks in Indonesia has shown fairly positive trend, in 2017 the share of assets of Islamic banks to the total assets of banking industry gradually increased up to 5.74%, the assets of Islamic banks are still dominated by Islamic commercial banks, Currently there are 13 Islamic commercial banks and 21 Islamic business units (OJK, 2018). In Indonesia, the regulation on CSR is a crucial concept since we have 25.95 million people (9.82%) who are living under the poverty line, although this number is decreasing compared to last year which are 26.58 million people (10.12%) Indonesia still have a great responsibility on poverty alleviation. Consequently, the CSR practices of Islamic banks in Indonesia is much needed, however, there are limited literature on CSR practices in Indonesia. This study investigates the CSR practices of Islamic banks in Indonesia as disclosed in their annual reports and linked them into socio-economic development.

Research Methods

Corporations use their annual reports and website as communication tools with their shareholders and stakeholders of their CSR practices and profitability. Previous studies have examined the CSR practices by analysing annual reports, websites and interviews (Amran et al., 2017; Darus et al., 2014; Kamla & G. Rammal, 2013; Migdad, 2017; Nor & Hashim, 2015).

The importance of employing the qualitative research is to achieve the objective of this study by understanding the nature of the institutions and regulations in Indonesia.

The nature of this study is exploratory and explanatory which attempts to discover the CSR aspects in Islamic banks by evaluating the CSR contribution of 13 commercial Islamic Banks in Indonesia (Bank Aceh Syariah, Bank Muamalat Indonesia, Bank Victoria Syariah, Bank BRI Syariah, Bank Jabar Banten Syariah, Bank BNI Syariah, Bank Syariah Mandiri, Bank Mega Syariah, Bank Panin Dubai Syariah, Bank Syariah Bukopin, Bank BCA Syariah, Bank Tabungan Pensiunan Nasional Syariah and Maybank Syariah Indonesia), based on their published annual reports in 2017 which will be sorted into some categories and lined into the socio-economic development of the society. All of the 13 Islamic commercial banks have made their annual reports available online. However, it was found that there are two banks that did not disclose their CSR fund in their annual reports, namely Bank Tabungan Pensiunan Nasional Syariah and Maybank Syariah Indonesia.

The approach used in this study is investigating the annual reports of Islamic banks in Indonesia; by looking at their annual profit and their allocation of the profit into CSR practices. Moreover, the authors have categorised the CSR practices into some categories of socio-economic development which are development, community, education, children, cultural activities, religious activities, health, sports, environment, special needs assistance, humanitarian emergencies, building mosque and others.

Hasan (2004) argued that the performance of IFIs should be evaluated based on their social responsibility in an Islamic framework. For that reason, finding reliable study on CSR practices in Islamic banks is most likely can be achieved by employing a qualitative research method.

Results and Discussion

The understanding of CSR practices of Indonesian Islamic banks can be achieved by looking at the broad picture of the Indonesian economy, the performance of Islamic banks, the regulation of CSR in Indonesia and CSR from Islamic perspective. As a result, the performance of Indonesian conventional banks and Islamic banks will be reported, then the regulation of CSR in Indonesia.

The current performance of conventional banks in Indonesia

In line with the world's economic recovery, the domestic economy is growing solidly driven by increased investment and international trade performance. From the banking side, the intermediary function is still good with higher loan growth compared to the previous year, the banking industry is considered strong enough to absorb the risks faced because it is supported by an adequate capital (OJK, 2018). The commercial bank indicator is exhibited in table 1.

Table 1. Commercial Bank Indicator (Billion IDR)

Indicator (Rp Billion)	2016		2017		qtq		yoy	
	Dec	Sep	Dec	Sep '17	Dec '17	Dec '16	Dec '17	
Total Assets	6,729,799	7,150,388	7,387,634	1.77%	3.32%	9.74%	9.77%	
Financing	4,377,195	4,543,588	4,737,972	1.17%	4.28%	7.87%	8.24%	
Third Party Fund	4,836,758	5,142,891	5,289,209	1.92%	2.85%	9.60%	9.35%	
- Giro	1,124,235	1,199,374	1,233,337	0.49%	2.83%	13.84%	9.70%	
- Savings	1,551,809	1,574,694	1,701,175	1.30%	8.03%	11.16%	9.63%	
- Deposit	2,160,714	2,368,823	2,354,697	3.08%	-0.60%	6.46%	8.98%	

Source: Laporan Profil Industri Perbankan Triwulan IV 2017

OJK (2018) reports that the number of banks that operate in Indonesia as of 2018 is 115 with the total assets of 7,456,300 billion rupiah. It also mentioned that banking performance increased compared to the previous year, it is reflected from the profitability and efficiency of the banks, it makes the banking capital to be more solid. Commercial bank assets grew by 9.77% compared to the same period in the previous year. From the asset components, lending side also grew better than previous year. However, banking assets are still dominated by several large banks. The largest assets portion of 4 banks reached 46.91% of the total assets of the banking industry while the largest 20 banks accounted for 77.07% of total banking assets. It reflects that the dominance of big banks is fairly high in Indonesian banking industry.

The current performance of Islamic banks in Indonesia

The performance of Indonesian Islamic banks in the fourth quarter of 2017 was quite good compared to the previous year, the capital condition is stable and supported by an increase in efficiency, although overshadowed by an increase in credit risk (OJK, 2018). Table 2 shows the total assets, financing and third party fund of Islamic commercial banks in Indonesia.

Table 2. Islamic Commercial Bank Indicator (Billion IDR)

Indicator (Rp Billion)	2016		2017		qtq	qtq	yoy	yoy
	Dec	Sep	Dec	Dec	Sep '17	Dec '17	Dec '16	Dec '17
Total	356,504	395,093	424,181		4.47%	7.36%	20.33%	18.98%
Assets Credit	248,007	271,576	285,695		2.36%	5.20%	16.44%	15.20%
Third Party Fund	279,335	318,574	334,719		5.48%	5.07%	20.83%	19.83%
- Giro	27,972	38,206	40,045		6.22%	4.81%	31.99%	43.16%
- Savings	85,188	90,470	98,449		4.06%	8.82%	24.08%	15.57%
- Deposit	166,174	189,898	196,226		6.03%	3.33%	17.58%	18.08%

Source: Laporan Profil Industri Perbankan Triwulan IV 2017

In 2017, the total assets of Indonesian Islamic banks gradually increased by 5.74% compared to the previous year which stood at 5.30%. The assets of Islamic banks are still dominated by Islamic commercial banks which reached 67.90%. However, the growth of Islamic bank assets is slowly decreasing compared to the previous year, it is influenced by the slowing third party funds that influence the slowdown in the financing distribution. Meanwhile, the assets of Islamic banks have increased in quarterly basis, it is due to capital injection of several Islamic banks for the development of IT infrastructure including digital banking (OJK, 2018).

Regulation of CSR in Indonesia

In Indonesia, the regulator pushes for the harmony through CSR policy. CSR requires business entities to have policies and programs related to the commitment of developing sustainable relationship with shareholders and stakeholders. In Indonesian regulation, CSR is ruled in article 74, paragraph (1) of Law Number 40 year 2007 on Limited Liability Companies which stated:

"Companies engaged in the sector of natural resources are regulated to carry out Corporate Social and Environmental Responsibility, budgeted and calculated as the cost of the companies with implementation and execution taking into account decency and fairness."

ISO 26000 on Guidance on Social Responsibility issued by International Organization for Standardization (ISO) the world standard body for industries and commerce has been made as Indonesia National Standard (SNI) by Indonesian government in 2012. Based in comparison between CSR in Islamic law and ISO 26000 Hidayah (2016) found that ISO 26000 is complying the shariah rules.

In reporting format and content, OJK (Indonesia Financial Services Authority) has issued regulation No. 29/POJK.04/2016 on Annual Report of Issuers and Public Companies and OJK Circular Letter NO. 30/SEOJK.04/2016 on the form and content of the Annual Report of Issuers of Public Companies, subject of CSR is divided into four (4) aspects: Environment; Employment and Occupational Health and Safety (K3); Social Community and Social Development; and Responsibility to Customers. In 2009, Bank Indonesia (central bank of Indonesia) issued a regulation on CSR which is under Bank Indonesia Regulation No. 11/33/PBI/2009 on the Implementation of Good Corporate Governance for Shariah Public Banks and Sharia Business Unit.

Overall, the CSR regulation in Indonesia has been issued by many different regulatory bodies, however, the regulation does not mention any punishment or penalty for the infraction of CSR regulation which makes the CSR practices difficult to implement.

Corporate Social Responsibility from Islamic Perspective

Islam emphasis on communal obligation – which is preserving the social and environment – over the individual obligation and encourage everyone to exhibit best practice with those around and the community one lives and make earnings. Thus, Islam puts the right of every poor people on the rich one, so they have to pay the charity (zakāh) to them as their obligation from Allah and the right of the needy. Allah says in the Qur'an:

(As-Sadaqat (here it means Zakat) are only for the Fuqara (poor), and Al-Masakin (the poor) and those employed to collect (the fund), and for to attract the hearts of those who have been inclined (towards Islam); and

to free the captives; and for those in debt; and for Allah's Cause (has been historically understood as funding the physical defense of community), and for the wayfarer (a traveller who is cut off from everything), a duty imposed by Allah. And Allah is All-Knower, All-wise) (Qur'an 9:60).

Moreover, Islam promotes *Ihsan* in every act. The concept of *Ihsan* denotes doing something in the best possible manner to achieve the excellence and perfection, on top of doing it as for the sake of Allah. As it is explained in the prophetic tradition that every good deed done by a Muslim that benefits other will be regarded as an act of charity.

Allah's Apostle visited the orchard of Umm Ma'bad and said: Umm Ma'bad. He who has planted this tree, is he a Muslim or a non-Muslim? She said: Of course, he is a Muslim, whereupon he (the Holy Prophet) said: No Muslim who plants (trees) and from their fruits the human beings or the beasts or birds eat, but that would be taken as an act of charity on the Day of Resurrection (Sahih Muslim, Book22, Hadith 10).

In the Islamic code of life, absolute ownership of everything belongs to Allah who has created everything, including wealth in its different forms that are possessed by people. Therefore, Allah has the right to guide and control their economy activities including acquisition and spending of wealth. *Zakāh* is not only *ibādah*, its role is significant in the development of a healthy and peaceful social environment, which is full of mutual cooperation and sympathy. Therefore, many researchers found that *Zakāh* is part of CSR practices of Islamic banks while CSR is not part of *Zakāh*. It is because the nature of *Zakāh* as an obligation for any individual in Islam but CSR is voluntarily practice of the company (Amalina Wan Abdullah, Percy, & Stewart, 2013; Amran et al., 2017; Dariah, Salleh, & Shafiai, 2016; Darus et al., 2014; Elasarag, 2015; Hassan & Salma Binti Abdul Latiff, 2009; Kamla & G. Rammal, 2013).

Another type of Islamic contract that can be considered as one of CSR practices and has been suggested by some academicians is Qard Hasan. It is suggested to help the micro-enterprises as its form is an interest-free loan scheme which give the beneficiaries an opportunity to utilise the funds as their capital to help expand their businesses. However it is found that not many Islamic banks are practicing Qard hasan contract due to high risk and it is not suitable for banking industries (Elasarag, 2015; Firman Menne et al., 2016; Hidayah, 2016; Kamla & G. Rammal, 2013; Migdad, 2017). The benevolent loan (Qard hasan) described in the Qur'an:

Who he is he that will loan Allah a goodly loan so He may multiply it for him many times over? And it is Allah who withholds and grants abundance, and to Him you will be returned (Qur'an 2:245).

Corporate Social Responsibility practices of Islamic banks in Indonesia

In this section, the practice of CSR of Islamic banks is exhibited and divided into some categories to know which aspect that receive the CSR

fund from Islamic banks. The categories of CSR are namely development, community, education, children, cultural activities, religious activities, health, sport, environment, special needs assistance, humanitarian emergencies, building mosque and others. Table 3 depicts the allocation of CSR fund into each category, it is shown that education has biggest portion of CSR fund from Islamic banks while cultural activities receives less fund of it. Education and special needs assistance become the only aspects that all Islamic banks CSR practices touched in, in contrary, cultural activities and sports are the aspects that only received CSR fund from one Islamic bank respectively. The table also explained that all Islamic banks have the similarity in allocating their CSR fund, however, there are some banks which did not specify their CSR fund allocation. However, Maybank Islamic and Bank tabungan pensiunan Syariah did not disclose their CSR fund in their annual reports. Moreover, Bank Victoria Syariah, Bank Syariah Bukopin and Bank BCA Syariah stated the amount of their CSR fund but they did not specify it. Bank Aceh Syariah is the only Islamic bank that allocates its CSR fund into all categories.

The data in the table indicates that the CSR activities of Islamic banks in Indonesia did not focus much on environmental aspect, it is shown by the engagement of Islamic banks and environmental activities. Precisely there are three banks which allocated their CSR fund into environmental aspects namely Bank Aceh Syariah, Bank BRI Syariah, and Bank Panin Dubai Syariah. From the table it can be inferred that Islamic banks in Indonesia have high similarity in practicing their CSR, however, it has to be noted that they differ in the allocation of each aspect. Furthermore, the data indicate that there is no plan in their CSR activities, it is based on the large differences of their activities.

The next part will discuss on the percentage of CSR expenditure compared to their profit after tax, as exhibited in the table 4, the highest percentage of CSR expenditure is Bank Muamalat Indonesia where they allocate 44% of their profit for CSR activities while Bank BCA Syariah is the lowest percentage by 1% of the profit.

Table 3. CSR practices of Indonesian Islamic banks 2017 (IDR)

Banks	Category (IDR)												
	Development	Community	Education	Children	Cultural Activities	Religious Activities	Health	Sports	Environment	Special Needs Assistance	Humanitarian emergencies	Building Mosque	Other
Bank Aceh Syariah	298,050,000	715,700,000	1,365,250,000	344,000,000	1,500,000	128,000,000	67,400,000	-	492,318,600	69,000,000	192,866,000	407,550,000	2,036,854,663
Bank Muamalat Indonesia	1,111,612,500	201,277,750	1,633,214,926	-	-	-	-	-	-	7,262,256,334	301,527,000	-	918,251,650
Bank Victoria Syariah	-	-	-	-	-	-	-	-	-	-	-	-	91,951,994
Bank BRI Syariah	109,050,000	-	1,119,350,000	-	-	115,374,995	94,500,000	-	67,159,000	802,956,580	-	-	-
Bank Jabar Banten Syariah	-	34,275,000	10,000,000	26,000,000	-	129,300,000	43,662,500	-	-	2,000,000	-	68,500,000	72,500,000
Bank BNI Syariah	3,411,514,700	4,465,056,571	1,589,517,050	-	-	1,565,899,942	727,678,000	-	-	-	-	-	-
Bank Syariah Mandiri	1,183,080,000	-	21,819,720,000	-	-	-	-	-	-	17,195,300,000	-	-	3,325,950,000
Bank Mega Syariah	5,000,000	64,875,000	151,244,515	25,030,000	-	252,700,000	10,500,000	-	-	60,000,000	5,000,000	57,000,000	28,000,000
Bank Panin Dubai Syariah	50,000,000	-	200,000,000	8,750,000	-	57,000,000	185,000,000	10,000,000	10,000,000	50,000,000	-	-	-
Bank Syariah Bukopin	-	-	-	-	-	-	-	-	-	-	-	-	701,845,880
Bank BCA Syariah	-	-	-	-	-	-	-	-	-	-	-	-	493,433,100
Bank Tabungan Pensiunan Syariah	-	-	-	-	-	-	-	-	-	-	-	-	-
Maybank Syariah	-	-	-	-	-	-	-	-	-	-	-	-	-
Total	6,168,307,200	5,481,184,321	27,888,296,491	403,780,000	1,500,000	2,248,274,937	1,128,740,500	10,000,000	569,477,600	25,441,512,914	499,393,000	533,050,000	7,668,787,287

Source: Annual reports of Indonesian Islamic banks 2017

Looking from the amount of allocation, Bank Mandiri Syariah is the highest with Rp 43,524,050,000 allocation for their CSR practices and Rp 385,737,500 is the lowest amount of CSR allocation among Indonesian Islamic banks which has been done by Bank Jabar Banten Syariah. It is however not possible to calculate the percentage of Bank Jabar Banten Syariah, Bank Panin

Dubai Syariah and Maybank Syariah since they faced loss in the particular year, another bank which is Bank Tabungan Pensiunan Nasional Syariah was not mentioning its CSR expenditure in the report.

Not to be ignored, there are some Islamic banks that incurred loss in the year, namely Bank Jabar Banten Syariah, Bank Panin Dubai Syariah and Maybank Syariah, however, the first two banks implement the CSR practices within the year while the last bank does not mention its CSR practices in the annual report. It is suspected that the practice of CSR was taken from zakāh fund, it is because zakāh is an obligation for Islamic banks which they cannot run from and it is considered as CSR but not otherwise.

Table 4. CSR practice of Indonesian Islamic banks 2017 (IDR)

Banks	Annual Profit	CSR practice	CSR % of profit
Bank Aceh Syariah	101,818,815,167	6,123,489,263	6%
Bank Muamalat Indonesia	26,115,563,000	1,428,140,160	44%
Bank Victoria Syariah	4,593,488,063	91,951,994	2%
Bank BRI Syariah	101,091,000,000	2,308,390,575	2%
Bank Jabar Banten Syariah	(383,427,459)	385,737,500	-
Bank BNI Syariah	306,686,000,000	1,759,666,263	4%
Bank Syariah Mandiri	365,166,000,000	3,524,050,000	12%
Bank Mega Syariah	72,555,165,000	3,547,645,906	5%
Bank Panin Dubai Syariah	(968,851,297)	570,750,000	-
Bank Syariah Bukopin	1,648,071,412	701,845,880	43%
Bank BCA Syariah	47,860,237,199	493,433,100	1%
Bank Tabungan Pensiunan Nasional Syariah	670,182,000	-	-
Maybank Syariah	(9,785,000,000)	-	-
Total	1,017,067,243,085	80,935,100,641	8%

Source: Annual reports of Indonesian Islamic banks 2017

Conclusion

This study was motivated by the fact that banking industry has spent a plenty amounts of money on CSR activities. However, there is no a clear evidences of their contribution towards society. Therefore, in this paper we try to find its contribution by linked it into socio economic-development.

Indonesian Islamic banks are growing and expanding their market share, one of the ways to achieve it is by improving their CSR practices and regulation. Visibility and connection to the society of the CSR practices is the next stepping point that Islamic banks have to reach. It also can be inferred from the discussion above that the paper found a great impact of CSR on society life from various aspects. Moreover, the notion of CSR also perceived as religious obligation since Islam recognises self-interest and ask it to be linked to the overall concept of justice and *Ihsan*. Furthermore, it is suggested that the robust guiding principles on CSR need to be developed and it might have big potential of Islamic banks credibility and profitability

As practiced by Indonesian Islamic banks, Zakāh is considered as part of CSR, however, the obligations of Islamic Banks in this regard should not be stopped at that point as it shall go beyond Zakāh. Referring to the concept of *Ihsan*, it is encouraged for each of Islamic business entity to allocate their profit for sadaqat (charity) which is part of CSR that can cover other aspects than what has been covered by zakāh.

Although we found a significant impact of CSR on socio-economic development, this study still has limitation as this study only focusses on finding the relationship between CSR and socio-economic development by investigating the annual reports of Islamic banks. It is anticipated that the outcome of this research will help the Islamic banks in Indonesia to enhance its role in CSR.

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