



# **THE IMPACT OF ISLAMIC ECONOMICS ON COMMUNITY SERVICES AND SOCIAL RESPONSIBILITY IN SAUDI ARABIA**

**Naif Mansour M. Mathkur**

Business College, Jazan University, Jazan, Kingdom of Saudi Arabia

[nmathkor@jcba.edu.sa](mailto:nmathkor@jcba.edu.sa)

## **Abstract**

*The primary objective of this study is to provide illuminating insights on how Islamic economics has influenced community services and social responsibility in Saudi Arabia. The paper aims to be a welcome addition to the body of literature touching on the topic under consideration. The paper offers insight into critical role played by Islamic economics in the holistic socio-economic advancement of Saudi Arabia. For this, the study employs a comprehensive and meticulous literature review of primary, secondary, and tertiary sources of the existing body of knowledge on the topic. The study finds that Islamic economics has served to enhance the provision of community services and dissemination of social responsibility activities in the Kingdom of Saudi Arabia. Moreover, this research reveals that Islamic economics has had a positive impact on the social fabric of the Saudi society. It is of imperative importance that extensive support is accorded to Islamic economics for the further enhancement of the well-being of the Saudi society. The paper is exploratory in nature and, there is a need for further empirical research.*

*Keywords: Islamic economics, Shari'ah-compliant, Community services, Social responsibility, Saudi Arabia*

## **INTRODUCTION**

The religion of Islam provides a faith-based economic system in the name of Islamic economics. Islamic economics involves the carrying out of commercial activities in a manner that complies with the Shari'ah and the Holy Quran. The distinct characteristics of Islamic economics are risk sharing; the earning of rewards for engaging in trade in the form of profits; the absence of usury

in transactions; the avoidance of trade in the items forbidden by the Shari'ah such as pork; the non-engagement in morally-destructive activities that are forbidden by the Shari'ah such as gambling, the consumption of drugs and alcohol, and prostitution. The branches of Islamic economics can be broadly classified into the analytical-based branch and the moral values oriented branch (Shams, 2004). In the overarching discipline of modern economics, Islamic economics is a nascent field that is growing in leaps and bounds.

Islamic economics is strongly rooted in a major world religion. Religion attaches imperative importance to the relationship between an individual and the Supreme Almighty Being as well as the fair and moral conduct of affairs between the individual and fellow men. That Islamic economics can improve the well-being of an individual in specific and the socio-economic good of the society at large cannot be put to question. Islamic economics has many offshoots that include Islamic banking and finance; Islamic microfinance; and *Takaful* (Islamic insurance). Islamic banking and finance and the Islamic microfinance subset of Islamic economics have recorded impressive growth in the last few decades. They have developed take their rightful place at the global arena. They have proved effective at providing a suitable alternative to the conventional banking and micro-finance systems. Interest in the derivatives of Islamic economics has grown exponentially especially since the latest global credit crunch and finance crisis of 2008 that was primarily caused by the fundamental weaknesses that are intrinsic to the conventional banking and finance system. The offshoots of Islamic economics such as *Takaful* and Islamic microfinance stimulate socio-economic development in the social fabric by encouraging financial inclusion for all and sundry without discrimination. Islamic microfinance has achieved great strides with regard to empowering the people most hard hit by the vagaries of penury.

Saudi Arabia is a nation that is deeply anchored in the map of the Islamic faith. The geo-physical location roots of Islam can be traced to the Mecca city of Saudi Arabia. By virtue of being the first country where Islam was revealed and practiced, it is in the area in which Saudi Arabia lies that Islamic economics was first practiced. Prophet Mohammed (peace be upon him) and his pristine followers were the first to undertake commercial activities that complied with the Holy Quran. After receiving the revelations of the Holy Quran, the Prophet (peace be upon him) preached to all on the importance of maintaining fair dealings in trade that dignified fellow human beings and had reverence to the purpose of Allah on mankind. The economic activities that were carried out by the Prophet, his disciples, and early followers laid the basis for Islamic economics. Since then the realm of Islamic economics has grown geometrically to become a force to reckon with in the world economics.

The country of choice for this research is Saudi Arabia. Since one of the major tenets of Islam encourages Muslims to pay pilgrimage to Mecca at least once in their lifetime, Islam, and by consequence Islamic economics, will continue to be a key feature of the social fabric of Saudi Arabia for a long time to come.

This research seeks to study the consequences of Islamic economics in improving the community services and social responsibility in Saudi Arabia due to the critical role that Saudi Arabia plays to the growth of Islam; the longtime presence of Islamic economics in Saudi Arabia; and the high level of integration of Islamic economics into the society of the Kingdom of Saudi Arabia.

### **THE ROLE OF ISLAMIC ECONOMICS IN ENHANCING THE COMMUNITY SERVICES AND SOCIAL RESPONSIBILITY IN SAUDI ARABIA**

The core ideals of Islamic economics are culled from religion and economics. According to Draz (1970), religion provides norms and standards of behavior to human beings in all aspects of life, spiritual, personal, social, material, and otherwise. The religious underpinnings of Islamic economics provide a blueprint for the ethical conduct of all the parties to Islamic commercial transactions. The stakeholders with vested interest in Islamic commercial transactions include the actively participating first and second parties actively pursuing business activities, the third parties to the transactions, the government, the regulatory bodies, and the society at large. Economics looks into a part of human behavior that deals with material matters related to resources, goods, and services (Kahf, 1998). As a proper discipline of economics, Islamic economics is a field that deals with the allocation of scarce resources production, distribution, and consumption of goods and services. The term Islamic economics was first used by Islamic writers in the 1940s (Kahf, 1998). The Islamic writers of mid-20<sup>th</sup> century expended huge efforts to discovering an Islamic body of knowledge based on the prohibition of *Riba*. Since then Islamic economics has grown into a fully-fledged discipline. According to Kahf (1998) Islamic economics, “Islamic economics is a branch of economics that studies the units and variables within the Islamic legal and ideological framework, actual or assumed”.

In as much as some of the goals and objectives of Islamic economics and conventional economics may match to each other, the means used to achieve the envisaged end-goals by the two economic systems are dissimilar. The field of Islamic economics is underpinned to the moral and ethical guidelines of the holy Quran and the *Sunnis* that specify the possible permissible courses of actions that can be used to realize the goals and objectives of the underlying trading activities. Islamic economics promotes the welfare of the society by advancing social justice, equity, poverty alleviation, and human well-being (Sairally, 2007). The

objectives that have so far been realized by Islamic economics in the kingdom of Saudi Arabia are the eradication of fear and anger in the society; the fulfillment of spiritual necessities; advancement of universal Muslim brotherhood; equitable distribution of income; the advancement of the freedoms of the individual in the realm of social welfare; the effective harnessing of natural resources; the upholding of the rule of law and peace; the advancement of economic well-being of individuals within the Saudi social fabric; the curbing of environmental pollution; improvements in the standard of living in the population of the Saudi society; the attainment of higher levels of convenience in life; the advancement of economic well-being; and increased provision of equal opportunity for all through economic co-operation and social justice (Siddiqi, 1980). The socio-economic goals of Islamic economics facilitates the attainment of *maqasidal-Shari'ah* (objectives of Islamic law) that provide a clear and reliable blueprint for promoting the holistic development and well-being of all human beings.

Services offered to the community and social responsibility are enhanced when the self-interest of an individual are aligned with a greater social interests of the wider society. In the spirit of the Shari'ah, the parties to Islamic economic activities are expected to incorporate the element of social good in all their commercial dealings. In Islamic economics individuals are expected to pursue altruism, humanity, and social responsibility in addition to the elemental business motive of profit (Sairally, 2007). The corporate entities and individuals carrying out activities under Islamic economics have obligations that they have to observe and promote within the society in which they operate. The participants in Islamic economic activities are supposed to be other-centered. Each party in an Islamic economic transaction owe a duty of care and responsibility to other stakeholders, the society, and ultimately to Allah (SWT). Islamic economics places a premium on accountability. The participants of Islamic economics transactions should be responsible to fellow men and Allah since ultimately, all human beings are accountable to Allah (SWT) for all their actions, thoughts, and conduct.

The Islamic economic activities in the kingdom of Saudi Arabia involve the conduct of asset-backed and asset-based transactions that promote the growth and development of the real economy and entrepreneurship within the country. The Shari'ah-guided practices of Islamic economics promote the avoidance of interest, the non-engagement with the morally corrupting ills of speculation gambling; the partaking of drugs and alcohol; and the taking of excessive risks. The above restrictions go a long way in the prevention and curbing of possible moral decadence in the Saudi society. The strict observance of the Shari'ah in Islamic economics serves to ensure that all transactions are carried with the ultimate goal of improving the general well-being of individuals as well as the society. The *Ummah* of the Kingdom of Saudi Arabia has the predominant perception that the institutions and individuals that partake in Islamic

economics have greatly advanced social responsibility in the country. For instance, a number of Islamic financial institutions facilitate the mobilization of savings to facilitate the observance of spiritual obligations. These institutions help the *Ummah* to not only achieve the exigent material needs by offering them equal opportunities to participate in highly profitable investment ventures in indifferent sectors of the Saudi economy, but also attain their higher spiritual goals (El-Din, 2004). The Shari'ah provides a redress mechanism for the violation of the sound ethical practices that the participants in Islamic economic transactions are expected to observe.

The concept of social banking is highly espoused in the field of Islamic economics. Social banking is the, “the provision of banking and financial services that consequently pursue, as their main objective, a positive contribution to the potential of all human beings to develop, today and in the future” (The Institute for Social Banking Education and Research, 2016). Profit represents the reward for engaging in entrepreneurship. To do away with profit, would be an injustice to the providers of entrepreneurship opportunities. As such, Islamic economics permits the earnings of profits since all the contributors of the factors of production should be handsomely recompensed. The ideal of social banking offers a model for the satisfaction of the needs of the society and economy in a manner that promotes the welfare of the current as well as the future generations. Islamic economics through social banking couples profits with morals. Microfinance practices in the Kingdom of Saudi Arabia have promoted the financial inclusion of all the country (Ahmand, 1992). The activities of Islamic microfinance institutions in Saudi Arabia have uplifted many people who were facing or on the verge of socio-economic deprivation. The participation by all and sundry in the economy of the Kingdom of Saudi Arabia serves to improve the quality and standard of living for the entire population. The greater the number of empowered participants in an economic system, the greater the overall net benefits that arise to the businessmen, the labourers, the providers of capital, the investors, the government, and the society. Microfinance activities at the grassroots level in Saudi Arabia have stimulated economic advancement at the fundamental level of the social fabric of the Saudi nation (Ahmand, 1992). The twin pursuit of social interests along the pure economic goals of profit maximization through Islamic economics has promoted virtues of fairness, hard work, ethics, respect, and inclusion of all. Islamic economics has been effective in the fight against socio-economic ailments that are associated with penury.

The fundamental basis of Islamic economics is the Shari'ah. The Shari'ah embodies the Islamic law that all Muslims and Islamic entities are expected to follow. The Shari'ah places a premium on the promotion of fairness and justice to all. It provides a means of adapting to change in the operating environment while still maintaining a conduct that is fair to all humankind and pleases Allah (SWT). The Shari'ah provides a value system that caters to all the

aspects of the human life including personal, social, economic, and the political components (Sardar, 2003). Pursuant to the guiding principles of the Shari'ah, parties undertaking Islamic economics in Saudi Arabia strive to respond to the immediate worldly socio-economic needs while keeping the eye on the price of the Hereafter. According to the fundamental tenets of the Shari'ah, justice is a critical ingredient of holistic socio-economic progress. The Shari'ah holds that no society can advance in the absence of justice. At the heart of justice, is the notion of giving the rightful dues to people and Allah (SWT). Islamic economics maintains that parties to dinner transaction must uphold and encourage a sense of justice by observing the germane duty of care to the surrounding society and humanity at large (Chapra, 2000). Islamic economics forbids the exploitation of the poor. Instead, Islamic economics aims to uplift all and sundry including those facing economic deprivation. Since according to Islamic is more joy in giving than in receiving, Islamic economics borrows from this pivotal teaching of Islam and strives to empower the poor so that they can climb up the social ladder by breaking free of the shackles of penury and ultimately becoming givers who can cause improvement in the living conditions of others. Institutions perpetuating Islamic economics in Saudi Arabia such as Islamic banks, *Takaful* entities, Islamic microfinance institutions, as well as the *Waqf* institutions that engage in trade, conduct corporate social responsibility activities that seek to empower those at the nadir of the socio-economic order of the Saudi society by instituting income-generating opportunities. These institutions also empower the poor by providing real-world training that will broaden the purview of their lives so as to be at a better position to take advantage of the current openings as well as the opportunities that bound to arise in the future (Ayyash, 2010).

The religion of Islam promotes all the human virtues that promote the holistic development of an individual; the welfare of the society; and the attainment of the purpose of Allah (SWT) on humanity and an individual. Institutions and individuals carrying out Islamic economic activities in Saudi Arabia are bound by the ethical ideals found in the Islamic law. The observance of ethics by Islamic institutions when conducting business affairs serves to attend the exploitation of customers as well as members of the public. The mandatory requirement to observe the tenets of Shari'ah imposed upon all parties undertaking Islamic economic activities enhances the provision of community services as well as social responsibility since that it checks on the participation in the morally destructive activities that are forbidden in the Holy Quran. The guiding ethical code of conduct enshrined in the Shari'ah facilitates the provision of equal opportunity and empowerment of all and sundry in the Saudi society. Discrimination on the lines of race and background is forbidden in Islamic economics. The Islamic institutions that are Islamic economics are bound by the Shari'ah to undertake constant staff empowerment activities. These activities range from the provision of relevant training to improve the intellect

(*aqil*) of the members of their staff. Increased motivation levels of the staff have a multiplier effect since a happy workforce is more productive and efficient. Islamic economic institutions facilitate the training of their staff abroad. The training and development of staff in the overseas, as well as locally by renowned experts improves service delivery, sense of responsibility, and the knowledge levels of the staff. The staff trained abroad return to Saudi Arabia after successfully acquiring the latest cutting-edge knowledge on the leading international best practices in their respective fields of expertise and this prevents the socio-economic costs with brain drain. As part of their normal operations, Islamic economic institutions are required to provide fair remuneration to their workers. The competitive rates of pay awarded to the providers of labor within the Islamic economic system empower workers to be better placed to provide for their families. Families are the basic social unit in the Kingdom of Saudi Arabia. The Prophet (peace be upon him) taught in one of his *Sunnas* that looking after one's family bears the same merit as engaging in philanthropic activities. Charity begins at home. By way of poising their staff members to be at a sound economic standing, Islamic economics stimulates social advancement at the fundamental level of the family. According to the Shari'ah, the observance of virtues that inspire positive behavior and actions begets good favor from Allah. The fate of and dignified actions is punishment. The Shari'ah serves to promote the observance of virtues within the Saudi society by providing mechanisms for meting out punishment for violations of wholesome actions that promote the holistic advancement of the society and an individual. Being a strong faith-based economic system, Islamic economics strives to promote the pursuit of all those courses of actions that benefit all the interested stakeholders while at the same time serving the social interests of the current generation as well as posterity. Dubious get-rich-quick schemes that corrupt the morals of the perpetrators and defraud members of the public are forbidden in the Islamic economics of Saudi Arabia. Islamic economics seeks to promote the virtues of hard work by rewarding effort and punishing sins surrounding laziness and deceit. The element of interest is forbidden in all Islamic economic transactions carried out within the Kingdom of Saudi Arabia. The payment and receipt of usury is barred by the Shari'ah, the Holy Quran since money is a measure of wealth, and when left on its own, no value is added. Islamic economics rewards the addition of value on a real asset. The earning of interest on stagnant money would encourage sloth. Dignified wealth creation activities that espouse hard work should be rewarded with profit. For these reasons, interest is banned in the Islamic economics of Saudi Arabia. The prohibition of speculation and excessive risk-taking within the realm of Islamic economics has served to shield the socio-economic system of Saudi Arabia from the shocks attributed to such behavior. It is the taking of huge risks and the agreed inherent in speculation that primarily caused the global credit crunch of 2008. At the time of the

credit crisis, the economy of Saudi Arabia remained relatively stable as compared to the economies of the countries of the world that have the conventional Western economics as the backbone of their national economic systems. Gambling and speculation are banned in the framework of Islamic economics within the Kingdom of Saudi Arabia since these activities and behavioral tendencies are counter-intuitive to the observance of the virtues of hard work, pious, and patience.

The nature of community services and social responsibility activities is such that the flow from areas of higher economic concentration and development to regions with lower levels of economic development. Islamic economics in Saudi Arabia facilitates the dissemination of community services and the provision of social responsibility activities by catalyzing the process of wealth creation and generation. Since according to the Holy Quran all the actions of a man come to an end apart from the prayers of a pious offspring that pray for him and a social endowment mechanism that promotes the welfare of the society through the provision of knowledge and charity to the needy, Islamic economics in Saudi Arabia provides mechanisms for the channeling of excess wealth in the lifetime of the economically endowed as well as after the death of the rich by partnering with the distinctively Islamic *Waqf* institutions. Most of the community services and social responsibility activities carried out in the kingdom of Saudi Arabia are funded from the profits retained from Islamic economics. The observance of the principle of hard work that is espoused by Islamic economics benefits the current generations as well as posterity as Islamic economics provides straight-forward mechanisms for the channeling of philanthropic commitments by providing linkages with *Waqf* (Shirazi, N., Obaidullah, M., & Haneef, M., 2015). The proceeds emanating from the diverse array of activities carried out under Islamic economics in Saudi Arabia have been used to fund *Waqf* and charity institutions that have furthered noble causes such as the provision of interest free loans to all including those facing financial, social, and economic deprivation; debt relief; the bailing out of prisoners; the provision of shelter and care to orphans; the distribution of food products; the disbursement of marriage loans; the provision of veterinary services; the creation and dispensation of knowledge in the Saudi society by facilitating the establishment, operating and maintenance of learning institutions, research institutions, libraries, and student hostels; the provision of healthcare services through hospitals and mobile caravans for mobile clinics; accommodation of strangers in guesthouses; the lending of jewelry; the provision of shelter for stray animals; the commissioning, running, operating, and maintenance of public infrastructure such as bridges, and roads; and the provision of shelter for abused housewives (Islamic Development Bank, 2014).

According to the Shari'ah, all are bound to observe the *Maslahah*. *Maslahah* denotes having consideration for public interest. The prolific Islamic sage of days of ere Al-Ghazali



taught that, “As for *Maslahah*, it is essentially an expression for the acquisition of benefit or the repulsion of injury or harm, but that is not what we mean by it, because acquisition of benefits and the repulsion of harm represent human goals, that is, the welfare of humans through the attainment of these goals. What we mean by *Maslahah*, however, is the preservation of the ends of Shari’ah” (Nyazee, 2000, p.180). *Maslahah* is broadly categorized into the essentials (*daruriyyat*), the complementary (*hajiyyat*), and the embellishments (*tahsiniyyat*) (Dusuki, 2005). The essentials (*daruriyyat*) denote the pivotal interests upon which the lives of people primarily depend on as envisaged by the *Maqasidal-Shari’ah* i.e. faith (*din*), human self (*nafs*), intellect (*‘aql*), posterity (*nasl*) and wealth (*mal*) (Dusuki, 2005). Disregard for the *daruriyyat* leads to chaos and the destruction of the proper orderly functioning of the society. Activities that have the potential of causing possible harm *daruriyyat* should be met with chastisement. For example, while dealing with the possible threat of harm on intellect (*‘aql*), alcohol and drugs should be prohibited. Islamic economics forbids engaging with substances like intoxicants and those engaging in the peddling of narcotics should meet the full force of the Islamic law. The pollution of the environment is a grave risk to the human self (*nafs*) and posterity (*nasl*). Islamic economic institutions in Saudi Arabia are obliged to conduct due diligence and resist from supporting and financing the activities of companies that degrade the environment by way of dumping toxic wastes. The complementary (*hajiyyat*) are those interests that supplement the essential interests. The natural eventuality of failing to uphold *hajiyyat* is hardship (Dusuki, 2005). The Islamic law that governs all the activities in the Kingdom of Saudi Arabia has legalized a myriad of innovations of Islamic economic entities out of the pressing necessity of alleviating socio-economic deprivation from the populace. The embellishments (*tahsiniyyat*) are those interests whose attainment leads to refinement, perfection, and high levels of fulfillment in the conduct of people (Dusuki, 2005). Islamic economic entities in the Kingdom of Saudi Arabia are expected by the Shari’ah to go beyond the making and facilitation of the collection of the mandatory *zakah* obligation. Saudi Islamic entities have the social responsibility of engaging in philanthropic activities, as well as observing gentleness, pleasant speech, and uphold fair dealings with all the people constituting their socio-economic ecosystem. Given the preceding facts, Islamic economics leads to the enhancement of a responsible Saudi society.

## CONCLUSION

Islamic economics has grown to be the dominant feature of the national economic system of various countries. Islamic economics continues to scale up the ladder at the stage of global economics. Islamic economics in Saudi Arabia has come a long way and is expected to grow in leaps and bounds in the near future as well as in the long-term. The trademarks of Islamic

economics are the absence of the element of usury in all transactions as well as the strict observance to the moral and ethical guidelines of the Shari'ah and the Holy Quran. Islamic economics provides a fair, efficient, and reliable avenue for the pursuit of economic objectives that incorporate social aspirations that pushed the greater society forward. The case of Saudi Arabia pinpoints how Islamic economics can enhance the welfare of any society. There is an array of community services and social responsibility activities that can be traced to Islamic economics that have served to improve the well-being of the Saudi society by curtailing the expansion of unemployment, unequal distribution of wealth, socio-economic exclusion, corruption, and economic injustices. Islamic economics provides an effective alternative to the conventional economic system that concurrently improves the collective economic well-being and the welfare of the social fabric of a country.

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