

Corporate Social Responsibility Practices in Islamic Financial Institutions (IFIs) in Sri Lanka

Abi Huraira Rifas

Department of Islamic Studies,
South Eastern University of Sri Lanka, Sri Lanka
ahrifas@seu.ac.lk

Mohamed Mahboob Mohamed Nafeel

Academy of Islamic Studies, University of Malaya, Malaysia
m_nafeel@hotmail.com

Adampulle Misrina

Executive in Gold Loan, LB Finance, Narammala, Sri Lanka
misrinaadam23@gmail.com

Abstract

The Islamic banking system is a rapidly growing segment in the global banking industry. Corporate Social Responsibility (CSR) is a crucial element in the field of Islamic banking as it consists of responsibilities and accountabilities to the community. This study examined how CSR is practiced in Islamic Financial Institutions (IFIs) and its importance in Sri Lanka. The objective of the study is to examine the practices and importance of CSR practices in Amana Bank PLC and Al-Falaah (LOLC) PLC. The Primary data for the study were collected through interviews from selected branch managers and In-house Shari'ah advisers of the above IFIs. The findings of this study highlight the significance and the necessity of several CSR activities which are carried out by IFIs for the surrounding community, such as charity services, sponsorship, medical camps, educational assistance and social services. Interestingly, Amana Bank PLC has spent a higher amount for CSR activities relatively than Al-Falaah. In addition, it is directed for future research to study the comparison of CSR activities between IFIs and conventional financial institutions, and the impact of CSR on the society.

Keywords: Corporate Social Responsibility, Islamic Financial Institutions, Amana Bank PLC and Al-Falaah PLC

Article Progress

Received: 18 April 2022

Revised: 03 June 2022

Accepted: 21 September 2022

*Corresponding Author:

Abi Huraira Rifas

Department of Islamic Studies,
South Eastern University of Sri Lanka,
Sri Lanka

ahrifas@seu.ac.lk

INTRODUCTION

The Islamic banking system was institutionalized in the mid of twentieth century as an alternative approach to conventional banking though banking industry has a long year of experience (Patrick & Kangni, 2010). IFIs are expected to be or should be free from prohibited elements in Islam in every banking transaction. Interest-based economy and transactions do not contribute to the development of social and economic development globally. Islamic banking history in Sri Lanka extends back to 1997 with the establishment of Amana Investment limited. The amendment of the Banking Act No. 30 of 1988 in 2005 permitted Islamic banking in Sri Lanka to offer selected Shari'ah-compliant products and services through licensed commercial and specialized banks (Salih, 2009). Currently, conventional financial institutions are offering Shariah-compliant products through Islamic windows and subsidiaries in order to retain Muslim customers continuously. Islamic financial institutions provide Shari'ah-compliant and are expected to consider the surrounding community towards long-term survival.

CSR is an ethical commitment by business institutions to the workforce, their families and the local community toward quality life maintenance and economic development (Julian D & Natalia, 2020). CSR activities are strategic processes which bring organizational good reputation, goodwill and creditworthiness to financial institutions and society gain some social, and economic advantages for good driving. CSR is holding the responsibility to build up the society by envisioning plans for socio-economic justice and being cognizant about banks' responsibility for the welfare of the community around them (Masruki, Ibrahim & Azizan, 2010). IFIs are not excluded from this responsibility due to their CSR expectation being more compared to conventional institutions since they are in an exemplary position in society as financial intermediaries (Dusuki, 2006; Farook, 2007).

IFIs mostly motivated to CSR activities because Islamic banks and financial institutions should be socially responsible in fulfillment of a collective religious obligation (*fard kifayah*) which cannot be fulfilled individually, and IFIs are in an exemplary position in society (Farook, 2007). Islamic banking concept in Sri Lanka gains fast popularity and guided by strong values and ethics the banking model towards global economic downturn and as a result, is now emerging as a popular alternative to conventional banking (Salieh, 2011). Amana Bank PLC was initially established as a

financial investment company in 1997, later, it became one of the commercial banks in Sri Lanka. It is considered one and only fully-fledged Islamic bank which offers a range of financial products and services including current accounts, savings accounts, children's saving account, term investment accounts, home financing, SME banking, corporate banking, trade service and treasury services. It has 33 branches island wide including a ladies' branch in Colombo (Annual Report, 2021). Al-Falaah is an Islamic window of Lanka Orix Leasing Company (LOLC), which was started to offer Shari'ah-compliant products and services of Islamic financial institutions in Sri Lanka (Perera, 2016). Al-Falaah is growing and introducing innovative financial products under the conventional bank's administration. This research aims to study the importance of CSR in Islam and to examine the CSR practices of Amana Bank PLC and Al-Falaah.

Corporate Social Responsibility (CSR):

CSR has long been a subject of much interest in politics, economics, and society (Brammer et al., 2012). Within today's corporate sector, CSR is a subject of increasing discussion. Businesses are motivated to participate in CSR reporting because they understand how important it is. Many companies throughout several nations, including Indonesia, openly declare their CSR initiatives (Sufyati, 2020).

According to Frederick (1960), CSR is an action taken by businessmen or institutions to direct the operations of an economic system to fulfill the expectations of the public. Production and distribution are required to be conducted in such a way that will improve total socio-economic welfare. Frederick (1960) drew attention into major thoughts on business responsibility, each attempting to solve problems of society and highlighting the significance of businesses' responsibility to the community.

Davis (1960) categorizes CSR into two, namely socio-economic obligation and socio-human obligation. With regard to socio-economic obligation, the role of businessmen is to manage economic units among society, with an expansive obligation to the community relating to economic development and public welfare. Regarding socio-human obligations, businessmen are required to develop human values, for example, morale, cooperation, and motivation. These obligations should be inspired in businessmen's decisions making ought to be taken for reasons beyond the

firm's direct economic or technical interests. CSR does not mean just participating in charitable activities and events; it denotes holding the responsibility to build up the society by envisioning plans for socio-economic justice about their responsibility for the welfare of society around them (Masruki, Ibrahim & Azizan, 2010).

Islamic Perspective on CSR

Islam is the second largest religion followed by the world population, whose guidance is for the whole human being in the world. A Muslim is one who submits himself to God (Allah) and thereby professes the faith of Islam. Muslims believe that Islam is a complete code of life, so Islam needs to discuss about each and every part of life. Following the Islamic resurgence and increasing concern about the relationship between religion and economic activities, the Islamic perspective of corporate responsibility began to receive substantial attention (Roszaini & Mohammad, 2007). The concept of CSR in Islam encompasses broader meaning embracing the *aqidah* (the faith of God), *ibadah* (worship) and *akhlaq* (ethics and morality). This concept is embodied in Islamic ruling (*Shari'ah*) (Rusnah, Mohd & Rizal, 2008). In contrast to the Western perspective, Islamic attitudes toward CSR consist of a rather holistic approach (Dusuki, 2005). These systems from the teaching of the Qur'an and Sunnah (practices of the Prophet Mohammed) provide a better alternative philosophical framework for human beings' interaction with their fellows and environment. While assessing CSR efforts on the banks' websites, a concern was raised over the absence of disclosure on environmental and energy-related activities. According to the study, banks might increase their credibility by participating in CSR initiatives and disclosing those results online. In addition to the aforementioned problems, poor CSR knowledge among Islamic bank depositors was also brought up and banks can raise consumer awareness by informing them of CSR initiatives and activities (Khan, 2021).

Islamic CSR derives itself from core principles in the holy Qur'an under three major foundations namely (1) the principle of vicegerency, (2) divine accountability and (3) the principle of enjoining good and forbidding evil. The principle of vicegerency denotes that mankind is a representative of Allah on the earth and Allah has entrusted mankind with stewardship of Allah's possession (Farook, 2007). Allah states this principle in the holy Qur'an as follows:

“I will create a vicegerent on earth” (Al Baqarah: 30)

“It is he who hath made you the inheritors of the earth”
(Al Ana’m: 165)

The principle of divine accountability flows from the vicegerency principle and denotes that individuals will be accountable to Allah for all of their actions on the Day of Judgment (Syed Farook, 2007). This principle is expounded in several verses of the holy Qur’an:

“Allah takes careful account of everything” (An-Nisa: 86)

“Then shall 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”
(Al-Maidha: 7-8)

According to this divine accountability, is the basis for all actions of a Muslim, and in turn the representative organizations. Everyone will have to clarify their booms including assets, education and economy on the judgement day. Thus, CSR concepts motivate all people who are capable to help poverty line poor people to complete their needs and wants. Allah does not grant the same lifestyle for all human beings. Some have given all facilities to enjoy this life while some other people suffer a lot in order to fulfill even their basic needs in the community. Therefore, the accountability is a compulsory principle that should be followed in this world in order to succeed in hereafter.

The third principle is enjoining good and forbidding evil encapsulates the responsibilities that Allah places on Muslims as trustees and vicegerents (Farook, 2007). Almighty Allah says:

“The believers, men and women, are protectors one of another; they enjoin what is just (accepted), and forbid what is unjust (rejected)...” (Al-Tawbah: 71)

“You are the best of peoples, evolved for mankind, enjoining what is just (accepted), forbidding what is injustice (rejected), and believing in Allah” (Aale-Imran: 110)

75 Corporate Social Responsibility Practices in Islamic Financial Institutions (IFIs) in Sri Lanka

This responsibility is overwhelming and encompasses all aspects of a Muslim's life. It comprises a prescription towards positive (permissible and recommended) actions and a prescription against negative (impermissible and not recommended) actions. IFIs have generally ensured their operational status by avoiding negative actions. However, their approach to positive actions has varied due to a lack of standards in the area. The combination of these principles denotes a divine accountability for each Muslim to enjoin good and justice and forbid evil and injustice. These core principles, therefore, constitute the basis of individual social responsibility (Farook, 2007).

CSR in Islamic Financial Institutions

The Islamic banking system somehow implies the relevance and significance of CSR as globally accepted and it has an in-built dimension that promotes social responsibility. Furthermore, it resides underpinned by the forces of Shari'ah injunctions within a financial trajectory. These Shari'ah injunctions intertwine Islamic financial transactions with genuine concern for ethically and socially responsible activities while prohibiting involvement in illegal activities which are detrimental to social and environmental well-being (Dusuki, 2006). The CSR principle states that businesses should put stakeholder interests—including those of local populations, government, non-governmental organizations (NGOs), customers, and the environment—ahead of those of shareholders, is consistent with the social responsibilities of Islamic banks. (Rinovian, & Suarsa, 2018).

Hassan et al. (2012) tried to analyze the comparative study of CSR in Islamic and conventional banking by testing the relationship of different determinants with CSR such as; social disclosure, economic development, corporate governance, zakat deduction, social justice, accounting policies, and new channels of investment. As a result, disclosure levels and degrees in both Islamic and conventional banking systems had positive and minor significant differences resulting from IFIs' exposure. Farook (2007), explains that IFIs implement CSR activities in different ways, sometimes as mandatory, and sometimes as recommended as such activities are *fard kifaya* for every IFI implied from the principles of vicegerency of mankind on the earth, divine accountability and the mankind's duty to enjoin good and forbidden evil for Islamic CSR. He further adds, IFIs have a responsibility to comply with the form and substance of Islamic Law in all aspects

of their operations, since they are in a representative and exemplary religious position, whereby they represent the interests of their stakeholders and are exemplars to their stakeholders. For instance, the al-qardhul hasan program as discussed by (Sufyati, 2020), which emphasizes community empowerment initiatives within the context of a public education campaign, is the standard name for the implementation of CSR in Islamic banking. As a type of Islamic banking, this program defines social responsibility as giving financial aids without expecting anything in return. Implementing CSR in the Islamic banking industry may be both a commercial strategy and a way for the organization to support sustainable growth.

The attention to CSR has enlarged greatly in the previous decade and it was derived from different reasons such as; globalization advances and international trade which appeared in the increase in business complexity (Jamali & Mirshak, 2007). Managers and accountants are the main concern of CSR since it is connected to organization profit because CSR has enough capabilities to measure banks' and financial institutions' interdependent relationships (Abbasi et al., 2012). According to Mazurkiewicz (2004), motivational corporation to engage in CSR is considered into three categories, namely, (1) economic drivers (pressures from customers and investors to be ethical also the bottom-line benefits); (2) social drivers (pressures from the local communities); (3) and political drivers (political pressure coming from the government). In addition, there are some methods through which CSR benefits could be noticed. They are; 1) CSR reduces the cost directly as in energy or materials through sustainable use of resources; 2) CSR improves workers' productivity by lowering absenteeism and turnover and increasing motivation, the company's contribution to human resource and social dimensions, and stakeholder engagement by policies involvement; 3) also management risk could be reduced by CSR through simple credit access and increased assets value for investors, governance system establishment with sustainability objectives under focus; and 4) CSR gaining extended support from stakeholders which improves the organization competitive image (Imran, 2011).

CSR initiatives help to manage financial institutions (Tsoutsoura, 2004). Increasing costs for competitive advantages through improving its corporate social performance (CSP) is accepted because it will forfeit short-term corporate financial performance (CFP) to gain the longer-term benefits (Bolanle et al., 2012). On the other hand, not practicing CSR might lead to losing money, and social irresponsibility along with unethical business

77 Corporate Social Responsibility Practices in Islamic Financial Institutions (IFIs) in Sri Lanka

practices may result in a tremendous increment in cost (Sweeney, 2009). Companies and banks have an important role in discovering and tackling any risk from the beginning. The literature showed that both risk management and environmental reputation creation are vital for the success of the bank's economy (Papastergiou & Blanas, 2011). Thus, the risk management system of a bank depends on precautionary principles to avoid and minimize risks as much as possible.

Protecting the image and reputation is an important role that means gaining reputation of social responsibility is considered an asset to a company, consequently, the reputation of a company or corporation might play a vital role in any business community by attracting capital and trading partners towards the company where social responsibility is being maintained (Tsoutsoura, 2004). The advertisement coming from the corporate being both socially and ethically responsible is sure to encourage stakeholders by provoking their positive reactions (Morsing & Schultz, 2006). The social responsibility measures may also increase their loyalty to the organization as the organization considers investing in their employees' essential initiatives, this will help employees to quickly connect to CSR because they are aware of its importance (Stawiski, Deal, & Gentry, 2010). Consequently, CSR can help corporations and guarantee long-term survival because it can draw and maintain customers and motivate employees (Rehman et al., 2010).

Sustaining the competitive advantage is believed that in case of motivating a firm's competitiveness, its involvement in CSR activities might help the firm in identifying the demands of the stakeholders, which is seen as a chance for something new and not a limitation, this is called the competitive advantage (Carroll & Shabana, 2010). If a company is to be granted a green status, it must execute the main three aspects of CSR; legitimation, competitive advantage, and environmental responsibility. The competitive advantage of a major corporation that might be lacking from peer corporations is gained through CSR actions (Rehman et al., 2010). CSR is one of the crucial elements for any organization because all organizational communities depend on its benefits. The different works of literature identify the importance, such as managing cost and risks, protecting image and reputation, increasing the productivity among employees, and sustaining the comparative advantage.

The most important features of Islamic banking and finance which make it different and unique from its conventional counterpart are: firstly, Islamic banking strives for a just, fair, and balanced society as envisioned by Islamic economics; Second, Islamic banking is constructed upon the principle of brotherhood and cooperation which stands for a system of equity-sharing, risk sharing and stake-taking; Third, as a system grounded on the ethical and moral framework of the Shari'ah, Islamic banking is also characterized by ethical norms and social commitments (Dusuki, 2006). Fourthly, Islamic banking is community-oriented, entrepreneur-friendly, emphasizing productivity and the physical expansion of economic production and services. Finally, Islamic banking operates within limits that ensure stability in the value of money and that reduce destabilizing speculation (Dusuki, 2011). These characteristics somehow imply the relevance and significance of CSR as a globally accepted practice for Islamic banks. Shari'ah injunctions intertwine Islamic financial transactions with genuine concern for ethically and socially responsible activities at the same time as prohibiting involvement in illegal activities or those which are detrimental to social and environmental well-being (Dusuki, 2006).

RESEARCH METHODOLOGY

This study has been designed based on qualitative approach, it consists of both primary and secondary data in order to study how are CSR activities implemented by Islamic financial institutions in Ampara District. Secondary data have been used from sustainability reports of annual reports of selected banks, journal articles, websites and related books. Primary data were collected from semi-structured interviews with managers of Amana bank (PLC) and Al-Falaah of LOLC PLC in the selected area. Interview data have been analysed using thematic analysis (Braun and Clarke, 2006). Interview questions were formed under important purpose that how the CSR practices are in Amana Bank PLC and Al-Falaah, are these practices Shari'ah compliant, have Islamic financial institutions faced any challenges by implementing CSR activities?

RESULTS AND DISCUSSION

CSR Practices of Amana & Al Falaah

79 Corporate Social Responsibility Practices in Islamic Financial Institutions (IFIs) in Sri Lanka

The main purposes of the CSR activities in the IFIs mentioned above are new to our society. The responsibility is to send the message to its customers about IFIs those have all the facilities such as its interest free banking system in this country. That's why Amana Bank (PLC) conducts many awareness programmes to maintain the good relationship with customers and works closely with communities through CSR activities. As such, primary data was also collected for the purpose of the CSR activities in Amana Bank (PLC) through the Bank's Branch Manager (BM)

"... We must convey the message to customers that our organization is a stable institution in the market. And Islamic financial institutions also have a responsibility for doing CSR. It's one of the rules in the central bank..."

At the same time, Al-Falaah of LOLC PLC also carries out CSR activities.

"...As an entity sensitive to the needs and well-being of the society, it's our duty to give something back to the society, At the same time as an Islamic financial institution the money collected as a penalty from those who delayed their payments should compulsorily be allocated for the purpose of charitable activities as it cannot be recognized as a part of the company profit. Thus, Al-Falaah, focus on creating a positive impact in the lives of our stakeholders through our CSR activities..." (Al-Falaah of LOLC PLC In-house Shariah adviser)

The Current CSR Practices

"Our branch provides many sponsorships to the needs of the society. But we cannot make any decisions when providing any sponsorship rather it is the head office's responsibility in order to conduct any social activities regarding sponsorships. Some of the sponsorships include giving gifts for the children in order to motivate them, opening accounts for the children's day. Also, we consider non-Muslims too. According to charity, we also consider the health, social events, education etc..."

Accordingly, Amana Bank (PLC) conducts many CSR activities in our communities. Some organizations request for the sponsorship of some

events, then the bank will evaluate whether the event is needed or un-needed activity for our society and whether it will benefit the Bank. A letter is then sent to the head office with the branch manager's recommendation. After 2 or 3 days, the bank sends the feedback of the request. Then the head office sends the fund to the specific branch. The fund is then transferred to the customer through the branch. Sometime these activities will be published on magazines and newspapers. Whatever request is made by a customer, is primarily considered by Amana Bank (PLC). Sometimes the bank conducts some activities according to their wish such as building the street name board, celebrating the children's days etc., The bank focuses on health, education, environment, social events, etc. while the CSR activities are provided to non-Muslim customers too. The data was collected from interviews and discussion among the Amana Bank branch managers.

“Extra fund is interest, so it is prohibited in Islam.....at the same time Al Falaah doesn't take any extra funds. Under the corporate social responsibility, every year we help the poor people for their education, health and other expense.....” (Al-Falaah)

The default repayment is a biggest challenge in every IFI. While conventional banks collect the overdue interest for delay repayment as an added profit, IFI do not collect any extra funds because it's prohibited in Islam. Should the IFI haven't undertaken any delay repayment penalty for the carelessness of people for paying on time, it will lead to delay in repayment, and eventually, to the closure of the organization. So, Al-Falaah LOLC introduces the penalty fund system but this fund can't be added as profit but it goes under charity. The fund collected under the penalty goes to CSR activities. Every year, the fund is provided for poor people's health and education through charity fund services.

People who need a financial assistance for their essential needs approach us throughout our branches across the island. Then the request is evaluated & forwarded to the head office. If the management approves the recommendation of the branches, the funds are disbursed to the requester. This charity fund service mainly covers medical, educational, and socially beneficial activities. Every year Al-Falaah parent company LOLC also allocates a small percentage fund for CSR activities. This year an accident awareness programme was done.

Types of CSR Activities

“Through our branch, we targeted the needy hospitals and gave many machines too. Moreover, we consider the children wards and gave some charity for them, because they are the future heads of our society. Moreover, we identified some schools and did some activities to fulfil their essential needs”.

Amana Bank (PLC) carries out some main CSR projects at the head office level. As part of its focus towards the health of children, the bank continued to partner with the children’s ward of the Colombo South (Kalubow-
ila) General Hospital. The bank in 2016 donated a Multi-para–Cardiac Monitor as well as a wheelchair for the usage of the ward and also small level project are held at the branch levels. There are 4 branches in Ampara District (Branch Manager, Amana Bank).

Amana Bank has carried out the CSR activities related to health-care needs such as providing the donation to Akkaraipattu Base Hospital and supporting the refurbishment of Nintavur Hospital Children’s Ward. It also supported educational needs such as providing the scholarship programme for poor people; organizing the scholarship examination seminar for grade 5 students, donation of a water tank to Al-Manar girls school and providing the fund for publishing magazines and socially beneficial activities such as setting up the accident awareness board for police station. Furthermore, Amana Bank has sponsored the annual get-together program of the Divisional Secretariate (DS) office, the employee union get-together and environmental activities such as building the street name board, providing cleaning service for Maligawaththe jummah mosque and building a bus stand (Annual report, Amana Bank).

AI-Falaah carries out the CSR activities through its charity fund service covering health needs such as the fund for kidney transplantation, fund for kidney operation, fund for radioactive iodine treatment, educational needs such as provision of the study materials and exercise books for poor school students, provision of the monthly fund for A/L bio stream students, donation for buying TV, supply of screen for disabled students; socially beneficial activities such as provision of fund for building new roof in one poor customer’s house and environmental activities such as

accident awareness program which was held from Valaichenai to Thirukkovil with the support of police and the public. (Annual Report, Al-Falaah)

In the last 4 years, Al-Falaah (PLC) engaged CSR activities, in the medical needs (and spent more than Rs. 500,000). But Amana Bank (PLC) interacts with all parts of society through CSR activities. So, unlike Al-Falaah, Amana Bank considers all types of people and all sections of the society. Amana Bank, by allocating a small amount per activity, conducted a lot of activities.

Over the past year, Al-Falaah has been able to make a positive impact on the lives of more than 100 individuals and families and we hope we have been able to make a sustainable impact in the society. In recognizing our untiring efforts to improve our CSR activities, we were awarded with prestigious awards such as Gold Award- Social upliftment of the year 2017- by 6th SLIBFI (Sri Lanka Islamic banking finance industry), Silver Award- CSR project of the year 2017- by 2nd IFFSA 2017 (Islamic Finance Forum South Asia) (Al-Falaah of LOLC PLC In-house Shariah adviser).

“Hmm.. in our Al-Falaah annual report we can see more information...then we also have provided fund for kidney transplant, some treatments. Moreover, we also gave some funds on monthly basis for Advanced Level bio-stream students. We also conducted awareness programs including accident awareness etc... we also have given positive vibes for more than 100 families. Moreover, we can say that our corporate social activity has gained some medals for achieving best performance...”

The Fund Allocation Method for CSR Activities

Every year, Amana Bank (PLC) allocates limited fund for CSR activities, ranged between 10 to 20 million. A portion will be allocated for a branch in the range of 200 to 300 thousand. Funds are provided based on requirement. The pay-out amount is not restricted but it's under the limit of the fund. And also fund allocation is done by the marketing department of the head office of Amana Bank (PLC) (Amana Bank, Branch Manager).

“As per our Amana Bank’s policy, we receive funds for CSR activities from 2 lakhs- 3 lakhs. Marketing department at the head office is the main point to allocate these funds”

According to Al-Falaah’s practice, a penalty fee of 4% of the net average rental/installment is levied from the customers those who fail to settle the payments on/before the deadline, from the penalty, 1% is allocated for the CSR activities of Al-Falaah. Thus, the fund allocation methods of selected two Islamic financial institutions are different from each other (Al-Falaah of LOLC PLC In-house Shariah adviser).

In the past 4 years, the above institutions have spent a lot of money on CSR activities in Ampara district. The data collected are presented in Table 2. Amana Bank PLC spends much more than Al-Falaah of LOLC PLC. Al-Falaah of LOLC PLC spends heavily on health. But Amana Bank (PLC) spends a large amount on environment-related CSR activities, while Al-Falaah spends only a small amount on this activity. The same amount was spent on education-related CSR activities in by both institutions. Amana Bank (PLC) spends on some social-related CSR activities too.

“When we take our Al Falaah, the fund allocation methods are different. Moreover, last 4 years according to our charity Al Falaah has done many helps for many institutions” (In-house Shariáh Adviser, Al-Falaah)

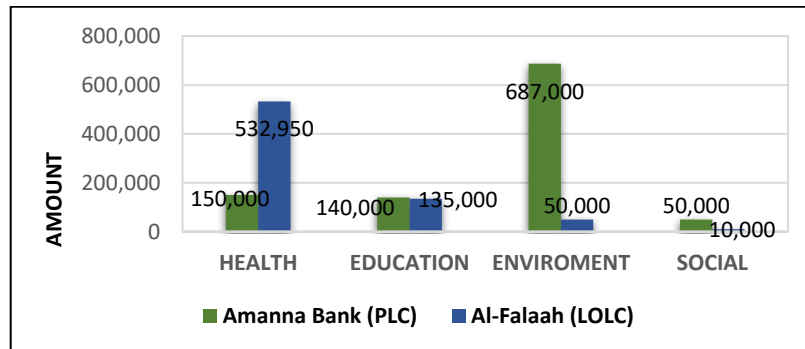


Figure 1: Total amount spent for CSR activities over past 4 years.

Challenges Faced while Implementing CSR Activities

The above said institutions do not have enough fund to allocate the CSR activities because the cost of customer needs is high. When CSR activities requested, Amana Bank (PLC) first assesses whether the activity provides any benefit to for the organization. e.g. There is no profit to Amana Bank PLC by putting up the street name boards, even if they do it regularly.

“We eagerly like to do many social activities through our Amana branch. But since the customer requires high cost, it is difficult for us, nevertheless, we do not give up, because our goal is customer satisfaction”.

Al-Falaah of LOLC PLC provides charity fund service for its customers while at the same time there are no restriction on the beneficiary of the service. In addition, the source of charity funds comes from penalties. So, these are also main challenges for Al-Falaah of LOLC PLCas it receives a huge number of requests that are beyond its capacity to accommodate. In this case, Al-Falaah of LOLC PLC has to go through a filtering process to ensure that the limited funds are utilized for the people who deserve and really need of our assistance. This process has always been challenging in its efforts to make use of the fund in the best possible way. Also, in the past Al-Falaah of LOLC PLC has encountered situations where certain individuals who are not eligible, have tried to obtain assistance by making false requests. As a result, we are forced to be more vigilant when inspecting the requests.

Poverty Reduction through CSR

CSR activities of Amana Bank (PLC) and Al-Falaah institutions help poor people in the area of health, education, social-affairs, and environmental issues.

“...Through our Amana brach, we consider all the sections. According to the data available to me, 43 percent of the assistance offered is for education, 29 percent for health, 14 percent for environmental issues, and 14 percent for social issues”

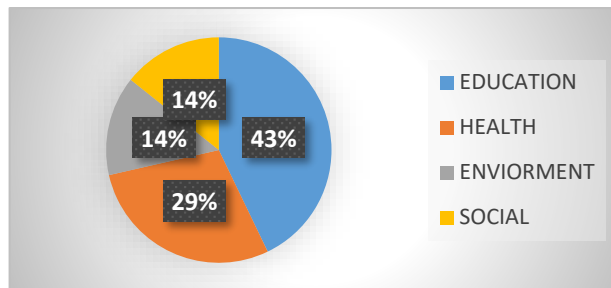


Figure 2: CSR activities in Amana Bank PLC

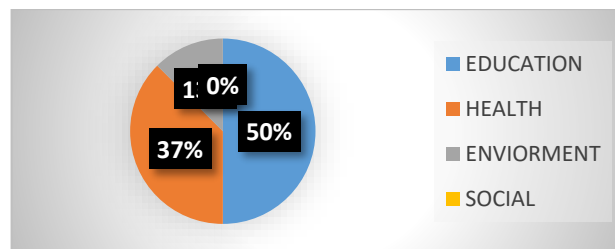


Figure 3: CSR activities in Al-Falaah (LOLC)

In Ampara district, Al-Falaah implements a small number of activities for poor people compared to with the activities of Amana Bank PLC. At the same time, the institutions mentioned above spend a lot of money for poor people’s education. Amana Bank implements 43 percent of activities for poor people and Al-Falaah of LOLC PLC implements 50 percent of activities for poor people’s education. Al-Falaah effectively helps to improve the poor people’s health through the charity fund service, as (37

percent) of the beneficiaries who received this service through CSR activities were poor. Amana Bank (PLC) considers everyone to be part of poor segment of the society.

CONCLUSION

The above studied institutions' CSR activities go far beyond donations, sponsorships and charity works. There had been different types of CSR activities carried out by Amana Bank PLC, such as mosque cleaning , providing the scholarship for poor people, opening the account for children, providing the sponsorship for annual get-together events in some government offices, setting up the street name boards, organizing the scholarship exam seminars for grade 5 students, building the bus stands, providing the equipment to base hospitals and providing accident awareness board for police stations, etc. For these activities, Amana Bank PLC spends much more than Al-Falaah in Ampara district, interacting with all segments of society in its educational, health, social, and environmental related activities as highlighted above.

On the other hand, Al-Falaah of LOLC PLC as well implements its diverse CSR activities every year through its charity fund service. Al Falaah provides such services with proper planning and systematic implementation based on health care, educational and social issues. For health care issues and educational programs, Al-Falaah of LOLC PLC has spent a lot of amounts, over the last 4-years, mainly considering the poor segments of the society. Healthcare services is one of the prominent areas that Al Falaah pays more attention to than Amana Bank in Ampara district, followed by education for the poor. Al-Falaah spends a lot of money on such activities in Ampara district every year, as done by Amana Bank.

It is found that the above institutions do not help the poor people directly through CSR activities although, their focus is mainly on the poor segment. Al-Falaah provides this service for those who really need the financial assistance (poor people) for their various needs. Amana Bank PLC also carries out some activities for poor people and prioritizing their requests while trying to fulfill the requests made by all types of the customers. Finally, both institutions caring communities' expectations and try to achieve and fulfill those incompletes.

BIBLIOGRAPHY

- Bolanle, A. B., Adebisi, S. O., & Muyideen, A. A. (2012). Corporate social responsibility and profitability of Nigeria banks-a causal relationship. *Research journal of finance and accounting*, 3(1), 6-17.
- Braun, V. and Clarke, V. (2006). Using Thematic Analysis in Psychology. *Qualitative Research in Psychology* 3, 77-101.
- Brammer, S., Jackson, G., & Matten, D. (2012). Corporate social responsibility and institutional theory: New perspectives on private governance. *Socio-economic Review*, 10(1), 3-28.
- Carroll, A. B., & Shabana, K. M. (2010). The business case for corporate social responsibility: A review of concepts, research and practice. *International Journal of Management Reviews*, 12(1), 85-105.
- Davis, K. (1960) Can Business Afford to Ignore Social Responsibilities? *California Management Review*, 2, 70-76. <https://doi.org/10.2307/41166246>
- Dusuki, A. W. (2006, 26th - 28th June 2006). Stakeholders' expectation towards corporate social responsibility of Islamic banks. Paper presented at the International Accounting Conference III (INTAC 3), International Islamic University Malaysia, Kuala Lumpur.
- Dusuki, A. W. (2011). Corporate governance and stakeholder management : an Islamic perspective. *Review of Islamic economics : journal of the International Association for Islamic Economics*. - Markfield, 15(2), 5-23. ISSN 0962-2055
- Dusuki, A.W. 2005. Corporate Social Responsibility of Islamic Banks in Malaysia: A Synthesis of Islamic and Stakeholders' Perspectives. Loughborough: Loughborough University
- Farook, S. (2007). On Corporate Social Responsibility of Islamic Financial Institutions. *Islamic Economic Studies*, 15(1), 31-46.

- Frederick, W.C. (1960), "The growing concern over business responsibility," *California Management Review*, 2, 54–61.
- Gayani perara,(2016). Enjoy the best of benefits with LOLC Al-Falaah, (online), Available: <http://www.sundaytimes.lk> ,(Accessed 17.06.2017)
- Hassan, M. T., Kausar, A., Ashiq, H., Inam, H., Nasar, H., & Amjad, R. (2012). Corporate Social Responsibility Disclosure (A Comparison between Islamic and Conventional Financial Institutions in Bahawalpur Region). *Research Journal of Finance and Accounting*, 3(3), 51-57.
- Jamali, D., Mirshak, R. (2007). Corporate Social Responsibility (CSR): Theory and Practice in a Developing Country Context. *Journal of Business Ethics*, 72, 243–262.
- Julian D, R., & Natalia, Y. (2020). Corporate Social Responsibility. <https://www.researchgate.net/publication/340276436>.
- Khan, T. N. (2021). Corporate Social Responsibility of Islamic Banks: CSR Website Visibility, CSR Initiatives, CSR Strategy. *Journal of Islamic Economics*.
- Masruki, R., Ibrahim, N., & Azizan, N. A. (2010, 13 - 15 December 2010). Incorporating Corporate Social Responsibility (CSR) into Sustainable Financial Performance of Islamic Banks in Malaysia. Paper presented at the 2nd Langkawi Islamic Finance and Economics International Conference (LIFE 2010), Langkawi, Malaysia.
- Mazurkiewicz, P. (2004). Corporate Environmental Responsibility. DevComm-SDO World Bank.
- Morsing, M., & Schultz, M. (2006). Corporate Social Responsibility communication: stakeholder information, response and involvement strategies. *Business ethics: A European review*, 15(4), 323-338.
- Papastergiou, A., & Blanas, G. (2011). September). Sustainable green banking: The case of Greece. In Management of international business and economics systems (MIBES) conference (204-215).

89 Corporate Social Responsibility Practices in Islamic Financial Institutions (IFIs) in Sri Lanka

- Patrick A, I., & Kangni R, K. (2013). Islamic Banking How Has it Expanded?. *Emerging Markets Finance and Trade*, 49(6), 112-137.
- Rehman, I., Ali, S. I., Yousaf, J., & Zia, M. (2010). Corporate Social Responsibility influences, employee commitment and organizational performance. *African Journal of Business Management*, 4(13), 2796–2801.
- Rinovian, R., & Suarsa, A. (2018). Pengungkapan CSR Perbangkan Syariah sebagai Kebutuhan Informasi Stakeholder. *Jurnal Ilmiah MEA (Manajemen, Ekonomi, & Akuntansi)*, 2(2), 179-202.
- Roszaini , H., & Mohammad, H. (2007). Exploring the Ethical Identity of Islamic Banks via Communication in Annual Reports. *Journal of Business Ethics*, 76(1), 97–116.
- Rusnah, M., Mohd, A. E., & Rizal, M. M. (2008). Corporate Social Responsibility: an islamic perspective. *Journal of Accounting Perspectives*, 1, 43-56.
- Salieh, F. (2011, August 7). Amāna Bank, Sri Lanka’s first Islamic or Sharia compliant bank, opens for business. *Business Times*. Retrieved December 10, 2021, from <https://www.sundaytimes.lk/110807/BusinessTimes/bt22.html>
- Salih. F., (2009) “Big Plans for Amanah Bank” *Islamic Finance News*, 6-13.
- Sufyati. (2020). “Implementation of Corporate Social Responsibility in Islamic Banking in Indonesia”, *Advances in Social Science, Education and Humanities Research*.
- Stawiski, S., Deal J. J., & Gentry, W. (2010). Employee’s perceptions of Corporate Social Responsibility: The implications for your organization. (pp.1701-1719). USA: Center for Creative Leadership

Tsoutsoura, M. (2004). Corporate Social Responsibility and financial performance. Haas School of Business, University of California: Barkeley, California.

Al-Falaah (LOLC PLC). (2012). Annual Report.

Al-Falaah (LOLC PLC). (2013). Annual Report.

Al-Falaah (LOLC PLC). (2014). Annual Report.

Al-Falaah (LOLC PLC). (2016). Annual Report.

Amana Bank PLC. (2014), Annual Report

Amana Bank PLC. (2021), Annual Report.