SUSTAINABLE DEVELOPMENT AND DISCLOSURE PRACTICE AMONG ISLAMIC BANKS

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Abstract: Islamic economic model, especially its most developed part Islamic banking, is known as interest free. Besides this characteristic, it includes several moral and ethical dimensions based on Islam as a foundation of this business activity. In this aspect, Islamic banks should be barriers of sustainable development because public interest is the basics of its foundation. The aim of this paper is to analyze the degree of involvement of Islamic banks regarding sustainable development in forms of disclosure of their activities. Emphasis is placed on economic, social and environmental disclosure. This paper is focused on theoretical background considering the disclosure practice among Islamic banks, especially within the three basic pillars of sustainable development goals.

Keywords: Islamic banking, sustainable development, Sustainable Development Goals, public interest, disclosure

1. INTRODUCTION

In financial system of every country, banks are one of the most important financial institutions. Over time, their role has changed and they became “financial supermarkets” and one of the key bearers of sustainable development. One side of banks’ contribution to sustainable economy is in form of financing financial activities while considering social and environmental effects. In other words, financing and implementing those activities that will incorporate environmental, social and governance (ESG) criteria. In that aspect, banks adopted set of codes of conduct, mainly on a voluntary basis, regarding environment and sustainability (Weber, Diaz and Schwegler 2014).

International Finance Corporation (IFC) uses ESG criteria when promoting stability of financial systems (IFC, 2017). Rogers (2013) and Eccles and Serafeim * Institute of Economic Sciences, Serbia and a PhD student at a Sarajevo School of Economics, Bosnia and Herzegovina, aida.hanic@ien.bg.ac.rs
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(2013), state that ESG evaluation should be considered not only on a financial level but as well as on a non-financial too.

Similar to IFC, United Nations created UN Environment Programme Finance Initiative (UNEP FI) in order to connect UN and financial sector globally. The need for this partnership emerged as a result of increasing role of financial institutions in terms of sustainability. In 2015, the UN General Assembly established 17 Sustainable Development Goals (SDGs) to be accomplished by 2030. These goals are based on three pillars: economic, environmental and social. The estimate is that 5-7 trillion US$, a year, will be needed to realize the SDGs worldwide (UNCTAD, 2016) focusing on environmental and social market instruments. Beside these criteria, institutions that are recognized as financially stable and at the same time environmentally and socially responsible, will be partners for achieving SDGs.

In this aspect, in order to achieve sustainable development, one of the basic functions of banking sector is to provide financial stability. After the outbreak of the financial crisis in 2008, that stability was undermined. As a result of the lost trust and the need to return confidence in the financial system, Islamic banking gained importance primarily because of the fact that it strictly forbids interest as well as speculative activities.

Daily Vatican newspaper, “L’Osservatore Romano” reported that “the ethical principles on which Islamic finance is based may bring banks closer to their clients and to the true spirit which should mark every financial service” (L’Osservatore Romano, 2009). Because of its balance between social and financial goals, Islamic banks can be one of the key bearers to sustainable development. Ahmed et. al (2015) notes that Islamic banking, as a system, “helps to stimulate economic activity and entrepreneurship towards addressing poverty and inequality, ensures financial and social stability, and promotes comprehensive human development and fairness which is relevant to SDGs”.

The question that arises is to what extent are Islamic banks involved in sustainable development? The answer can depend on the factor such as the level of contribution of Islamic banks to the economy, especially in terms of social dimensions. This subject can be observed by the disclosure practice among Islamic banks. In that aspect the aim of this paper is to analyze the concept of Islamic banking in terms of its disclosure practice about the issues that are important and have influence on sustainable development such as economic, social and environmental. These three elements are the basis on which SDGs are based and
represent a “win-win-win” scenario, in which the role of Islamic banks can be significant.

The paper is organized as follows. Section “Literature review and Theoretical framework” gives a brief overview of sustainable development and Islamic banking principles. Relationship between SDGs goals and Islamic economic foundations is given in the third section. Disclosure practice about social, economic and environmental elements among Islamic banks is given in the fourth section. Conclusion is given at the end.

2. LITERATURE REVIEW AND THEORETICAL BACKGROUND

Sustainable development as a process and a new concept of global action gain interest in 1987 when “Our Common Future” report was published emphasizing that “sustainable development is not a fixed state of harmony, but rather a process of change in which the exploitation of resources, the direction of investments, the orientation of technological development, and institutional change are made consistent with future as well as present needs” (Brundtland, 1987).

According to Oxford Living Dictionaries, sustainable development is an “economic development that is conducted without depletion of natural resources”. This definition notes that “international policies should support sustainable development” and “sustainable development has become the guiding theme in much environmental literature” (Oxford Dictionary, 2017).

Strandberg (2005) explains that financial institutions are “the key to sustainability, as they raise, allocate and price capital and provide risk coverage, influencing access to financing and risk protection, and determining which government, business or individual activities get financed or protected against risks.” In the aspect of relationship between corporations and sustainability, Doane and MacGillivray (2001) explain that business sustainability is actually “the business of staying in business”.

Peeters (2003) notes that financial instruments can be observed as a way to reach sustainable development because, in this particularly case, banks intermediaries between people and organizations but at the same time takes care about the potential risks. On the other hand, their activities can have an effect on the environment because of their landing actions.
In the Report “Managing Sustainability risks and opportunities in the financial services sector” by PwC (2012) there is a list of business benefits of responsible investment as presented in the next table.

Table 1: List of business benefits of responsible investment

<table>
<thead>
<tr>
<th>Improved risk management</th>
<th>Preserve license to operate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Enhanced brand and reputation</td>
<td>Promoting and increasing innovation</td>
</tr>
<tr>
<td>Customer attraction and retention</td>
<td>Improved access to capital</td>
</tr>
<tr>
<td>Enhance human and intellectual capital</td>
<td>Building and sustaining shareholder value</td>
</tr>
<tr>
<td>Attracting and retaining talented staff</td>
<td>Identification of new opportunities</td>
</tr>
<tr>
<td>Improved operational efficiency</td>
<td>Generating increased revenues</td>
</tr>
</tbody>
</table>

Source: PwC (2012)

Aliyu et al (2017), notes that sustainable banking is the bank’s ability to have long-term solvency and prosperity so impact on social well-being and environmental protection could be possible. This is important to emphasize because the 17th goal of SDGs is partnership for the goals which means that in order to achieve it, institutions that are foundation of an economic and financial system in the country must be stable. In terms of banks role, especially Islamic banks, Ahmed, Asutay and Wilson (2014) notes that if all banks were Islamic, financial crises would be less likely mainly because Islamic banks have built-in stabilizers that lower the probability of crises.

Stable partner for the accomplishment of sustainable development is very important. This goal can be achieved by socio-economic involvement that also includes environment issues. In terms of Islamic socio-economic model, Chapra (1992) explains that is based on a paradigm “which has socio-economic justice as its primary objective. This objective takes its roots in the belief that human beings are the vicegerents of the One God, Who is the Creator of the Universe and everything in it. They are brothers into each other and all resources at their disposal are a trust from Him to be used in a just manner for the well-being of all. They are accountable to Him in the Hereafter and will be rewarded or punished for how they acquire and use these resources. “

Islamic banking is a financial activity done in accordance with Islamic religious law (Sharia), and it is based on different principles compared to conventional banking (Hanić, 2017). According to Islamic Banking Act (1983) brought in Malaysia, “Islamic bank means any company which carries on Islamic banking business while Islamic banking business means banking business whose aims and operations do not involve any element which is not approved by the Religion of Islam”. Regarding the fact that the principles of Islamic banking are at the same
time the principles of Islam, ideology in terms of realization of social interests is very important because the stronger the ideology is, “the divergence between the choices individuals make and those expected of them are less” (Iqbal & Mirakhor, 2007).

Islamic banking implies the prohibition of usury¹ (Riba), prohibition of speculative activities (uncertainty or Gharar), prohibition of gambling (Maysir) and the promotion of risk sharing. On the other hand, it strictly forbids interest according to Qur’anic verse (God has permitted trade and has forbidden interest; 2:275). In order to avoid interest, Islamic banking system replaced it with returns from investments activities and operations. This is connected to main characteristic of Islamic banking and that is the use of Profit and Loss Sharing (PLS) Paradigm.

PLS implies a direct concern regarding the profitability of the undertaken investment on the part of the creditor, which is the Islamic bank. In practice it means that Islamic bank must be focused on the return on the undertaken investment, “because its profitability is directly linked to the real rate of return” (Mirakhor and Zaidi, 2007). On that basis Islamic banks are exposed to the displaced commercial risk.

Basic division of Islamic banking products refers to:

a) sales based (Murabaha, Istin'a, Ijarah, Tawarruq),

b) equity based (Musharakah, Mudarabah),

c) fee based (Wakalah, Kafalah, Rahn),

d) Islamic deposits (Wadai'ah, Qardh, Tawarruq),

e) Investment Accounts (Mudarabah, Musharakah) and

f) Investment Accounts (Wakalah).

According to authors Panzac (2002); Khalilieh (2006) and Çizakça (2014) cited in Ng, Mirakhor and Ibrahim (2015), “Islamic partnership (Mudarabah) was brought from Jerusalem to France during the late twelfth century and was incorporated into the Lex Mercatoria—the medieval European law of commerce”. Generally, reason for prohibition of interest is based on public interest. In that aspect, profit is as “ex post and symbolizes successful entrepreneurship and the creation of additional wealth while interest is ex ante and represents cost that is accrued irrespective of the outcome of business operations and may not create wealth if there are business losses” (Iqbal & Mirakhor, 2011).

¹ In some literature we can found that authors associate Riba with interest but it is important to notice that Riba has broader meaning.
Contrary to conventional banking, Islamic banking analyses the structure of a business investment which means that each phase of an investment implementation must be in accordance with Sharia. This means that Islamic banks are exposed to Sharia risk that doesn’t exist in the classification of conventional risks because every Islamic bank has its own Sharia Supervisory Board (SSB) in order to approve or disapprove certain financial activity. In that aspect, SSB certifies Islamic financial products as Sharia-compliant. Islamic economic model can be found in many verses in the Qur’an, as the basics of Islamic economy, which is given in the next table.

Table 2: Islamic economic model by the verses in the Qur’an

<table>
<thead>
<tr>
<th>Field of economy</th>
<th>Verses</th>
</tr>
</thead>
<tbody>
<tr>
<td>The role of Fiscal Policy</td>
<td>3:259, 8:72, 12:47</td>
</tr>
<tr>
<td>Interest, Bounty/Income</td>
<td>2:279, 16:14, 18:96</td>
</tr>
<tr>
<td>Public Debt</td>
<td>2:275, 278, 30:39, 57:11, 4:161</td>
</tr>
<tr>
<td>Lending as Moral Phenomenon</td>
<td>2:275-280</td>
</tr>
<tr>
<td>Prohibition of Interest</td>
<td>2:265-270</td>
</tr>
<tr>
<td>Social Relations vis a vis Interest</td>
<td>2:178,195,24:61</td>
</tr>
<tr>
<td>Debtor – creditor Relationship</td>
<td>2:279-280</td>
</tr>
<tr>
<td>Impact of Interest to social economic</td>
<td>2:276, 30:39</td>
</tr>
<tr>
<td>Productive Activities</td>
<td>21:80, 34:11, 13; 11:37, 26:128</td>
</tr>
<tr>
<td>Trade</td>
<td>2:198, 5:2, 73:20</td>
</tr>
<tr>
<td>Objective of economic activities</td>
<td>2:201, 7:31, 28:77, 62:10</td>
</tr>
<tr>
<td>Moral values of economic activities</td>
<td>21:37, 89:20</td>
</tr>
<tr>
<td>The Money</td>
<td>2:188, 276; 8:2-4; 9:34,98:5</td>
</tr>
<tr>
<td>Human behavior towards money</td>
<td>17:100; 89; 20; 100:8</td>
</tr>
<tr>
<td>The Contract</td>
<td>4:12,8,41,30:28, 33:27</td>
</tr>
<tr>
<td>Business conduct</td>
<td>2:283, 7:85, 11:84, 17:35, 26:181</td>
</tr>
<tr>
<td>Business Profit</td>
<td>45:2-5, 62:9-10, 103:3</td>
</tr>
<tr>
<td>Philanthropy</td>
<td>3:117, 267, 4:34, 8:36, 13:22</td>
</tr>
<tr>
<td>Revenue</td>
<td>2:3, 31:34, 8:41, 17: 29</td>
</tr>
</tbody>
</table>

Source: Ismail (2014). Sustainable Development Goals and The Role of Islamic Finance

In the institutional way, Islamic economy starts to develop after the end of the decolonization process, in the 1950s. In this regard, the first bank was founded in 1963 in Egypt, while one of the important dates in Islamic finance history is the establishment of the Islamic Development Bank in 1975. Ever since, Islamic banking captures the attention of the world public and, according to Warde (2000), its most important part of development has been its inclusion in international financial flows.
In the aspect of internationalization, events that happened in 2015 like the launch of Diploma in Islamic Finance in Belgium and Luxembourg, opening the Germany’s first Islamic bank (KT Bank) in Frankfurt or the launch of Hong Kong’s second sukuk, (Thomson Reuters' Islamic Finance Development Report, 2016) means that Islamic banking and finance is present worldwide. This is consistent with the Lord Edward George statement from 1995, quoted in Ainley at al. (2007), in terms that there is “growing importance of Islamic banking in the Muslim world and its emergence on the international stage”. In 2014, UK became first country in the West to issue sukuk and London is seen as a center of Islamic banking in Europe.

In 2016, Thomson Reuters’ Islamic Finance Development Indicator was published where the estimates show that by 2021 Islamic banking assets will reach US$2.8 trillion as shown in chart below (IFDI 2016).

**Chart 1: Expected Islamic banking assets globally**

![Global Islamic banking assets growth (2012 - 2021, US$ trillion)](chart.png)

*Source: Thomson Reuters' Islamic Finance Development Indicator*

In 2015, The Banker published *Top Islamic Financial Insititution Report*, that includes twenty largest countries ranked by total Sharia – compliant assets represented in the next table.

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2 Sukuk is a Sharia compliant bond. Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) define sukuk as “securities of equal denomination representing individual ownership interests in a portfolio of eligible existing or future assets”.

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Table 2: Twenty largest countries ranked by total Sharia – compliant assets

<table>
<thead>
<tr>
<th>Rank</th>
<th>Country</th>
<th>Total Sharia compliant assets (in bn of US$)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Iran</td>
<td>316,423</td>
</tr>
<tr>
<td>2</td>
<td>Saudi Arabia</td>
<td>306,807</td>
</tr>
<tr>
<td>3</td>
<td>Malaysia</td>
<td>206,309</td>
</tr>
<tr>
<td>4</td>
<td>UAE</td>
<td>111,294</td>
</tr>
<tr>
<td>5</td>
<td>Kuwait</td>
<td>84,448</td>
</tr>
<tr>
<td>6</td>
<td>Qatar</td>
<td>70,898</td>
</tr>
<tr>
<td>7</td>
<td>Bahrain</td>
<td>65,068</td>
</tr>
<tr>
<td>8</td>
<td>Bangladesh</td>
<td>22,298</td>
</tr>
<tr>
<td>9</td>
<td>Indonesia</td>
<td>21,044</td>
</tr>
<tr>
<td>10</td>
<td>Pakistan</td>
<td>10,101</td>
</tr>
<tr>
<td>11</td>
<td>Sudan</td>
<td>7,467</td>
</tr>
<tr>
<td>12</td>
<td>Egypt</td>
<td>7,015</td>
</tr>
<tr>
<td>13</td>
<td>Switzerland</td>
<td>6,879</td>
</tr>
<tr>
<td>14</td>
<td>Turkey</td>
<td>5,950</td>
</tr>
<tr>
<td>15</td>
<td>Brunei</td>
<td>5,025</td>
</tr>
<tr>
<td>16</td>
<td>UK</td>
<td>3,811</td>
</tr>
<tr>
<td>17</td>
<td>Thailand</td>
<td>3,797</td>
</tr>
<tr>
<td>18</td>
<td>Yemen</td>
<td>3,549</td>
</tr>
<tr>
<td>19</td>
<td>Syria</td>
<td>2,881</td>
</tr>
<tr>
<td>20</td>
<td>Algeria</td>
<td>2,516</td>
</tr>
</tbody>
</table>


But, in spite of such an extraordinary growth, according to Hayat & Malik (2014), there are several misconceptions associated with Islamic way of doing business that include:

- Muslims and Islamic finance are monoliths that conform to generalizations;
- Modern Islamic finance is a relatively old and mature industry;
- Muslims, in general, understand the theory and practice of Islamic finance and follow it in their financial lives;
- Islamic finance enjoys active government support in most Muslim-majority countries;
- Assets of Islamic finance tend to be greater than those of conventional finance in most Muslim-majority countries;
- Sharia is the governing law in all countries with a Muslim majority, and Islamic finance transactions are governed only by Sharia;
- Islamic finance is not open to non-Muslims;
• Islamic finance is mainly about charitable rather than commercial activities;
• Islamic finance involves illegal activities, such as money laundering and even the financing of terrorism;
• The prohibited Riba is the same as interest;
• Islamic finance is recession proof and immune from unethical practices and
• The Islamic finance industry is widely believed to be Islamic in form and in substance.

In order to avoid misconceptions and assumptions about Islamic banking, it is necessary to investigate the practice of Islamic banks regarding their activities in terms of achieving the three basic pillars of SDGs. This is important for the following reasons:
• Islam, as the basis and source of Islamic banking, emphasize the achievement of public interest as its primary goal. If we consider that this postulate is more than 1430 years old then the achievement of a public interest through the three dimensions of SDGs should be a mandatory or an integral part of the operation of Islamic banks, in relation to conventional banks where this practice is mainly non-binding;
• Because Islamic banking is still in the process of development, it is necessary to explore the degree of disclosure practice among Islamic banks comparing to conventional that are still the dominate institutions in the global financial structure;
• Identification of the ethical identity of Islamic banks through the prism of relations towards the three basic pillars of the SDGs in terms of determining their social engagement in the society in which they operate. The above mentioned elements will be analyzed below.

3. SUSTAINABLE DEVELOPMENT IN ISLAMIC BANKING AND SDGS

Generally, Islamic principles date from the 7th century which means that Islamic banks should be a representative of those values. In that aspect it is important to analyze and compare Islamic social values and SDGs. In terms of that, in Islam it is important to mention Maqasid al Sharia also known as the “Objectives” or “Purpose” of the Islamic Law. Auda (2007) notes that most of Islamic scholars advocate that Maqasid al Sharia refers to “people’s interests” (arab. Masleha). In other words, it means that the purpose of Sharia is to accomplish the public interest.
Great Islamic Scholar, Ibn al-Qayim, quoted in Auda (2007) states that Sharia is “based on wisdom and achieving people’s welfare in this life and the afterlife. Sharia is all about justice, mercy, wisdom, and good. Thus, any ruling that replaces justice with injustice, mercy with its opposite, common good with mischief, or wisdom with nonsense, is a ruling that does not belong to the Sharia, even if it is claimed to be so according to some interpretation”. If we compare this approach to one of the 17 goals of SDGs, great resemblance exists with the 16th goal of SDGs; peace, justice and strong institutions.

In addition, the social engagement of Islamic banks can be seen through the relationship of these institutions towards Zakat, which Islamic banks, as well as individuals who are in financial capacity, are obliged to allocate for the benefit of the society. Authors Hayat and Malik (2014) define Zakat as a social welfare tax in terms that it is an annual tax on surplus income and wealth of Muslims and is equivalent to 2.5% of net worth in general. In Islamic teaching it is very important because it represents one of the five sacred pillars of Islam (Quranic verses 92:14-21; 2:177; 9:103).

Second social engagement of Islamic banks is seen through qard Hasan credits as a form of benevolent credits where, according to Iqbal (2009), lender can’t receive any benefit in return. This can be observed as a goal to achieve the redistribution of wealth in the aspect of poverty alleviation. If we compare it to SDGs, this can respond to the first goal of SDGs; no poverty. Also, this type of credit is very popular among students in order to daunt costs of education. In this aspect, this is consistent with the 4th goal of SDGs; quality education.

Characteristics of qard Hasan are given in the next table.

**Table 3: Qard Hasan characteristics**

<table>
<thead>
<tr>
<th>Description</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>A non-rewarding loan but with the moral obligation of a borrower to repay</td>
<td>A non-rewarding loan but with the moral obligation of a borrower to</td>
</tr>
<tr>
<td>the principal if he is in a financial position to do so. If the borrower</td>
<td>repay the principal if he is in a financial position to do so. If the</td>
</tr>
<tr>
<td>is not financially capable to return the borrowed amount, than the creditor</td>
<td>borrower is not financially capable to return the borrowed amount,</td>
</tr>
<tr>
<td>will “forgive” the credit.</td>
<td>than the creditor will “forgive” the credit.</td>
</tr>
<tr>
<td>A credit with a benevolent purpose.</td>
<td>A credit with a benevolent purpose.</td>
</tr>
<tr>
<td>A credit with the aim to help the poor to become part of economic activity</td>
<td>A credit with the aim to help the poor to become part of economic</td>
</tr>
<tr>
<td>especially in terms of providing opportunities to create job and business</td>
<td>activity especially in terms of providing opportunities to create job</td>
</tr>
<tr>
<td>ventures.</td>
<td>and business ventures.</td>
</tr>
<tr>
<td>Qard Hasan credit practice strives to achieve balance among those who are</td>
<td>Qard Hasan credit practice strives to achieve balance among those who</td>
</tr>
<tr>
<td>financially more stable than those who are not in order to enhance financial</td>
<td>are financially more stable than those who are not in order to enhance</td>
</tr>
<tr>
<td>and social inclusion.</td>
<td>financial and social inclusion.</td>
</tr>
</tbody>
</table>

*Source:* Modified according to Iqbal and Shafik (2015). Islamic finance and the role of qard-al-hassan (benevolent loans) in enhancing inclusion: A case study of akhuwat
Although Islamic banks are considered to be involved in social activities, they are not charity institutions and tend to achieve a positive financial result. This is important because of the trust of their stakeholders as well as partners with whom they enter into business ventures. As already mentioned, trust and stability of these institutions is what led to their greater expansion.

In order to examine Islamic banks’ role in economic, social and environmental activities, disclosure practice can be considered as a way of exploring this three elements. This is important because Islamic banking is still developing and the market conditions are mainly created for the conventional banks. On the other hand, Islamic banks are learning certain economic rules and models of behavior in the global market and making their own criteria and reporting standards. In that aspect, disclosure practice among Islamic banks is presented in the next part.

4. DISCLOSURE PRACTICE AMONG ISLAMIC BANKS

Disclosure practice among Islamic banks is important for several reasons which also includes agency problem theory where according to Safieddine (2009) the issue of the separation of ownership and control is greater for Islamic banks because managers of Islamic banks must strive to maximization of shareholder’s wealth and at the same time provide that those activities are done in accordance with Sahria.

The amount of disclosure practice among Islamic banks, regarding the elements that can affect sustainability in one society, can be analyzed by using the method developed by authors Haniffa and Hudaib (2007). It is based on creating an Ethical Identity Index (EEI). This is important to analyze because of the difference between the communicated and the ideal ethical identity about Islamic banks but also between the banks themselves. On the other hand, Islamic banks are obligated to inform public about their activities as related to Qur’an: “and cover not truth with falsehood, nor conceal the truth when you know (2:42). This can be explained by the next graph.
EEI can be used in order to quantify the extent of Islamic banking activities in every aspect of its social inclusion, including economic, social and environment activities. Index is based on the principles of content analysis and uses annual reports of Islamic banks. Primarily it analysis 78 indicators grouped into 8 dimensions: 1) vision and mission statement, 2) BOD and top management, 3) product, 4) Zakat, charity and benevolent loans, 5) employees, 6) debtors, 7) community and 8) Shariah Supervisory Board (SSB).

The Index is calculated as follows:

$$EEI = \frac{\sum_{i=1}^{n} xijt}{N}$$
Where:
EEI Index – Ethical Identity Index for dimension j and period t;
\( X_{ijt} \) is variable \( X \) (1,... n) for dimension j and time t and has value 1 if the item is disclosed or 0 if otherwise;
\( N \) is the number of variables/statements

The aspect of social involvement analyzed by the disclosure practice can be observed through the level of Zakat disclosure. Beside this social element, Zakat can also be observed from the aspect of its economic effect because it leads to an increase in money supply which ultimately affects the demand for products and services. The result is that economy is moving forward.

Quraishi (2011) explains that Zakat has an impact on micro and macro economy but at the same time it can be seen as a fiscal mechanism. For instance, in micro aspect it helps to ensure the individual's needs by taking into account the public interest while on the macro aspect it deals with the distribution of wealth. The fiscal mechanism can be observed through the social inclusion by forming funds for the care of the most vulnerable categories of the population that also includes food subsidy, education, health care etc.

As mention above one of the EEI dimension includes Zakat, charity and benevolent loans. This dimension described by Haniffa and Hudaib (2007), is component of the following elements:

a) Zakat to be paid by individuals
b) Bank liable for Zakat
c) Amount paid for Zakat
d) Sources of Zakat
e) Uses/beneficiaries of Zakat
f) Balance of Zakat not distributed – amount
g) Reasons for balance of Zakat
h) SSB attestation that sources and uses of Zakat according to Sharia
i) SSB attestation that Zakat has been computed according to Zakat
j) Sources of charity (saddaqah)
k) Uses of charity (saddaqah)
l) Amount of qard hasan
m) Sources of qard hasan
n) Uses of qard hasan
o) Policy for providing qard hasan
p) Policy on non-payment of qard hasan
In the research done by Mosaid and Boutti (2012) among 8 Islamic banks in the period 2008 – 2009 the result show that the level of Zakat disclosure is low where information like source of Zakat or uses or beneficiaries of Zakat were missing which can be considered as a sensitive matters. In 2016, authors Samed and Said (2016) conducted a research among 16 Islamic banks in Malaysia in 2014 and the research showed that the overall mean about Zakat disclosure was 0.70. These results also show that during the time disclosure practice is improving but still it is not on a required level.

In terms of environment disclosure, research done by authors Farook, Hasan and Lanis (2011); Yahya, Abul Rahman and Tayib (2005); Darus, Yusoff and Mohd Azhari (2013); shows that practice of disclosure, including environment activities, among Islamic banks varies from region or certain country. This can be result of several factors such as:

- the level of development of Islamic banking in the country or the region that is being observed,
- the level of the priority given to environment protection and disclosure practice in the country or the region that is being observed,
- the reporting practice in the country or the region that is being observed.

For instance, in Malaysia where Islamic banking is present since 1983, Central bank of Malaysia, Bank Negara Malaysia, issued guideline on financial reporting for licensed Islamic Banks called GP8-i. This is not a practice among all the countries that implement Islamic banking. In this aspect, in 2015 Islamic Reporting Initiative was founded as a “reporting framework for Corporate Sustainability and Social Responsibility (CSR) aligned with Islamic principles, beliefs, and values” (IRI, 2015).

The issue with the low level of disclosure practice among Islamic banks can be associated with the fact that Islamic banking is still developing and it needs time to become an active participant in this field. Also, Islamic banks are probably more focused on the Sharia complaint requirement of a certain activity. But this reason must be taken with reserve because environment protection is also an integral part of Sharia regarding the fact that more than 750 verses in the Qur’an are addressing the issue of nature.

Finally, the relationship towards society and its elements, economic, social and environmental issues, in Islam are regarded as a whole rather than as a separate part, which is probably one of the reasons why the Islamic banks have not yet separated these elements to specific fields of their activities that they have to take care more actively.
4. CONCLUSION

Sustainable development is a topic that is attracting the world’s attention from 1987 and the Brundtland report. In 2015, the UN General Assembly established 17 Sustainable Development Goals (SDGs) to be accomplished by 2030. These goals are based on three pillars: economic, environmental and social. In order to achieve this, financial institutions, especially banks, need to be a stable and very active participant in this process. This is important to note because the process of sustainable development requires the commitment of those who are striving to sustainability.

As active participant in the world economy, banks, especially Islamic banks can be observed as a barrier of sustainable development because of their core values that are different comparing to conventional. In this aspect, Islamic social values or Islamic law (Sharia) are comparable to SDGs and the role of Islamic banks can be observed through the adoption of these goals by the implementation of the Sharia. In this aspect the level of the disclosure practice among Islamic banks can also indicate the application level of Sharia.

The emphasis is placed on economic, social and environmental disclosure practice among Islamic banks by using the methodology of Ethical Identity Index. The level of Zakat and environment disclosure was observed with an emphasis on the theoretical background of the paper. As mentioned, Zakat is defined as a social welfare tax which amounts 2,5% and beside the social effect on the society it also has an economic impact because it leads to an increase in money supply which ultimately affects the demand for products and services. The used research showed low level considering Zakat but also environment disclosure practice among Islamic banks, especially depending on the region where the research is done.

Reasons for such results can be found in the fact that Islamic banking is still developing and the reporting practice among the countries that are implementing it is different.

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