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Exploring the Reasons for the Low Level of Awareness and Knowledge of AAOIFI Accounting Standards in Nigeria

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Abstract

This study aims to explore the reasons for the low level of awareness and knowledge of AAOIFI accounting standards in Nigeria. The data were generated through documentary evidence and semi-structured interviews. The study established the non-integration of AAOIFI accounting standards into the Benchmark Minimum Academic Standards (BMAS) for Nigerian universities and almost all the accounting curricula of Nigerian universities and professional accounting examination syllabus. Besides, the standards were given little or no attention by the professional institutions in their Mandatory Continuing Professional Development (MCPD) programs. Lack of examination centers and an inadequate number of qualified members of AAOIFI in the country were also key reasons that contributed significantly to the low level of awareness and knowledge of these standards. Hence, the study recommended that AAOIFI should collaborate with the relevant Nigerian regulatory authorities, Nigerian professional accounting bodies, IFIs and Nigerian universities in order to enhance the awareness and knowledge of the standards as well as their level of adoption. This is because the adoption of the standards by IFIs would improve their accountability and transparency, which would attract more investors and customers into the industry, more especially in this COVID-19 pandemic when Islamic banking and finance are considered as the best alternative for the revival of the global economy.

Keywords: AAOIFI standards, awareness and knowledge, accounting syllabus, professional accounting associations, Universities, Nigeria

1. Introduction

The growth of Islamic Financial Institutions (IFIs) and the need to sustain their development in both Muslim and non-Muslim countries have necessitated the development of standards for them by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) with a view to facilitating and enhancing the credibility and reliability of their annual reports and accounts (Sarea and Hanefah, 2013). In other words, the emergence of modern IFIs mandated the establishment of the AAOIFI to issue out accounting, auditing and governance standards for the IFIs to treat events, transactions and issues that have not been provided in the conventional standards (Umar, 2019). IFIs largely constitute Islamic banks and insurance companies but the formers constituted the majority. More so, the development of Islamic banks across the globe has demanded more transparency, reliability and comparability of the information presented in their annual reports and accounts (Ajili and Bouri, 2017).

Nigeria is among the countries that record the growth of its Islamic finance industry in recent years. There is the emergence of another full-fledged Islamic bank, Taj Bank Nigeria Limited in December 2019 and a conventional bank was expected to convert into a non-interest bank (Umar, 2020; Umar and Musa, 2020). Currently, there are two Islamic banks in Nigeria, Jaiz Bank Plc and Taj Bank Limited that exclusively provide Shariah-compliant products and services. Besides, the National Insurance Commission (NAICOM, 2019) revealed that as of 23rd January 2019 only two insurance companies, Jaiz Takaful Insurance Company and Noor Takaful Plc operated in Nigeria. However, Adesanya (2019) revealed that the Commission had granted

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approval in principle (AIP) to two more Islamic insurance companies, Cornerstone Takaful Insurance Company Limited and Salam Takaful Insurance Company Limited to operate in Nigeria and more applications were under processing for possible approvals. Evidently, the Nigerian Islamic finance industry, which comprises of Islamic banks and insurance companies, is growing at a faster rate. Accordingly, the adoption of AAOIFI accounting standards becomes indispensable in the Nigerian Islamic finance industry to enhance the confidence of investors, customers, regulatory authorities and other stakeholders in strict compliance with the requirements of Shariah. Consequently, the need to assess the level of awareness and the knowledge of AAOIFI accounting standards in Nigeria is very profound for the sustainability of the industry.

Besides, the need for the adoption of these standards is very essential because IFIs differ from their conventional counterparts in many aspects, such as philosophy, objectives and operations (Kadri and Ibrahim, 2018). Therefore, conventional financial reporting practices could not address the philosophy, objectives and operations of the Islamic finance industry (Mia et al., 2016). A high level of public confidence is vital for the survival of IFIs (Mohammed et al., 2016) through the provision of accounting information that conforms to the principles of Shariah. However, it is worth noting that the emergence of AAOIFI accounting standards does not mean IFIs are banned from adopting the provisions of conventional accounting standards provided that they do not contravene the provisions of the Shariah (Umar, 2019).

Another key motivator of this study is that despite the notable growth of the Nigerian Islamic financial industry and hence the need for the services of Muslim accountants, the researchers came across many Nigerian accounting graduates with good results that could not tell the full meaning of "AAOIFI". Similarly, many professional and practicing accountants were found ignorant of the AAOIFI accounting standards through interactions with them. According to Al-Abdullatif (n.d.), lack of knowledge and ignorance of the standards became barriers to their successful application. This issue has clearly pointed out the need to conduct this study with a view to providing various measures to take to enhance the awareness and knowledge of the standards for proper adoption in the Nigerian Islamic finance industry.

Considering the potential role of academic and professional institutions in spreading awareness and knowledge, Umar et al. (2021) explored the contributions of institutions to the promotion of the awareness and knowledge of Islamic banking and finance. The study revealed that both institutions contribute little or no to the promotion of the awareness and knowledge of Islamic banking and finance. The findings imply a low level of awareness and knowledge of Islamic banking and finance in Nigeria. However, at least three limitations are attributed to this study. First, it solely relied on a documentary research method to generate data, such as the Benchmark Minimum Academic Standards (BMAS), examination syllabus and training brochures for relevant professional associations. Second, it covers the general knowledge of Islamic banking and finance which is very wide with many dimensions that could not be deeply explored in a single study. Third, it fails to explore other reasons apart from the documentary evidence why the awareness and knowledge of Islamic banking and finance are low in Nigeria.

However, the current study is conducted as an extension to the study conducted by Umar et al. (2021). But it is narrowed to only the accounting aspect of Islamic banking and finance with a view to deeply explore the reasons for the low level of awareness and knowledge of AAOIFI standards. Besides, semi-structured interviews were also conducted with a view to exploring more reasons that could not be established by mere a documentary evidence method.

The remainder of the paper is organized into four sections. Section 2 provides a literature review. The methodology is presented in section 3. Section 4 presents the findings of the study. Finally, a conclusion and recommendations are covered in section 5.

2. Literature Review

2.1 A Brief Description of the Nigerian Islamic Finance Industry

The Nigerian Islamic finance Industry consists of Islamic banks and insurance companies. The first Nigerian Islamic bank, called Jaiz Bank Nigeria Plc commenced full operations on the 6th of January 2012 with three branches situated in Abuja (the Nigerian Federal Capital Territory FCT) and other two states, Kano and Kaduna (Yahaya and Lamidi, 2015; Gumela, 2017). Another remarkable growth of the Nigerian Islamic banking industry is the emergence of another full-fledged Islamic bank called Taj Bank Nigeria Limited, which commenced operations recently in December 2019 (Umar and Musa, 2020).

Besides, the growth of other IFIs, that is, Islamic insurance companies, has been recorded recently. The operations of Islamic insurance companies began in 2016 when two companies, Noor Takaful and Jaiz Takaful companies, were granted licenses to operate in Nigeria (NAICOM, 2019). In the last quarter of 2019, two more Islamic insurance companies, named Cornerstone Takaful Insurance Company Limited and Salam Takaful Insurance Company Limited, were also given operational licenses by the Commission and, according to the information released by the NAICOM on September 10, 2019, more applications for the licenses were in the process for possible approvals (Adesanya, 2019).

Further, to achieve effective and efficient operations of the Islamic finance industry, Nigeria becomes a member of various international organizations either directly or through its Commissions, agencies and private entities. Some of the organizations are as follows:

- Islamic Development Bank (IsDB): Nigeria is not just only an IsDB member but currently subscribes to the 7.66% of the share capital of the bank. This makes Nigeria the 4th in terms of a capital subscription (IsDB, 2020).
- Islamic Financial Service Board (IFSB): Currently, the Central Bank of Nigeria (CBN) and the Nigeria Deposit Insurance Corporation (NDIC) are full members of the board of IFSB. Also, Jaiz Bank Nigeria Plc has been admitted but as an observer member (IFSB, 2020).
- International Islamic Liquidity Management Corporation (IILM): The CBN becomes a member shareholder of IILM together with the Central Banks of a few other countries, such as Indonesia, Kuwait, Luxembourg, Malaysia, Mauritius, Qatar, Turkey, the United Arab Emirates and the monetary agency, Islamic Corporation for the Development of the Private Sector (IILM, 2020).

Briefly, the increase in the number of Islamic banks and insurance companies and the membership of Nigeria in the various international organizations related to Islamic finance revealed the importance of Islamic finance to the country and how fast the industry is growing within a decade.

2.2 Review of Empirical Studies

Despite the importance of Islamic accounting only a few empirical studies were identified to have been carried out on the awareness and knowledge of AAOIFI standards and general Islamic accounting. For instance, Al-Abdullatif (n.d.) inquired from academics, external auditors and preparers of financial statements about the awareness and level of the adoption of AAAOIFI accounting standards in the Kingdom of Saudi Arabia through the administration of questionnaires. The study established that, although the majority of respondents preferred the application of AAOIFI accounting standards in the preparation of financial statements, the lack of knowledge and the ignorance of the standards and regulations became impediments to the successful implementation of the standards. Amin et al. (2009) assessed the degree of accepting an Islamic accounting course by undergraduate students at the Universiti Malaysia Sabah (UMS) by adopting the Theory of Reason Action. Questionnaires were administered on a sample of 135 students. The study found that attitude, subjective norm and the amount of information on Islamic accounting were the determinants of the students to select the Islamic accounting course.

Similarly, investigating the level of awareness and knowledge of Shariah-Based Accounting (SBA) among academics was the major objective of the study undertaken by Abd. Talib et al. (2014). A sample of 40 lecturers was selected across Malaysian public higher institutions that offered Islamic accounting. The study disclosed a high degree of awareness among the academics that showed the need for SBA. Another relevant Malaysian study was carried out by Abdul Halim (2017), who assessed the level of knowledge of Islamic accounting among first and final year accounting undergraduate students as well as established if a significant difference existed in their level of understanding and the awareness of Islamic accounting. The data were generated through the administration of questionnaires to undergraduate students in some selected Malaysian public universities. The findings of the study showed that, although all the students had some basic knowledge of Islamic accounting, a wide difference in their level of understanding of the issue existed. This is because Islamic accounting topics were taught to them in the final year. More so, a similar study was conducted in Indonesia by Siswantoro (2015), who inquired about the perception and awareness of Islamic accounting from undergraduate accounting students at Universitas Indonesia. Questionnaires were administered to the students based on the course syllabus. The study found only a few students who were aware of Islamic accounting, but the course enhanced their comprehension effectively.

There are also a few studies focused on the assessment of Shariah audit knowledge. For example, exploring the perception of undergraduate students on the Shariah audit in Malaysian Islamic banks was the aim of the study carried out by Shafii et al. (2014). The study established a wide gap in the knowledge of the Shariah audit between students that were taught Shariah audit and others that were not. Khalid et al. (2019) investigated the level of awareness and knowledge of internal Shariah audit among Malaysian public university undergraduates. Questionnaires were administered to a sample of 240 undergraduate students selected from four Malaysian public universities in the areas of accounting, finance and business. It was found that the majority of the respondents who were studying accounting were able to differentiate Shariah audit from its conventional counterpart, but their level of understanding of the subject matter was low. In spite of their low level of understanding, they demonstrated their willingness to learn more about it. Besides, a study similar to the current one was carried out by Umar et al. (2021) who applied a documentary research method to explore the contribution of academic and professional institutions to the promotion of the knowledge of Islamic banking and finance in Nigeria. The study found both institutions to have insignificantly contributed to the spread of such knowledge.

However, although this study is about the awareness and knowledge of AAOIFI standards, it is believed that a review of conventional studies would be of great help for at least three reasons. First, AAOIFI accounting standards were developed through the adaption of the provisions of International Accounting Standards/International Financial Reporting Standards (IAS/IFRS) that do not contradict Shariah principles and develop new ones that are unique to IFIs. Second, they are all universal accounting released for adoption by relevant entities across the globe by IFIs. Third, IAS/IFRS standards have been adopted in at least 120 countries worldwide. The strategies applied for the adoption of these standards could be useful to enhance the awareness and knowledge of AAOFI accounting standards across the globe.

Many studies were undertaken to assess the awareness of conventional standards. For example, Akhter (2013) surveyed the awareness of IFRS among postgraduate students of commerce and management in Kashmir. The study found that the majority of the respondents had awareness of some basic concepts of IFRS but most of them could not respond to the question rightly. It was also revealed that the majority did not know the convergence of IFRS and Indian accounting standards. Another finding is that not all of the students understood the content of IFRS. Further, Chiang (2013) specifically surveyed student comfort level on IFRS at a state college in the Northeast region as well as the extent of the integration of IFRS into the current curriculum. A sample of 184 was drawn from the students of the Northeast region. The study among others revealed that they believed IFRS should become an essential element of their education. They also wished to have the standards integrated into their accounting curriculum so as to be very knowledgeable in the standards before their graduation. Similarly, Atabey et al. (2014) administered questionnaires to evaluate the level of the knowledge of accounting academics and recent developments on the adoption process of IFRS in Konya, Turkey by a sample from four universities. The major finding showed that, although the academics attempted to keep abreast of the development related to IFRS their level of awareness about the standards was low.

In Nigeria, two studies were found to have assessed the awareness and knowledge of IAS/IFRS. Iyoha (2014) evaluated the level of awareness of the IFRS among some Nigerian accounting students through the administration of questionnaires. The study established that the respondents' level of awareness of IFRS was high even though the standards had not been fully integrated into the tertiary institutions and relevant professional bodies' curricula in Nigeria. Owolabi et al. (2016) investigated the role of quality training and education of IFRS to accounting students and accountants in Nigeria. The study utilized secondary data by using qualitative content analysis. It was found that Nigerian universities were aware of the need to incorporate IFRS into institutional curricula and modules for the training of practitioners.

From the above reviewed conventional studies, it could be deduced that to achieve massive awareness and knowledge of AAOIFI accounting standards, they should be integrated into academic curricula and professional accounting association examination syllabus and training programs. In Nigeria, there are various institutions that award Degrees and polytechnics that award Higher National Diplomas (HNDs) in accounting. The AAOIFI accounting standards should be infused into the curricula of such academic programs. The two Nigerian professional accounting bodies are also in potential to contribute through their examinations and professional training programs when the standards are integrated into them.

Briefly, as earlier pointed out the current study sought to address the limitations of the study conducted by Umar et al. (2021) by examining in detail one of the topical issues in Islamic finance, the awareness and knowledge of AAOIFI standards in the preparation of the annual reports and accounts of IFIs. In order to achieve this objective not only documentary evidence was used but also semi-structured interviews. This is because there are key issues about the awareness and knowledge of Islamic banking and finance that could be better explored through an interview approach.

2.3 Theoretical Framework

This study is based on the Innovation Diffusion Theory which was applied by previous relevant studies like Bananuka et al. (2019) and Umar et al. (2021). With the emergence of the early work of Everett Rogers, the literature of the theory enjoys special attention and continues to grow at a faster rate, leading to a large but fragmented body of literature (Van Oorschot et al., 2018). It has now widely gained universal acceptance across different disciplines. Diffusion is the process of communicating innovations to the members of a social system through certain channels over time whereas innovation is an idea, practice or object that is new to an individual or another unit of adoption (Rogers, 1983). Therefore, innovation diffusion entails the selection of appropriate methods of communicating a new idea, practice or object to any person or organization. The implementation of science and knowledge has been provided in several disciplines to bring innovations into reality (Moullin et al., 2015). The propagation of innovations is widely considered a necessary condition for enhancing any system (Hoagwood et al., 2014). Various implementation frameworks, models and theories have been created to target a different array of innovations and the selection of an appropriate implementation framework becomes a challenging task (Moullin et al., 2015).

According to Van Oorschot et al. (2018), many scientific publications in the area of innovation research show that innovation adoption plays a significant role in a business in gaining competitive advantage and is regarded as necessary for its continuity. Similarly, the development of AAOIFI standards is considered innovation to enhance the accountability and transparency of IFIs to meet Shariah requirements and various stakeholders' needs. It is believed that the application of Innovation Adoption Theory principles would lead to a successful application of the AAOFI standards by IFIs. Similarly, understanding the basic principles of accounting standards for IFIs has progressively become a subject of discussion among Shariah scholars and researchers for the successful implementation of Islamic accounting standards (Sarea, 2012). In other words, for the successful implementation of new accounting standards (like AAOIFI) as a new phenomenon, there is a need to get special attention from stakeholders, such as academics in the accounting field, external auditors and those that prepare the financial statements in Islamic banks (managers and employees) (Al-Abdullatif, n.d.). Abdul Halim (2017) strongly recommended the integration of Islamic accounting topics into syllabus and professional training. They added that the quality of education and innovation is an essential factor that increases and supports the accounting profession pool. Also, the education sector should participate actively in the implementation of the AAOIFI standards by updating the curriculum to reflect the changes that occur for the well-preparation of the future workforce (Abd. Talib et al., 2014).

Specifically, this theory could be used to provide an explanation on the awareness and knowledge of Islamic banking and finance as the industry is continuously providing new Shariah-compliant products and services to replace the interest-based ones (Umar et al., 2021). Hence, this theory could be used to provide explanations on the reasons for the low level of awareness and knowledge of AAOIFI accounting standards in Nigeria.

3. Methodology

This study is qualitative in nature. According to Eldabi et al. (2002), data in qualitative research could be collected through a number of ways, including interviews and documentary evidence. Prior studies investigated students' level of awareness and knowledge of accounting standards mostly through the administration questionnaires (Al Abdullatif, n.d.; Amin et al., 2009; Abd. Talib et al., 2014; Abdul Halim, 2017; Siswantoro, 2015). However, in line with a study by Umar et al. (2021), this study applied a documentary research method to generate data. Hence, the Benchmark Minimum Academic Standards (BMAS) developed by the National University Commission (NUC) for Nigerian Universities was studied. In addition, the accounting curricula in the student handbooks of twenty-five selected Nigerian universities, where Islamic accounting was expected to be taught", were also studied. The universities were selected based on purposive sampling. It is also known as judgmental sampling, which allows the selection of participants based on certain qualities (Etikan et al., 2016). Purposive sampling is one of the widely adopted sampling techniques, which allows the pre-selection of participants based on particular research questions (Thaker, 2018).

Moreover, unlike the previous studies, the examination syllabus for Nigerian professional accounting examinations was also explored. In Nigeria, there are only two accounting bodies recognized by Law, the Institute of Chartered Accountants of Nigeria (ICAN) (established by the Act of Parliament No. 15 of 1965) and the Association of National Accountants of Nigeria (ANAN) (established by the Act of Parliament No.79 of 1993). The examination syllabus of these professional associations was also examined to establish if AAOIFI standards were integrated into them. Further, the International Federation of Accountants Committee (IFAC) as the highest global body regulating the conduct and practices of accountants in the world initiated the idea of Continuing Professional Development (CPD) in 2005. The IFAC created a body called the International Accounting Education Standard Board (IAESB) primarily to concentrate on continuing professional education and the development of CPD standards (Halabi and Chowdhury, 2018). CPD entails the educational and developmental work and learning, required to be participated in by all members of the professional bodies attached to the IFAC in order to develop and maintain their competence that is relevant to discharging their duties and professional responsibilities (Paisey et al., 2007). In Nigeria, only ICAN was found to have published its annual MCPD brochure. Hence, ICAN MCPD brochures were also examined to extract issues related to AAOIFI standards between 2018 and 2020.

Besides, for the purpose of ensuring quality control in using documentary evidence, the documents were found to have fully satisfied the requirements of authenticity, credibility, meaning and representativeness as suggested by Scott (1990). These documents were officially published or released by organizations established by Nigerian Laws, such as the National University Commission (NUC), the Institute of Chartered Accountants of Nigeria (ICAN), the Association of National Accountants of Nigeria (ANAN) and some selected Nigerian universities.

Moreover, semi-structured interviews were applied to support the findings through the documentary evidence method. Interviews allow the researcher to find further in-depth explanations on some responses with the view to resolving apparent contradictions (Eldabi et al., 2002; Horton, 2004). In the case of sample size, six participants were selected. This is based on the recommendation made by Morse (1994), who believed that this sample size is enough for a qualitative research of this nature. This sample size was based on data saturation, as applied by the previous studies (Thaker, 2018; Umar, 2020). According to Gentles et al. (2015), data saturation has been commonly used to establish the sufficiency of the data collected. Therefore, when the data is saturated any additional respondent will bring redundant data. Besides, the smaller sample size is preferred in qualitative research, as its objective is to ascertain information that allows understanding the complexity, depth, variation or context surrounding a phenomenon, instead of representing the entire population as it is needed in quantitative research (Gentles et al., 2015). More so, a purposive sampling technique was used in the selection of participants. They were selected based on the expectation that they had the experience and capability to do justice to the subject matter. This sampling technique was used by previous qualitative research (Thaker, 2018; Umar et al., 2020; Umar, 2020).

A thematic analysis method was applied in the analysis of the data collected through semi-structured interviews. This method of analysis permits the identification, analysis and reporting patterns (themes) within the data (Braun and Clarke, 2006). It is commonly adopted by qualitative research studies, particularly the ones that used interviews (Thaker, 2018; Umar et al., 2020; Umar, 2020).

Table 1: Profile of Participants

S/N	Membership	Place of Work/Experience	Code
1.	ANAN	Bank	E1
2.	ANAN	University (Bursary)	E2
3.	ICAN	Former Employee of Islamic Bank (Jaiz Bank Nigeria)	E3
4.	None	Graduate	E4
5.	ICAN/AAOIFI	Central Bank of Nigeria (CBN)	E5
6.	ICAN	Bank	E6

Table 1 presents the profile of the six participants. The first two (E1 and E2) are ANAN members. The rest are all ICAN members except E4, who is not a member of any of these two professional bodies. E5 is also a member of AAOIFI.

4. Research Findings

In this section, documentary and interview results are presented and discussed.

4.1 Documentary Results

The benchmark minimum academic standards (BMAS) for the Nigerian universities

The latest drafted Benchmark Minimum Academic Standards developed in 2015 by the NUC for adoption by all Nigerian universities was thoroughly examined, particularly the course synopses relating to financial accounting and reporting and auditing with a view to finding whether the AAOIFI accounting standards are integrated into them. It was found that AAOIFI standards had not been part of any of these courses. The BMAS portrays that the general philosophy of undergraduate training in the accounting program is to produce graduates with quality education and training to serve conventional organizations.

The accounting curricula of some selected Nigerian universities

The Benchmark Minimum Academic Standards (BMAS), as the name connotes, provides minimum standards for universities. This signifies that they have the right to introduce other relevant courses or modify the content of each course. Courses into which AAOIFI standards are expected to be found, such as financial accounting and reporting and auditing were examined as provided in the latest student handbooks of twenty selected universities in Nigeria where Islamic accounting course(s) are to be taught. Only two universities were found which are all located in Northern Nigeria. The first university had been offering one Islamic accounting course for three years. The second university had just introduced a Level 400 (final year) course, entitled “Islamic Accounting”, effective from the second semester of the 2019/2020 academic session. However, looking at the course synopses, they only introduced the students to Islamic accounting and basic issues of AAOIFI standards. The real and technical knowledge of the application of AAOIFI standards in the preparation of financial statements and auditing of IFIs would not be adequately and sufficiently learned by the students.

The ICAN and ANAN examination syllabus

The examination syllabi of the two professional accounting bodies recognized by Nigerian Law, that is, ICAN and ANAN were also explored, particularly the subjects into which AAOIFI standards are supposedly integrated. These subjects in ICAN are financial accounting, financial reporting, corporate reporting, audit and assurance and advanced audit and assurance. It was found that AAOIFI standards have not been incorporated into these subjects. Moreover, other financial subjects, business, management and finance and strategic financial management were also examined. It was established that in the strategic financial management methods of raising short-term and long-term Islamic finance were put as sub-topics under sources of finance. However, these are not AAOIFI standards. Similarly, the corresponding subjects in the case of ANAN are financial accounting, corporate reporting, advanced corporate reporting, auditing and audit ethics and forensic accounting. The AAOIFI standards have also not been integrated into them. In addition, nothing has been reflected in finance and financial management contents. Briefly, this is clear evidence that there is no integration of the AAOIFI standards into the examination syllabus of the Nigerian accounting professional bodies.

The MCPD brochures

In this case, only ICAN was found to have published its MCPD program brochures. Interestingly, the programs are not only attended by members but also non-members. The institution also organizes MCPD in-house seminars for various organizations that cut across different sectors of the Nigerian economy. The ICAN MCPD programs have several sectors, such as accountancy, audit and insolvency sector, accounting for agriculture/mining/not-for-profit organizations, collaboration with professional associations/organizations, education, entrepreneurship sector, financial services sector, general management practice sector, governance and politic sector, happiness and positivity sector, the information technology sector and tax practice, among others. Each sector may have sub-sectors. For example, the sub-sectors of the financial service sector are capital market, insurance and Islamic finance.

Table 2: ICAN MCPD Programs Related to IFIs Financial Reporting

Year	Paper	Paper Title	Content
2018	1.	Accounting and Reporting Practices for Islamic Financial services	• Accounting principles for Islamic financial services • Difference between Islamic and conventional financial reporting • Roles of Islamic finance consultative group • The Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) • Issues in the application of IFRS 9 to Islamic finance • Application of IFRS 15 to permitted Islamic transactions Disclosure requirements for Islamic capital market products
2019	2.	Regulatory and operational standards of Islamic Finance – key players	• Global Islamic Finance Standards: AAOIFI, IFSB, IILM, etc. • Regulations in other Jurisdictions – UK, France, Luxemburg, Malaysia, France, etc. • Studies of Islamic Finance Practices - World Bank, IMF, HSBC, Citi Bank • Islamic Finance Under the Nigerian Laws • Capital Adequacy Standards of Islamic Financial Institutions Based on IFSB standards
2020	3.	Governance in Islamic financial institutions	• Overview of Governance: Corporate and Shariah • Corporate and Shariah Governance Framework in Islamic Financial Institutions (IFIs). • Roles of Corporate and Shariah Governance Boards • Relevant Sections of AAOIFI • Case Study

Source: ICAN annual MCPD brochures

Table 2 shows the extracts from ICAN MCPD brochures related to AAOIFI standards between 2018 and 2020. In addition, only papers that capture issues of AAOIFI standards were extracted. It has been observed that these papers would only introduce participants to understand the basic skills of the preparation of annual reports and accounts and governance of IFIs, as provided in AAOIFI standards. However, the technical aspects of the standards could not be learned through the MCPD programs because of at least four reasons. First, only one out of the four papers presented during each Islamic finance seminar was found to be relevant in the preparation of the annual reports and accounts of IFIs. Second, the content of each paper did not solely cover AAOIFI standards but also those of other relevant organizations, such as IFSB, IILM, IASB, etc. Third, from 2018 every year ICAN organized at least 84 seminars as CPD programs in about 20 different locations out of which those allocated for Islamic finance ranged between 1 and 3 (representing 1.19 percent - 3.57 percent). Fourth, these seminars were organized only in three states, Lagos, Kano and Abuja. These are only three out of thirty-seven Nigerian states (including the Federal Capital Territory, Abuja).

However, the fact is that ICAN often organizes its MCPD programs in advance by requesting its district members in each location of the country to provide the area or sector (like Islamic finance) on which they want the seminar to be organized. Therefore, ICAN is ever ready to organize the seminar on “AAOIFI Standards” as many times as possible provided that a certain minimum number of participants would attend from any part of the country.

4.2 Interview Results

This study established six categorical themes with their respective interview questions.

Table 3: Categorical Themes and Interview Questions

S/No.	Categorical Themes	Interview Questions
1.	Awareness of AAOIFI standards	Are you aware of AAOIFI standards? If yes, from which source?
2.	Members of AAOIFI in Nigeria	How many qualified members of AAOIFI do you in Nigeria?
3.	Integration of AAOFI standards into the accounting syllabi of the Nigerian universities	Have AAOIFI standards been integrated into the accounting syllabus of the university you graduated from?
4.	Integration of AAOIFI standards into the Nigerian professional examination syllabi	Have AAOIFI standards be integrated into the syllabi of the Nigerian accounting professional examinations (ICAN and ANAN)?
5.	Promotion of AAOIFI standards awareness and knowledge by the Nigerian accounting professional bodies through their MCPD	Do Nigerian professional accounting bodies (ICAN or ANAN) promote the awareness and knowledge of AAOIFI standards through their MPCD programs?

6.	Other factors hindering the spread of the awareness and knowledge of AAOIFI standards in Nigeria.	What other factors do you think hinder the spread of the awareness and knowledge of AAOIFI standards in Nigeria?

Awareness of AAOIFI Standards
In this case, the views of the participants were sought on their awareness of AAOIFI standards.
Below are excerpts of the participants' views:

> Despite having 12 years of working experience in the banking sector (conventional) and as a professional accountant, this is my first time hearing about AAOIFI standards. In my view, at least 90% of professional accountants or bank employees are not aware of them […]. (E1)
> I am not aware of these standards, even though I qualified as a professional accountant […]. I don't think the majority of Nigerian accountants are aware of it. (E2)
> I became aware of them as I worked for three years with Jaiz Bank (the first Nigerian full-fledged Islamic bank) as well as from foreign sources called Ethica […]. (E3)
> Yes, I'm aware of AAOIFI through my project supervisor, who motivated me to write my project on an AAOIFI standard during my first-degree project, which I completed recently (2019). (E4)
> I'm aware of the AAOIFI Standards. I'm a Certified Islamic Professional Accountant (CIPA) member of the AAOIFI. A lot of ICAN members are aware of these standards because ICAN is creating awareness through the MCPD […]. (E5)
> From my professional colleagues […]. (E6)

Briefly, the above responses show the low level of awareness of AAOIFI standards in Nigeria among accountants. This is because universities and accounting professional examinations do not provide avenues for the creation of awareness and knowledge of AAOFI standards among accountants.

Members of AAOIFI in Nigeria
The respondents were asked about the number of qualified members of AAOIFI in Nigeria. Four respondents (E1, E2, E4 and E6) categorically said that they knew nobody a member of AAOIFI. But E3 and E5 knew four and twelve Nigerians who were members of AAOIFI, respectively. This finding reveals the inadequate number of AAOIFI members in Nigeria to contribute to spreading the awareness and knowledge of AAOFI standards. To the best of our knowledge, we know no academic in a Nigerian university who is a member of AAOIFI.

The Integration of AAOFI Standards in the Syllabus of Nigerian Universities
In this case, the participants were asked whether AAOIFI standards had been integrated into the syllabus of the accounting program. The six participants unanimously said that to the best of their knowledge AAOIFI standards were not integrated into the accounting programs in Nigerian universities. In specific, E4 who recently graduated in 2019 said the following:

> The syllabus of all courses I learned in the university contained no AAOIFI standards […]. (E4)

This finding corresponds with the earlier discovery through the observation of BMAS and the Nigerian universities' accounting syllabus.

The Integration of AAOIFI Standards into Nigerian Accounting Professional Examination Syllabus
The participants were asked whether the professional examination syllabus contained AAOIFI standards. Five respondents who are qualified professional accountants said that the standards were not part of the contents of the professional examination syllabus. This finding supported the earlier one through the observation of the examination syllabus of ICAN and ANAN in which nothing related to AAOIFI was found.

The Promotion of AAOIFI Standards Awareness and Knowledge through MPCD Programs Organized by the Nigerian Accounting Professional Bodies
The respondents were asked to disclose whether the Nigerian professional accounting bodies created awareness and spread the knowledge of AAOIFI standards through their MPCD programs. The first two respondents (E1

and E2) said that to the best of their knowledge their professional association had never organized any MCPD program to teach AAOIFI standards.

However, E3 ad E5 said that ICAN did so but only basic issues and terminologies could be learned. In particular, E3 said that the following:

> […] MPCD programs organized by his institute were not effectively organized to the extent that a large number of the participants would much learn about the application of AAOIFI standards.

This finding is consistent with the finding through the observation of the contents of the MCPD brochures, whereby the number of papers presented to create awareness and knowledge of AAOIFI standards was very few over the period observed (2018-2020).

Other Factors Hindering the Spread of Awareness and Knowledge of AAOIFI Standards in Nigeria

The views of the respondents were sought on the factors other than the ones mentioned earlier, which they believe had been contributing to the slow spread of the awareness and knowledge of AAOIFI standards in Nigeria. Five participants responded as follows:

> Lower demand for Islamic accounting services, lack of examination centers in Nigeria […]. (E1)
>
> Lack of sensitization about the relevance of AAOIFI standards to IFIs, non-collaboration between AAOIFI and Nigerian accounting professional associations, etc. (E2)
>
> Institutional and regulatory challenges that are yet to accommodate and liberate the adoption of AAOIFI standards in Nigeria […]. (E3)
>
> Lack of examination centers in Nigeria, lack of collaboration with the professional bodies in Nigeria, lack of adequate number of IFIs in Nigeria. (E4)
>
> The standards enjoy little or no attention from the professional accounting bodies and the regulatory institutions. The number of IFIs to apply the standards is also very few. Additionally, the IFI subsector is still at an introductory stage in Nigeria […] (E5)

Based on the above responses, factors like lack of examination centers, lack of adequate demand for Islamic accounting services and the lack of collaboration between AAOIFI and the professional accounting and regulatory bodies (like the FRCN, the CBN, the NUC, etc.) hinder the spread of awareness and knowledge of the AAOIFI accounting standards. In addition, do not know any academic in Nigerian universities who is a qualified member of the AAOIFI.

4.3 Discussion of Findings

The findings of the study revealed that the lack of integration of AAOIFI accounting standards into Nigerian university curricula and professional associations examination syllabus and training programs have significantly contributed to the low level of awareness and knowledge of AAOIFI standards. These results correspond with the earlier findings, particularly a study by Umar et al. (2021). Besides, factors like lack of examination centers, inadequate demand for Islamic accounting services, non-collaboration between AAOIFI and the professional accounting as well as regulatory bodies also become contributory factors. Consequently, it is very difficult to find an academia who is a qualified member of the organization in the Accounting Department across Nigerian universities.

The fact is that the adoption of AAOIFI accounting standards becomes necessary when the extent to which the Nigerian Islamic finance industry is growing. The increase in the number of Islamic banks and the Takaful companies reveals how fast the Nigerian Islamic finance industry is growing as experienced across the globe. Presently, it has been estimated that 50% of Nigeria's total of 183 million are yearning for Islamic financial products and services (Jaiz Bank, 2017). Accordingly, Nigeria becomes a member of various international organizations that are linked to Islamic finance, Islamic Development Bank (IsDB), Islamic Development Bank (IsDB) and Islamic Financial Service Board (IFSB), among others.

The need for Islamic accounting standards overlaps with the development of new Islamic financial products and services, because each new products need to commensurate with accounting treatments, particularly in the preparation of annual financial statements (Vinnicombe, 2010) According to Mohammed et al. (2016), without Islamic accounting standards (like AAOIFI standards), IFIs have no option other than to apply the accounting standards used by their conventional counterparts, which implies that they offer similar products with their conventional counterparts. Currently, AAOIFI is the only body that issues universal accounting standards to adopt by IFIs. Now, AAOIFI developed and issued a total number of 100 standards in the areas of Shariah, accounting, auditing, ethics and governance for IFIs (AAOIFI, 2020). In addition, the following countries and jurisdictions follow AAOIFI Shariah standards fully, partially or as guidance, such as Afghanistan, Astana Financial Services Authority (AFSA), Bahrain, Dubai International Financial Centre (DIFC), Iraq, Islamic Development Bank Group, Jordan, Kyrgyz Republic, Lebanon, Libya, Mauritius, Nigeria, Oman, Oman, Palestine, Pakistan, Qatar, Qatar International Financial Centre (QIFC), Sudan, Syria, United Arab Emirates and Yemen (AAOIFI, 2020). The adoption of AAOIFI standards will boost the credibility, comparability, clarity and consistency of financial statements of IFIs which will enhance users' trust (Khan et al., 2018).

It is worth noting that any country that has IFIs and does not adopt AAOIFI accounting standards, it has to develop its own accounting standards because there are many transactions of IFIs that could not be treated with conventional standards. For example, Malaysia is neither fully nor partially adopts the AAOIFI accounting standards (AAOIFI, 2021). Instead, the Malaysian Accounting Standards Board (MASB) has developed a standard named FRS-i-1, *Presentation of Financial Statements of Islamic Financial Institutions* (previously known as MASB-i-1) as a measure taken to follow the footsteps of AAOIFI (Abd. Talib et al., 2014). But FRS-i-1 is a local standard for adoption in Malaysia only.

Briefly, considering the continuous growth of the Nigerian Islamic finance industry, without making any effort to develop local accounting standards for such institutions it becomes very essential to put in place all the necessary measures to spread the awareness and knowledge of AAOFI accounting standards.

5. Conclusion and Recommendations

This study aims to explore the reasons for the low awareness and knowledge of AAOIFI standards in Nigeria. The data were generated by examining documentary evidence, such as BMAS for Nigerian Universities developed by the NUC, the accounting curricula of Nigerian universities and the examination syllabus of Nigerian professional accounting bodies (ICAN and ANAN) and the MPCD brochures of ICAN. Besides, semi-structured interviews were conducted to support the documentary evidence. The findings of the study established that lack of integration of AAOIFI accounting standards into the BMAS, the accounting curricula of Nigerian universities and the examination syllabus of Nigerian professional accounting bodies are the key factors that made the awareness and knowledge of AAOIFI standards very low. The standards were also given little or no attention in the MCPD programs organized by the ICAN.

Besides, other key factors that contribute to the slow promotion of the awareness and knowledge of the standards include lack of examination centers in the country, lack of adequate demand for Islamic accounting services and non-collaboration between AAOIFI and Nigerian regulatory, professional and academic institutions, among others. Hence, Nigeria being among the countries that have adopted AAOIFI standards should develop and implement sustainable measures to quickly spread the awareness and knowledge of the standards. Five measures should be taken. First, AAOIFI should collaborate with the Nigerian university regulatory commission, the NUC to integrate AAOIFI accounting standards in the BMAS for accounting and other related programs. Second, there should also be collaboration between AAOIFI and Departments of Accounting in Nigerian universities, particularly those that have an interest in Islamic accounting. Third, other regulatory bodies related to the Nigerian Islamic finance industry- the Central Bank of Nigeria (CBN), the Nigeria Deposit Insurance Corporation (NDIC), the Financial Reporting Council of Nigeria (FRCN) and Nigerian IFIs should collaborate with the AAOIFI to provide scholarships to capable and interested graduates to write the AAOIFI examination. Fourth, the relevant Nigerian professional bodies, such as the Institute of Chartered Accountants of Nigeria (ICAN), the Association of National Accountants of Nigeria (ANAN) and the Chartered Institute of Bankers of Nigeria (CIBN) should also sign a Memorandum of Understandings with a view to integrate the standards into their examination syllabus and training programs. Fifth, due to the distance barrier, there is a need to open an examination center in Nigeria.

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The Principle of *Tadarruj* in Islamic Finance: A Conceptual Review

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Abstract

Even though Islamic finance industry has been recognized among the promising sectors in the world, it is claimed that the modern financial environment is not too conducive to its progress. In fact, Islamic financial institutions have experienced various challenges, risks and restrictions in their operation. To adapt *Shari'ah* rulings into modern financial system, this effort must be carried out gradually. In this regard, this paper aims to explore the principle of *tadarruj* (gradual) and its application within Islamic finance. Since this is a conceptual research, it is based on document analysis. It is found that the element of *tadarruj* can be learned from the prohibition of *riba* at the time of revelation. In modern time, it seems that this principle has been considered in Islamic banking development in Malaysia, one of among progressive countries in this industry. Since this paper provides a philosophical perspective over the concept of *tadarruj*, it may be useful for all Islamic finance players including regulators, practitioners, and scholars, particularly to introduce new policies, to develop products and to expand the operation of Islamic finance industry.

Keywords: *Tadarruj, Islamic finance, Islamic banking*

1. Introduction

Shariah rules are undeniably unique since their establishment and implementation have considered humans' ability and current circumstances. Historically, Islam has emerged in the middle of medieval society which strongly practiced their tradition and custom, with less morality and lawlessness at the same time. Thus, Islam has experienced challenges and difficulties to change their life, particularly when Islamic teachings were against their norm.

In this regard, rulings in Islam were not revealed in one time as the process occurred gradually. To be precise, the preach of Shariah took roughly 23 years in order to be succeeded as a comprehensive system of rule, and the journey involves two periods which happened in Mecca and Medina (Zaidān, 1968). The concept is known as *tadarruj* (gradual), which is recognized as one of the main principles in dealing with Shariah ruling. This concept is notably applied through the revelation of Qur'anic verses whether it provides an abrogation for some existing rulings or set up a new ruling through different stages.

With regard to financial activities, the prohibition of *riba* (interest) falls among one of the Islamic fundamental rulings. Like other prohibitions, *riba* is forbidden because of its negative impacts towards individual, society and country. This is due to *riba* can lead to exploitation from lenders to borrowers in order to maximize their profit which consequently becomes oppression towards the poor. In fact, this exploitation occurs from the individual level up to the country level. According to history, Qur'anic verses pertaining *riba* involved four stages that begins in Mecca, and its final verse is argued by some Muslim scholars (Al-Ṣābūnī,

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2000). This indicates how Islam has pragmatically engaged with the widely practice of *riba* among society at that time.

In modern time, with the motivation to replace interest-based economic system, Islamic banking has emerged as an alternative financial institution, particularly for Muslim. Since its first emergence in 1963, Islamic banking industry has dramatically expanded, including its segments such as banking, capital market and *takaful* (Islamic insurance). While this industry is actively fulfilling the needs of Muslim, it is successfully attracting the involvement of non-Muslims and Western countries via their instruments. Nowadays, countries like the United Kingdom, the United States, France, China, and Singapore have recognized Islamic banking as an alternative finance that is available in their financial system (ISRA, 2010a).

Nevertheless, efforts to replace interest-based system or to provide its alternative are easier to be said than done. While Islamic banking industry has been considered among the promising sectors in the world, there were few subliminal unsuccessful stories (Ishak and Asni, 2020). Ihlas Bank for example, was declared bankrupt because of a liquidity problem. Since deposits of Islamic banking institutions were not covered by a deposit insurance scheme, the bankruptcy of Ihlas caused a chain reaction towards other Islamic banks, where depositors were panic and withdraw their money; even though 20 conventional banks had also experienced failure during that crisis (Yanīkkaya and Pabuçcu, 2017). Also, it was reported some of them have experienced huge lost as happened to Dubai Islamic Bank (DIB) and Bank Islam Malaysia Berhad (BIMB) (ISRA, 2010a).

Even Mit Gham Saving Bank, the first Islamic banks ended up with a failure because of the government's hostility towards Islamic identity (Iqbal and Mirakhor, 2007). Nevertheless, political support is not necessarily favorable for Islamic banking development. This can be learned from the failure of Islamic banking movement in Pakistan. Even though this movement was geared by the government, it also ended up with a failure due to many factors including no alternative model to replace the previous system, socio-imbalance economic system, lack of trust towards banking institutions, effects of globalization and privatization of the economy of the country (Mansoor Khan and Bhatti, 2006).

At the same time, Islamic financial products are not controversial free. Even though various Shariah contracts have been applied as Islamic products, some of them are criticized because of high prices in comparison to conventional counterparts (Amin et al., 2016). Moreover, Islamic products are also being accused as to have similarity with conventional one, particularly when Islamic financial institutions prefer to replicate conventional products, rather than innovate a new one (Syed and Omar, 2017). All of these did not only worsen public perception towards Islamic institution, as there would be a possibility for Islamic product to be declared as non-Shariah compliant by the society (Ishak, 2018b).

While many players in this industry are moving forward with new innovations, policies and regulations in order to improve Islamic finance as the best alternative to conventional as well as to sustain this industry in this modern financial system, it is worth to learn from basic principles of Shariah on how its rulings should be implemented. Therefore, this paper aims to explore how the principle of *tadarruj,* one of Shariah main principles and its application within Islamic finance. Since this paper provides a philosophical perspective over the concept of *tadarruj* in Islam, it may be useful for all Islamic finance players including regulators, practitioners and scholars, particularly to introduce new policies, to develop products and to expand the operation of Islamic finance industry.

2. The Concept of *Tadarruj* in Islam

Historically, Shariah rulings were not revealed at once as the process took the duration of 23 years, by involving two stages that happened in Mecca and Medina. This concept of the duration is known as *tadarruj* process. Basically, *tadarruj* refers to the gradual phases of Qur'an revelation, which descending from Jibril (Peace Be Upon Him) to the Prophet Muhammad (Peace Be Upon Him) (Al-Qaḥṭan, 2006). This process aims to ensure the rules in Islam are compatible with the current circumstance. For example, at the period of Mecca, the majority of ruling emphasized the general element of faith and humanity with regard to the reality at that time, especially when people had diverted from the Abrahamic teaching, as well as a lack of morality within society (Al-Qaḥṭan, 2006).

During the period of Medina, the rulings still occurred in a gradual approach even though most of them have been revealed and practiced in detail. For examples, during the first year at Medina, *adhan* (call for prayer), *jihad* (holy war) and the obligation of matrimonial issues such as *nikah* (marriage)*, nafaqah* (maintenance) and *walimah* (wedding ceremony) are among the Shariah rulings that have been practiced (Al-Ashqar, 2012). Subsequently, the second year has witnessed the revelation of Islamic rulings through the practices of *siyam* (fasting), *solah al-'Aydain* (Muslim prayer during Eid al-Fitri and Eid al-Adha), *zakat* (giving alms), the change of *qiblah* (direction) for Muslim from the *Bayt al-Maqdis* to the *Kaaba,* and the distribution of *ghanimah* (spoils of war) for Muslim armies. The following year of rulings including the provision of *mirath* (inheritance), *ṭalaq* (divorce), *qaṣr* (shortening the prayer) and *solah al-Khauf* (performing prayer in fear condition) (Al-Ashqar, 2012). Besides, some verses were revealed due to special cases which experienced by the companion of the Prophet (PBUH), including the prohibition of *khamr* (alcoholic drinks) (Mohamad et al., 2017). In more details, its prohibition has involved three stages of implementation: (i) indicating negative elements in alcohol against its benefits, (ii) followed by prohibiting prayer when drunk, and (iii) eventually the mandatory prohibition (Al-Qarḍāwi, 1980).

In fact, the concept of *tadarruj* aims to ensure Muslims to have the capability to follow the obligation of Shariah calmly, especially for newcomers. This indicates the flexibility of Islam in terms of fulfilling human's needs as well as achieving the wisdoms behind Shariah rulings (Zaidān, 1968). While Shariah rulings have been finalized through revelation, their implementation still needs a step-by-step approach. In fact, Shariah rulings need to be understood by the people, and their implementation must begin with the easiest adaptation, and gradually move to the more difficult stages (Al-Zuḥaylī, 2000). Thus, the concept of *tadarruj* must be continuously applied in today's era in order to ensure the credibility and relevancy of Shariah law to human's life.

3. Modern Islamic Finance: Emerging, Growing and Challenging

As a response to western capitalist banking system that had widely spread in Muslim world, particularly at the end of colonization era, many Muslim scholars and Muslim economists had proposed several theoretical Islamic banking models (Iqbal and Mirakhor, 2007). Because of conventional finance including banking sectors, insurance, and financial market are based on interest system, the emergence of Islamic finance is urgently needed. Eventually in 1963, the Mit Ghamr Saving Bank marked a successful history as a pioneer of Islamic finance institution (Iqbal and Mirakhor, 2007). The same year has also witnessed another establishment of *Tabung Haji* (Pilgrims Fund), with an idea that money for pilgrimage should be free from *riba* (Tabung Haji, n.d.).

A decade after its first appearance, Islamic finance industry has moved to a new stage, in which its institutions were able to provide comprehensive financial services. In 1975, Dubai Islamic Bank (DIB) was established, it was followed by the Faisal Islamic Bank of Sudan (1977), the Faisal Islamic Bank of Egypt (1977), and the Bahrain Islamic Bank (1979) (Ariff, 1988). Interestingly, in 1978, Luxembourg is reported to introduce its first Islamic financial institution, which simultaneously making it as a pioneer in non-Muslim countries (ISRA, 2010a).

The 1980s has marked the rapid progress of the Islamic finance industry, as many Islamic banks and takaful companies have been launched in Egypt, Sudan, Gulf countries, Pakistan, Iran and Malaysia (Ishak, 2018b). In addition, many corporations have been established to support and to promote corporation between countries such as Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) in 1990, the General Council of Islamic Banks and Financial Institutions (CIBAFI) in 2001, the Islamic Financial Services Board (IFSB) in 2002, the International Islamic Financial Market (IIFM) in 2010, and the International Islamic Rating Agency (IIRA) in 2005 (ISRA, 2010a).

On one hand, Islamic finance has proven its growth and its resilience in modern financial system as a competitive sector. Nevertheless, on the other hand, there were difficulties and failures of its institutions. Even Mit Gham Saving Bank, the first Islamic banks ended up with a failure because of the government's hostility towards Islamic identity (Iqbal and Mirakhor, 2007). Nevertheless, political support is not necessarily favorable for Islamic finance development. This can be learned from the failure of Islamic finance movement in Pakistan. Even though this movement was geared by the government, it also ended up with a failure due to many factors including no alternative model to replace the previous system, socio-imbalance economic system, lack of trust towards banking institutions, effects of globalization, and privatization of the economy of the country (Mansoor Khan and Bhatti, 2006).

Meanwhile, economic distress could negatively affect Islamic financial institutions, even its impact could be worse than conventional institutions. For example, Turkey 2001 economic crisis has devastated Islamic banking institutions, as one of them, Ihlas Bank was declared bankrupt because of a liquidity problem. Since deposits of Islamic banking institutions were not covered by a deposit insurance scheme, the bankruptcy of Ihlas caused a chain reaction towards other Islamic banks, where depositors were panic and withdraw their money; even though there were also 20 conventional banks experiencing failure during that crisis (Yanīkkaya and Pabuçcu, 2017).

Therefore, adopting Islamic finance in modern system is easier to be said than done. In fact, any effort to replace interest-based system with Islamic one must be carried out strategically. This is because todays' interest is not a business matter between individuals, since it is a complex system that strongly embedded in country financial system, including Muslim countries. While Islamic finance aims to follow all Islamic rules on finance and business activities, particularly to avoid *riba,* Qur'anic approaches in dealing with this issue should not be neglected.

4. *Tadarruj* in Islamic Finance: Case Studies

To strengthen the analysis on this topic, it is worth to explore several case studies that can be related to the principle of *tadarruj*. Within the limitation of this study, it presents two case studies as follows:

4.1 Tadarruj in riba

It is learned that the main purpose of Islamic finance is to remove *riba* in the financial system. Exploring the Qur'an and the Hadith, it can be concluded that *riba* is explicitly prohibited. Also, since the impacts of *riba* are significantly bad, Islam enlarges the circle of the prohibition: who involve with *riba*, whether directly or indirectly, are equally at fault (Muslim, 2000). Even though neither of the primary sources clearly specifies the justification beyond this prohibition, it can be understood that *riba* represents injustice and exploitation of human beings (Chapra, 2006). In more details, *riba* represents an exploitation towards overwhelming poor by a minority of the rich, as well as reflecting an unfair profit distribution between lenders and borrowers (Iqbal, 2010).

Even though the sin of *riba* is considered as among the serious one, it was not drastically banned due to its significant impacts towards individual, society, and nation. Instead, the Qur'an comes up with the principle of *tadarruj* which involves four stages as follows:

- *The First Stage: Riba Has No Blessing.*

It is argued that the first verse regarding *riba* was revealed through *surah* Rom in Mecca (Al-Ṣābūnī, 2000), as God says: And whatever you give *liyarbu* (to increase) within the wealth of people will not increase with Allah. But what you give in *zakah*, desiring the countenance of Allah - those are the multipliers (Rom: 39). This verse was revealed to Bani Thaqif, as their society were practicing *riba,* then it was followed by Quraisy society (Al-Qurṭubī, 2006). According to this verse, it is understood that *riba* would never give any positive contribution towards economic growth and social development because it has no blessing from God (Al-Zamakhshari, 2006). Even though *riba* might create some profits, but it would not truly increase the wealth. In contrast, *zakah* is recognized by God as an economic tool to raise wealth manifold (Chapra, 2006).

In terms of legal aspect of Shariah, this verse does not explicitly indicate the prohibition of *riba*, instead it merely shows that *riba* would not lead to God's reward (Al-Ṣābūnī, 2000). Even the word *liyarbu* in the verse has different interpretations among early scholars as some of them refer the term as contributing money with the intention to gain more return (Al-Ṭobarī, 1997); while others said it means giving money with the aim to show off; and another interpretation states the term as a gift with a condition of return (Al-Qurṭubī, 2006). However, this verse can be considered as an initial hint from God that *riba* would be prohibited later, because it does not bring benefits for human being. Thus, it could aim to wake the heart of Muslim from not involving with the immoral practice (Darraz, 1951).

- *The Second Stage: Banning Riba for Bani Isreal*

Subsequently, the second verse was revealed at the early of Medina period (Al-Ṣābūnī, 2000). In *surah* al-Nisa', God says: And [for] their taking of riba while they had been forbidden from it, and their consuming of the people's wealth unjustly. And we have prepared for the disbelievers among them a painful punishment (Al-Nisa': 161). Based on this verse, God severely condemns *Bani Israel* because they legalized *riba* in a form of tricky way hence enable them to own other property in a wrong way (Al-Qurṭubī, 2006). Even though the status of *riba* has been clearly mentioned in the book of *Torah*, its status has been changed by them. In fact, the Qur'an always emphasizes on one of the bad habits among *Bani Israel*: they always prohibit permissible things and at the same time, allow prohibited one, including *riba* (Al-Zuhaili, 2007). As a consequence*,* Allah has punished them by prohibiting many permissible things (Al-Ṭobarī, 1997).

In terms of legal aspect, *riba* is considered as similar to a wrongfully devour of other property. Both are threatened by God with severe punishment (Chapra, 2006). This verse clearly censures *riba,* which its context specifically refers to *Bani Israel* who practiced *riba* as a part of their financial activities. In other words, the prohibition of *riba* in this verse comes up with the approach of *talwuh*, which is an implicit meaning. Therefore, this verse still opens different interpretations because sins of *Bani Israel* did not necessarily become sins for Muslims (Al-Ṣābūnī, 2000).

- *The Third Stage: Prohibiting Riba Jahiliyyah (Late Payment Interest).*

The next verse was revealed around the second or the third year after *Hijrah* (the prophet's migration). It is considered as the third stage of prohibition (Al-Ṣābūnī, 2000). In the *surah* Āli-Imran, God says: O you who believe, do not consume *riba*, doubled and multiplied, but fear Allah that you may be successful. And fear the Fire, which has been prepared for the disbelievers (Ali-Imran: 130). In fact, this verse specifically refers to *riba jahilliyah* in which it had been widely practiced since pre-Islamic era. *Riba jahiliyyah* can be illustrated when the debt comes to be due, and creditors would give two choices to debtors: to settle now or to pay later with additional interest (Ibn Kathīr, 2008). In other words, it is a special penalty for the delay repayment of the debt. The word *adh`afan mudha `afan* (doubled and multiplied) reflects the element of exploitation in which the incapable and desperate borrowers are forced to pay more than their exact amount of debt. Thus, if Muslims fear God, they must leave this prohibited practice immediately (Al-Saʿdī, 2013).

In terms of Shariah legal aspect, this verse is clearer in terms of prohibiting *riba* because God mentions the word *'la'* which obviously means don't. Also, it specifically refers to believers whose are abided with God's orders (Al-Qurṭubī, 2006). Nevertheless, this verse is not enough to declare *riba* as absolutely prohibited in Islam, because it still can be interpreted as a practice that can only be prohibited if it leads to exploitation like in the case of *riba jahiliyyah*.

- *The Fourth Stage: The Ultimatum Prohibition of Riba*

Finally, the final revelation appeared at nearly the end of the Prophetic period (Al-Ṣābūnī, 2000). As mentioned in verse 275 of surah al-Baqarah, Allah says*:* Those who consume *riba* cannot stand [on the Day of Resurrection] except as one stands who is being beaten by Satan into insanity. That is because they say, "Trade is [just] like *riba*." But Allah has permitted trade and has forbidden *riba*. So, whoever has received an admonition from his Lord and desists may have what is past, and his affair rests with Allah. But whoever returns to [dealing in *riba*] - those are the companions of the Fire; they will abide eternally therein. And if you do not, then be informed of a war [against you] from Allah and His Messenger. Allah further says in verse 279: But if you repent, you may have your principal - [thus] you do no wrong, nor are you wronged. For this time, the Qur'an comes up with several verses about *riba,* which make the status of it as a definite clear, as God mentions that a person who involves in *riba* is equal to someone who is being influenced by Satan, since he is over-greedy to gain profit through prohibited way (Al-Qurṭubī, 2006). Subsequently, God warns Muslims who are still involving in *riba* to fear Him by leaving the practice immediately. Otherwise, God would declare war to them. This is one of the signs of a prohibited action in Islam when the action is mentioned with a threat from God (Al-Qurṭubī, 2006). Finally, these verses provide special guidelines in dealing with some related issues. Firstly, for those who have already involved in *riba*, they still deserve the principal amount of debt. Secondly, if borrowers are incapable to pay, it is suggested to extend the period. However, it is highly recommended to waive the debt.

Since these verses are very clear in manifesting the status of *riba* in Islam, not surprisingly all scholars are in consensus that *riba* is absolutely forbidden. In fact, there is no difference between small and huge amount, capable or incapable borrowers, as far as it is a loan begets an advantage, it is considered as *riba* (Ibn Qudāmah, 1997). To conclude, it is understood that the prohibition of *riba* took gradually, in which this approach seems to be similar with the ban of *khamr* (alcohol). In fact, both significantly cause negative towards individual, family, society and country. It is interesting to note that the final verses of *riba* are argued by some scholars as the last verses of the Qur'an (Al-Qaḥṭan, 2006). Thus, it should be learned that dealing with *riba* issues need to be pragmatic and strategic, particularly when it has long been practiced as a tradition or embedded as a system. Even though the Shariah rules have been finalized in terms of revelation, their implementation still needs a step by step approach (Al-Zuḥaylī, 2000).

Even though there are limited studies regarding the concept of *tadarruj* in Islamic finance, it has been already applied as a *fatwa*. For example, in 1980s the majority of Muslim jurists urged Muslim employees in conventional banks to find alternative work for the sake of an income 'clean' from *ribā*. However, establishing a Shariah-compliant substitute for interest-based banking requires skilled personnel. Therefore, at a time when Islamic banks had not been established, or were extremely rare, other scholars preferred to advise Muslims who had qualms about their involvement in banking to make the intention to sharpen their technical knowledge, in order later to apply it in Islamic banks (Laldin et al., 2013).

4.2 Islamic Banking Development in Malaysia

It is argued that Malaysia represents among the leading countries in Islamic finance industry. With 16 Islamic banking institutions competitively operating in the country, representing almost 22% of the total national banking sector, this country is recognized as one of the largest Islamic banking industries in the world. Moreover, it is claimed that Malaysia is the first country that establishes the Islamic Inter-Bank Money Market (IIMM), the fully-fledged Islamic stock broking company, the corporate Sukuk (Islamic Bond) and the Islamic Unit Trust (Shaharuddin, 2012). However, all of them could not be achieved without appropriate approaches carried out either by the government and Islamic finance players, particularly to gradually apply Shariah elements into this industry. In this regard, two aspects of Malaysian experience can be studied as follows:

- *The regulation framework*

It is learned from the failure of 1980s Islamic finance reform in Pakistan that a comprehensive alternative system of finance is crucially needed in order to replace the conventional one. Banning interest in complicated financial system would not be successful merely through political slogan (Mansoor Khan and Bhatti, 2006). Instead, alternative regulations are crucial for establishing and sustaining Islamic finance industry. Since Islamic finance practices are considerably different than the conventional, the former needs a special regulation (ISRA, 2010a). In more details, since Islamic products are based on sales, lease, partnership, and they must be free from *riba, gharar,* and *maisir,* they could not efficiently operate under conventional banking laws.

In this regard, it can be learned how the regulation of Islamic finance in Malaysia has evolved to facilitate this industry. At the beginning, Islamic finance is regulated under Islamic Banking Act 1983 (IBA), the Takaful Act 1984, the Banking and Financial Institutions Act 1989 (BAFIA). Nearly after two decades later, all of these acts were replaced by Islamic Financial Service Act 2013 (IFSA). IFSA was introduced as a comprehensive legal framework that is consistent with Shariah in all aspects of regulation and supervision, from licensing to the winding-up of an institution (Yusof, 2017). Also, this framework explains in detail the stakeholders' scope of duties and their responsibilities, which helps Islamic financial institutions to achieve the objective of Shariah compliance (Laldin and Furqani, 2018).

Based on this process, it shows the government of Malaysia has considered a gradual approach in developing the regulatory framework for Islamic finance. It took 30 years since its first institutions to provide a comprehensive framework for Islamic finance in this country. This approach is in line with the principle of *tadarruj* in establishing Shariah rulings to ensure they are applicable. In regard with Islamic finance, *tadarruj* in introducing its regulatory framework is vital to ensure sustainability and competitiveness within this industry. As result, today Malaysia is claimed to be among the most regulated model of governance for Islamic finance (Ahmad and Ishak, 2020).

- *Tightening* Shariah *requirements*

Adopting Shariah rulings in modern financial system is very challenging, particularly at the beginning of Islamic banking industry. As a result, so-called controversial practices were preferable as Islamic financial instruments. For example *bay' al-Inah* which is known as selling an item for a delayed payment, then buying it back at a lower price in cash (ISRA, 2010a). In practice, *bayʿ al-ʿInah* is utilized both as a direct financing between Islamic banks and their customers and as a combination with other contracts like *Bay' Bithaman Ajil* (BBA). In terms of Shariah status, *bayʿ al-ʿInah* has received fierce criticism from both classical and contemporary Muslim scholars. While the majority of scholars rejected this contract by claiming it as a trick of *riba*, some early scholars like Ibn ʿUmar, Abu Yusuf, Shafiʿis, and Zahiris allowed this contract (Lahsasna, 2014). As for modern discussion, the International Islamic Fiqh Academy (IIFA) through its resolution has rejected *bay' al-Inah* from becoming part of financing instrument in Islamic banks (IIFA, 2006). Another organization that takes a similar view to IIFA is AAOIFI (AAOIFI, 2010). As a result, this contract was not allowed in the Middle Eastern countries. Nevertheless, Shariah Advisory Council (SAC) of Bank Negara Malaysia has come up with a different approach by allowing *bayʿ al-ʿInah* for Islamic banks in Malaysia. This decision was justified with the general verse of permitting *bayʿ* (sale) in the Qurʿan, as well as the view of early scholars who allowed this contract (BNM, 2010). In the early Islamic banking history in Malaysia, it is argued that *bay' al-Inah* has dominated as a financial instrument. With many restrictions in terms of regulation, *bay' al-Inah* became an efficient instrument to provide liquidity for Islamic banks (Fairooz et al., 2015). Nevertheless, over 20 years, BNM has gradually tightened the parameters of *bay' al-ʿInah* to ensure it strictly follows the view of al-Shafie, particularly on the requirement for both contracts of sale as must be executed separately. It is claimed that this approach has successfully encouraged Islamic banks to replace this instrument with other less controversial products (Ishak, 2019).

The review of Islamic deposit could be another example of the application of *tadarruj*. At the early stage of Islamic banking in Malaysia, most of its institutions offered deposit services based on the contract of *wadi'ah* (safekeeping). However, practically, it is different from the original concept of *wadi'ah* in which the custodian (Islamic bank) is entitled to use depositor's money, with the condition of immediate return when it is requested as well as the money must be guaranteed. At the same time, the Islamic bank can give *hibah* (gift) based on its discretion to its depositors. This in fact should be allowed as far as the *hibah* is not being bound by the contract. These elements change the concept of *wadi'ah* into *wadi'ah yad dhamanah* (guaranteed safekeeping), which it should be treated as *qard* (loan) from depositors to Islamic banks (Lahsasna, 2014). It has become a popular instrument not only for Islamic banking institutions, but also other saving institution like Tabung Haji (Tuan Badrul Hisyam, 2018). Over the period, it is argued that giving *hibah* to depositors has become habitual and be justified as *maslahah* (public interest) in respect of the progress of Islamic banks (Lahsasna, 2014). As a response, in 2018, BNM has issued a special guideline on *qard*, which requiring Islamic banks from not using the words *wadi'ah* or *wadi'ah yad dhamanah* for deposit products that are structured based on *qard*. Moreover, Islamic banks must ensure that the *hibah* information must be based on the actual *hibah* rate. Also, Islamic banks must provide a clear disclaimer that a customer may or may not receive any *hibah* for *qard* deposits. In addition, they must avoid from providing historical *hibah* in which it is referred as an indicative or prospective rate of return (BNM, 2018a). The element of *tadarruj* can be identified when BNM has provided an opportunity for Islamic banking institutions to strengthen Shariah aspects on their deposit products before it is tightened with a special regulation.

Lastly, is the case of the expenses of *rahn* (pawn), one of Islamic financing instruments provided by Islamic financial institutions. It is understood that this instrument combines three main contracts, namely *qard, wadi'ah yad damanah*, and *ujrah* (fee). As for *qard*, it represents the core service of this product or a loan provided for a customer. At the same time, the customer pawns his or her item as collateral under the concept of *wadi'ah yad damanah*. Finally, *ujrah* is imposed as a special fee for safekeeping the item. In Malaysia, *rahn* products are not only limited through Islamic banking institutions, as they also cover other institutions including socio-economic institutions and companies (Sharif et al., 2013). Over the period, many studies have found that *rahn* products are more attractive and charitable in comparison with conventional pawn (Nor Surilawana et al., 2014). While it is undeniable for the role of *rahn* in socio-economic development to provide an immediate financing service, there was Shariah issue regarding its *ujrah*. Even though the *ujrah* does not directly belong to the loan given in conventional pawn, it is unclear about how this *ujrah* is charged. In practice, the safekeeping charge has been calculated based on the certain percentage according to the value of the pledged item. In more details, this charge could be daily or monthly basis until the settlement of the debt. Thus, the *qard* provided through *rahn* has argued to contain the element of *qard jar naf'an* (loan which begets an advantage), which is classified as part of *riba.* As a result, in 2018 BNM has issued a new policy regarding the practice of *rahn.* The policy has clearly mentioned that any charge imposed to customers must be based on the cost of safekeeping, not the percentage. To be precise, it must be based on the expenses incurred directly to the maintenance of the pledged item. These include safekeeping cost, documentation, liquidation and discharging of collateral. While the change of BNM's decision could also be understood as the change of *ijtihad* (deductive process to produce rulings) because of the different circumstance, the concept of *tadarruj* is applied since BNM has provided some space for Islamic banking institutions to revive its practice on *rahn* (BNM, 2018b).

5. Conclusion

In general, it is unanimously agreed by scholars that rules and practices in Islam lead to human well-being, known as *maslahah* (public interest). This element represents the essential elements of human's life, including the exercise of one's livelihood, and the development of the emotional and intellectual qualities needed to live an effective life (Al-Shāṭibī, 2004). In other words, what is permitted would bring benefits for humans while in contrast, what is prohibited would cause harm. In this regard, Islamic rules are purposive in nature, which precisely serves particular purposes that are either explicitly present in, or can be derived from, the fountainheads of the sources of Shariah (Adis, 2014).

Nevertheless, at the stage of implementation, many aspects need to be considered particularly on how far a rule can achieve its objective in the real circumstances. The outcome of the rules occasionally could be different from its original objective. In more details, while a permissible practice should originally intend to bring *maṣlaḥah*, its implementation in certain situations could lead to *mafsadah* (harm) (Ishak, 2018a). Also, even though a prohibited action should originally cause *mafsadah*, total banning would also bring to similar or greater *mafsadah.* In this regard, it is crucial to consider the consequences of any rule in an actual situation before the rule can be fully implemented (Al-Shātibī, 2004).

In regards with interest which represents the meaning of *riba*, it is undeniable that it has caused harm for individual, society, country and humanity. Even though interest might bring *maslahah* in terms of profits in some respects, their *mafsadah* are more dominant in terms of exploitation, injustice and disputes. Banning interest does not only capable to stop unfairness and exploitation, rather this can encourage risks through business and financial activities among people (Zaman et al., 2018). Nevertheless, efforts to replace conventional finance are easier to be said than done. This is because, over the period, while Islamic finance has experienced a dramatic growth, there were difficulties, challenges, loss and even failures throughout its operations.

Therefore, it is crucial to establish and to implement Islamic finance pragmatically and strategically through the concept of *tadarruj*. By exploring the Qur'anic verses regarding *riba* issues, the banning of this sin took several stages which include various types of approach. Based on this lesson, it should be understood that the concept of *tadarruj* must be considered in order to establish and sustain Islamic finance as an alternative financial practice. These include the implementation of any rules as well as the improvisation of the current practice towards more Shariah compliant. In Malaysia, it is found that the element of *tadarruj* has been considered by the Government and regulator through the methods to introduce the first Islamic bank, to improve the regulation framework of Islamic finance, to tighten the regulation of *bay' al-'Inah*, to re-consider the Islamic deposit schemes and to revive the expense of *rahn*.

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Mobile Money as an Effective Financial Tool in Underdeveloped Countries

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Abstract

The available literature has shown that a lot of people in underdeveloped countries do not fulfill the criteria needed to benefit from banking facilities. As a result, the lower segment of these societies has been deprived of basic financial services and left with vulnerable traditional methods of saving and transacting using funds. Fortunately, innovative ideas like mobile money were introduced in the first decade of the 21st century, allowing people in poor countries to access essential financial services and conduct basic transactions in a more advanced and secure manner. This study thus aims to establish mobile money as an effective and Shariah-complaint substitute for banking services particularly in underdeveloped countries. It would do so through the qualitative research method of analysing the relevant materials on the subject matter i.e. books, journal articles, research papers, websites, etc. The study has found that although the presence of mobile money has brought about various benefits to underdeveloped communities, issues that are regulatory, service, or security-related have impeded the service from realizing its true potential. Nonetheless, the study has shown that these issues may be countered by introducing the right measures, which include regulatory reformations, service enhancements, and awareness-building. Such measures would empower members of underprivileged communities and integrate them into the financial industry, which in turn would greatly contribute to their countries' socio-economic welfare.

Keywords: Mobile money, Islamic finance, Islamic banking and economics, financial services, underdeveloped countries, Shariah compliant

1. Introduction

The practice of banking is said to have begun sometime between the 3rd and 4th millennium BCE (Luhmann, 2005). Temples in the Babylonian state, which was founded around 2000 BCE, offered safekeeping services to local inhabitants with gold as well as lending facilities through issuing grains, whose harvest would be regarded as the accrued interest (Orsingher, 1967). Fast forward to contemporary times, we see that major financial, regulatory and structural developments have been made to banks as well as other financial institutions. Likewise, the scope of their functions has expanded from merely collection deposits and offering loans to include investing in projects, trading assets and managing liquidity, to name a few.

However, it seems that in modern times, banking services have not been made available or, rather, do not effectively serve the needs of members of the lower class, which make up the majority of the population in underdeveloped countries (Kazeem, 2018). As a result of the unfortunate financial circumstance of members of the said class that survive off their day to day earnings, the notion of having a bank account and entrusting the institution with safekeeping their limited funds is regarded unnecessary. In response to such a situation, a number of vibrant local and foreign players timely introduced an alternative referred to as 'mobile money'. They have set-up services that were previously not available to the lower segment of the society, allowing them to walk around carrying virtual money like bank card holders.

This alternative has introduced bank-like facilities that have benefitted much of the population in underdeveloped countries, particularly those in Africa. The study therefore aims to explore the concept and

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features of mobile money and highlight a number of existing models as well as their modus operandi. In addition, the study also aims to identify pertinent issues and challenges related to the said service and, thereafter, propose a number of recommendations that would enhance and maximize the service's usage so as to have it established as a viable alternative to banking facilities, mainly for the majority, lower class in underdeveloped nations.

2. Literature Review

2.1 Defining Key Terminologies and Historical Development of Mobile Money

World Remit (n.d.) fittingly defines mobile money as "a technology that allows people to receive, store and spend money using a mobile phone". It is said to have first been introduced in the Philippines in 2001 through a partnership between the tech company Smart Communications and the Makati-based bank, Banco de Oro. The mobile money service provider (herein referred to as MMSP) was called 'Smart Money' and was aimed at penetrating bank-like services to areas in the Philippines that were void of them and to people that did not have access to them (Hasnain et al., 2016). In essence, this particular technology or service has created a mobile platform that allows individuals – more so in lesser developed nations – to conveniently and securely conduct fundamental monetary transactions, such as transfers and withdrawals through a mobile phone.

Furthermore, Jalakasi (2019) states that developments to the graphical user interface experience and the efficient integration of mobile money has brought about a more advanced version of the said service, which is referred to as mobile money 2.0. Similar to mobile money, online banking – the online platform of a bank that also operates physically – and digital banking – whose entire platform and operations solely exist online – also offer financial services that may be done through the mobile phone. However, in contrast to online or digital banking, mobile money, as mentioned by Jalakasi, does not require the sender or the recipient to create or own a bank account in order to conduct the aforementioned transactions.

The study will demonstrate that despite the shortcomings within the relevant infrastructures – particularly legal and financial – across lesser developed regions, several MMSPs have effectively operated the service through sheer effort and determination. Moreover, previous researches have pointed out that besides willpower, in order for underdeveloped countries to flourish, their respective leaders need to ensure that there are adequate avenues for the constituents to raise capital for their entrepreneurial projects and make investments (The One Brief, n.d.). Kwemo (2017) adds that incumbent initiatives such as free regional trade and investment in the manufacturing sector would increase the prospect and potential for essential collaborations within the African continent, which, according to the World Trade Organization, currently stands slightly above 10%.

Thankfully, with the help of disruptive organizations in recent times, mobile phones have been and continue to be used as a better alternative – if not the best – mechanism to resolve major economic and financial issues in underdeveloped and developing countries, such as providing banking services to the unbankable and relevant health information to local inhabitants during health crises (Kelion, 2014). Additionally, it is worth pointing out that certain entities have offered the service beyond their localities i.e. on an international level. This only goes to show the lengths to which the innovation has stretched.

With the basic concept and historical development of mobile money explained, the study will now delve into and elaborate on a few existing mobile money models to further expand on its specifics and modus operandi. Thereafter, it would look into the Shariah position on the service, which would be followed by a discussion on the issues and challenges, as well as advantages/benefits of the service. Finally, before concluding, the study would propose a list of recommendations that would potentially develop and enhance the regulatory framework, user experience and scope of operation of mobile money services in underdeveloped countries, which in turn would significantly improve their overall socio-economic reality.

2.2 Case Studies of Mobile Money Service Providers

The case studies that would be presented below would consist of Mobile Money Service Providers (herein referred to as MMSPS) that predominately operate in the African region. They are M-Pesa, Orange Money and MTN MoMo. The discussion would mainly include their origins, extent of operation in different countries as well as scope of services.

2.2.1 M-PESA

Aron (2018) explains that the MMSP introduced in 2005 known as M-Pesa was the outcome of a collaborative effort between the Kenyan government and Vodafone subsidiary, Safaricom. M-Pesa is currently holding the largest market share (65%) of the mobile money market in the said country, has seen exponential growth, reaching over half a billion USD in revenue in 2017 (FSD Kenya, 2013). In the said country, all MMSPs are regulated by Kenya's National Payment System Act and generally overlooked by the country's Central Bank to ensure prudent conduct and customer protection. The act requires that the net deposits of customers of a particular MMSP must strictly be kept as non-investable trust funds in recognized banks. During the earlier periods of M-Pesa's operations in Kenya, the government had granted it exclusionary rights over agency operations, however, in 2014 it paved a way for other retail and wholesale operators to act as agents (Aron, 2018).

M-Pesa, which has operations in over 90 countries, mainly thrives in the Eastern and Southern regions of Africa. In order for customers to use the mobile money services on their mobile phones, they would simply need to purchase a Safaricom SIM card and, thereafter, use their identification cards (IC) to activate the said service at the nearest retail agent outlet. This would create for them an account that allows them to top-up e-money on their phones, transfer it or make payments to others, or convert it into cash. The service is considered instant with a cost that is efficient (ranging from 0.16% – 20%) and limited to a transfer and withdrawal fees – as opposed to a top-up fees (Aron, 2018). An amazing feature of M-Pesa's payment service is its integration with a wide range of utilities in the country, allowing for both, offline and online transactions like the payment of bills through simple SMS and online shopping through opting it as the chosen means of payment, respectively (Adyen, 2019).

Moreover, beyond the mere transfer or payment of funds, M-Pesa provides a list of other utilities to its mobile money customers, such as remuneration payment services for the government and other commercial entities to their clients or employees (under the name M-Shwari), penalty, fine, levy, permit, bill services and public transportation payment services. Additionally, it provides fixed and unfixed deposit schemes, micro-loan services (under the name M-Tiba), as well as low cost, cross-border fund transfers/payments in collaboration with key partners, such as MoneyGram and Western Union.

2.2.2 Orange Money

Another MMSP that is currently operating in 7 countries – most of which are in West Africa – is 'Orange Money' (Orange, n.d.a). Launched in Ivory Coast in 2008, Orange Money is considered another mobile money giant operating in most regions of the African continent (Orange, 2018). Similar to M-Pesa, its services allow for fund deposits and withdrawals as well as imperative remittances, such as bill payments, donations and international transfers along other services. While some orange mobile money networks in countries have unique features, they all commonly allow their local customers to conduct international transfers to countries where the orange network is available. In the Republic of Mali, for example, Orange Money customers may transfer up to 1 million FCFA to neighbouring countries, such as Niger, Ivory Coast, Senegal, Guinea, etc. (Orange, n.d.b).

Equally, in the Republic of Guinea, the said users may transfer a maximum of 30 million GNF per day or receive a maximum of 10 million GNF for fee-based services from the aforementioned countries in addition to France. The transfer fee is fixed at 1,000 GNF (Orange, n.d.). And so, it may be seen that mobile money has done well in countries that are heavy on cash-based transactions (Aron, 2018).

2.2.3 MTN MoMo

Founded in 2009, under the then CEO of Ghana's MTN operations, Brett Goschen, the particular MMSP today has reached over 14 million users, partnered with over 19 tech, financial and humanitarian institutions, and operates in 15 African countries; some in the West, such as Ghana, Guinea and Nigeria and others in the East, such as Rwanda, Uganda and Zambia (MTN, n.d.). In response to the rapid increase in its user base, the said service provider employed over 100,000 employees as agents and promoters of the service. Apart from the essential financial services MTN MoMo provides, it also allows for its customers to pay school fees and staff salary, purchase government bills, insurance policies and travel tickets and shop (Zaney, 2020).

Similar to both of the earlier mentioned MMSPs, MTN MoMo enabled international transferring of funds through collaborating with partners, such as Western Union and WorldRemit; an online platform dedicated to transferring funds from across numerous regions in the world, particularly the Middle East, Africa, Asia, Europe, etc. It has plans in the near future to allow for 'People to Government' and vise-versa transactions, which would facilitate and enhance relations between entities that operate in the country and the government, in relation to tax payments and other relevant monetary dues. The said MMSP has also offered its resources to Ghana's local police force as a means to enhance cyber security and reduce identity fraud (Zaney, 2020). And so, it is quite evident that this MMSP, similar to the earlier ones, has greatly contributed to the communities in which it operates.

3. Methodology

This study adopted a qualitative research methodology. The qualitative method of content analysis utilized throughout the paper were content analysis and case study research. In relation to content analysis, reference was primarily made to books, journal articles, research papers, government legislations, organizational reports, and webpage resources. Similarly, for the case study researches, the information garnered were from the abovementioned on and offline materials.

In essence, therefore, it is understood that the methodology adopted in this study is one that is qualitative in nature, and that the primary methods of data analysis were content analysis and case study research.

4. Shariah View on Mobile Money

Before delving into the advantages and benefits of mobile money, the study intends to draw out the Shariah's perspective on the financial tool. To begin, there are numerous verses in the Quran that call Muslims to enjoin good and forbid evil. For example, it is mentioned in the Quran that, "You are the best nation produced [as an example] for mankind. You enjoin what is right and forbid what is wrong and believe in Allah (Quran, 3: 110). Similarly, another verse reads, "And cooperate in righteousness and piety, but do not cooperate in sin and aggression" (Quran, 5:2). It therefore follows that traits which promote goodness and righteous unity are highly encouraged to be adopted while those that produce the contrary are to be discarded.

In relation to the mobile money, which falls under the discussion on trade and finance, the general Islamic ruling is that all trade is regarded permissible in Islam expect for those, such as *riba* (usury), for which there is a specific prohibition against (Quran, 2:275). Scholars have used this verse and other similar ones to establish the Islamic legal maxim that reads, "Originally things are considered permissible until they are prohibited" (Jaapar, n.d.). Seeing that there are no specific legal texts that speak on mobile money and its operations, we therefore need to look into the said service's salient features and operations to determine whether or not it goes against any of the Islamic legal maxims related to Islamic finance. The 3 main aspects of mobile money that are of concern or relevant to Islamic finance are the transaction fee, underlying function or service, and lastly, *Maslahah* or public benefit.

In regards to the fee and services, we know – from having looked into the fundamental operations of M-Pesa, Orange Money and MTN Momo – that the fee MMSPs impose on their customers is mainly for the service of fund transfer, whether done through an agent or a smartphone. This, consequently, falls under the Islamic finance discussion on *wakalah* (agency) which is a concept that is not only recognized by the Quran and *Ijma* – jurists in consensus – but also considered recommended based on *ta'awun* i.e. enjoining good (Islamic Markets, n.d.).

It's worth noting as well that mobile money is merely an instrument – similar to online banking – that essentially facilitates the depositing, transferring and withdrawing of funds with the help of agents. Thus, seeing that its core services do not contravene the Islamic principles – despite its more advanced services, such as conventional insurance and loans, having the potential to do so – and the fact that it has now given bank-like facilities that were previously not available to members of the lower-class, we may say that the *Maslahah* or public benefit that it has produced is considered magnificent. In summary, with mobile money essentially being a pioneering service that is usury-free, and benefits, especially, the lower-class members of underdeveloped communities, it is considered permissible.

5. Findings and Discussion

5.1 Advantages and Benefits of Mobile Money in Underdeveloped Countries

From the brief case studies presented above, numerous benefits have resulted from the employment of mobile money. These benefits could concisely be elaborated on under several headings, namely, ease of access to services, ease of access to finance, and convenience and utility of usage.

5.1.1 Ease of Access to Services

This particular trait offered by MMSPs has almost – if not completely – overshadowed banks in that the fundamental functions of a bank, being to provide its customers with the means to deposit, withdraw and transfer their funds, are now accessible without a bank account, but instead an ordinary smartphone. Additionally, as opposed to banks that require the establishment of financial institutions in multiple branches, MMSPs work within a conglomerate of agents that are able to operate with minimal staff and facilities (Sadana et al., 2011; Aron, 2018).

In support of the abovementioned point, in underdeveloped countries it is often the case that ATM machines are scarce and, therefore, limited in terms of access and liquidity. This serves as a major deterrent for the lower class in such countries. Luckily, with the overwhelming majority of the population having in their possession a mobile phone and the wide availability of mobile money network agents to provide the relevant services, the issue of fund depositing, transferring as well as withdrawing is considered to be resolved. In addition, some MMSPs, such as M-Pesa have managed to utilize mobile money with ATM machines (Muhammed and Kassim, 2015). This way, customers are able to deposit, transfer and withdraw funds between their phones and ATM machines without bank accounts and in the absence of network agents.

Furthermore, on the discussion on ease of access to services it should be pointed out that internet data is considered far pricier in underdeveloped countries compared to developed ones. Mobile money provides a solution that does away with the need for internet access. It has done so by allowing customers to send out SMS' that enable them to receive and send funds they require simply through text messaging. It's also worth adding that although digital and online banks are generally more advanced than mobile money establishments in terms of ease of access and interface usage, the fact remains that they, unlike mobile money operations, are dependent on internet facilities. Therefore, it is quite evident that mobile money services are more suited for underdeveloped countries, where internet packages are relatively more expensive.

5.1.2 Ease of Access to Finance

Aron (2017) writes that mobile money has partially incorporated or included previously non-included persons into the formal sector. This alternative form of inclusion into the financial sector offers similar traits of full inclusion as well as those that go beyond it. The example that Aron gives is that of micro-loans, seeing that this formal method of inclusion barely offers micro-entrepreneurs with the financial support that is required for the success of their projects. However, with the backdoor approach (i.e. mobile money), entrepreneurs, small businesses as well as fundraisers (e.g. crowdfunding platforms and others) would be connected to a much wider pool of potential investors (Haas et al., 2010).

5.1.3 Convenience and Utility

The convenience of the said service, as previously stated, is owing to the simplicity of its usage. We have mentioned earlier that the depositing, transferring and withdrawing of virtual funds has been made possible through the simple act of texting and with the help of widely available agents/shops that offer the said services. The fact that street vendors as well as store owners adopt and have trust in the service would mean that transactions are generally concluded more efficiently whether on a peer-to-peer (P2P) or merchant-to-merchant (M2M) basis. Furthermore, as also highlighted, some of the existing MMSPs, such as Safaricom's Lipa and M-Pesa, have provided utilities that allow for bulk and automated payments to settle matters such as staff salary and bill payments, respectively. This mechanism would greatly assist businesses or entrepreneurs that are currently un-bankable in settling their dues with other entities through a facility that strongly resembles that of legitimate financial institutions.

Apart from offering a bank-like facility to merchants, other employed and unemployed individuals – particularly members of the middle and lower class – are given a secure avenue to store the relatively little that they earn or are given, which in turn would potentially reduce levels of theft and loss of funds (Sadana et al., 2011; Muhammed and Kassim, 2015). Each mobile wallet is secured with a verification code or PIN that only the owner of the account is to know. For example, Orange Money requires a 'secret code' from the owner of an account at the end of every mobile transaction. To ensure further security, it also blocks the account upon 5 incorrect entries of the 'secret code' being made until further proof of ownership is provided (Orange, n.d.c).

Apart from the above-mentioned mobile money services, other countries have also introduced the said service within and beyond their localities. Examples of these would be Nigeria's 'OPay', Bangladesh's 'bKash', Malaysia's 'Mobile Money International Sdn. Bhd' as well as China's 'Alipay' & 'WeChat Pay'. Whereas they all share a common goal, some of these MMSPs have enriched and maximized the facilities available to their customers. PayCom's OPay is as an example of an MMSP that enhanced its mobile money services by creating a bank account for its users. This way, its customers would conduct banking operations under PayCom as their bank and their mobile phone numbers as their bank account number (Aveni and Roest, 2018; Idris, 2019; bKash, n.d.a.; Mobile Money International Sdn Bhd, n.d.).

In essence, we observe that while some MMSPs are considered more advanced than others in terms of the range of services offered, user-friendliness of interface and/or security, their common aim to provide their customers from all corners of the world with a convenient, secure, low-cost and efficient method of transferring funds, and purchasing goods and services from individuals and commercial entities. The increase in circulation of money in society through mobile money contributes to its welfare and calls for the setting up of more service agents, which means more job opportunities are necessarily created because of it (Muhammed and Kassim, 2015).

5.2 Issues and Challenges of Mobile Money in Underdeveloped Countries

Despite the numerous advantages and benefits that mobile money has brought about, the said service cannot be said to be void of standing issues. The issues in particular are in relation to regulation, scope of service and, lastly, security. Thus, they would be discussed accordingly.

5.2.1 Regulatory Issues

Perhaps this issue was raised in the mind of the reader early on. It is understandable that the shifting of control over financial service providers from a country's established banks to its telecom providers may be a major concern. In response to this, numerous countries have ensured that their MMSPs operate in compliance with specific legislations. For example, Malaysia's Mobile Money International Sdn. Bhd. has been authorized by and is required to operate in accordance with two of the country's legislations, namely, the Financial Services Act 2013 and Money Services Business Act 2011; while the former allows the said company to issue e-money, the latter authorizes it to provide remittance services (Mobile Money International Sdn Bhd, n.d.).

Similarly, looking at Kenya's M-Pesa as well as other MMSPs in the country we find that they are governed by the National Payment System Regulations 2014 under the National Payment System Act. As stated before, the said Act strictly requires all MMSPs to place their customers' net deposits in prudential banks as trust funds that are solely intended to be kept safely and not invested.

Apart from local regulations, international anti-money laundering and anti-terrorist financing bodies, such as the G7's Financial Action Task Force (FATF) were called upon to look into M-Pesa's operations. The Force found that it had fulfilled the free-corruption and free-money laundering requirements; however, research has shown that M-Pesa often faces difficulty in trying to catch up with FATF's constant legal updates (Aron, 2018).

And so, as pointed out by Aron, we see that even upon resolving local issues, other international alarms may be brought up against lesser developed countries that have weak financial and regulatory infrastructures that do not comply with the international standards of indemnification and other security measures. These issues would therefore obstruct such countries from benefitting from the service to its fullest.

5.2.2 Service-Related Issues

In addition to the regulatory issues, the inefficiency and limited scope of the services provided by MMSPs in undeveloped countries is considered another set of issues for numerous reasons. Firstly, the inflated usage of mobile money services coupled with the poor network connectivity and speed that exists in the said localities often clogs the network and, consequently, disrupts the flow of mobile transfers. An example of this would be M-Pesa's services, which, despite being regarded as an advanced MMSP, has seen an increase in customer complaints over transaction failures (Aron, 2018).

Another service-related matter that MMSPs often struggle with resolving is indemnification. Indemnification is known as the act of effecting restitution in favour of an aggrieved party. Sadana et al. (2011) mention that in relation to mobile money operations, indemnification is needed in instances where there is either, as mentioned before, a system failure that impedes a transaction, a customer error in which the funds are sent to a wrong person, or an occurrence of fraud or theft from the customer's mobile wallet. When such instances come-about in a banking environment, banks readily have in place defined protocols to speedily rectify the matter and undo the damage. The same writers add that even in situations where the funds can no longer be recovered, there are policies that require banks to make up for the lost or stolen funds which is highly unlikely the case for most – if not all – MMSPs.

Lastly, the inefficient coordination between MMSPs and banks in terms of cross-checking and verification often results in unnecessary lags in concluding mobile transactions. This may be considered the main reasons as to why the scope of services offered by most MMSPs is limited to basic financial services like transfers and withdrawals. In contrast, we find that in a country like China that has a better financial infrastructure, MMSPs there, such as AliPay and WeChat Pay, have made bank account ownership a perquisite to using the mobile money services. Nonetheless, their decision to do so is regarded reasonable considering two factors; firstly, that there is a much higher rate of financial inclusion within their societies compared to those in other underdeveloped regions and, secondly, their ultimate objective in operating mobile wallets is to get users 'hooked' on the variety of services they have to offer in a single app (Aveni and Roest, 2018).

And so, by comparing China's mobile money services with other MMSPs in lesser developed countries, it is clear that the former's MMSPs offer the mobile money services simply as a means to an end rather than an end in and of itself. Furthermore, it is also evident that the current environment in most – if not all – underdeveloped communities is not conducive enough to introduce advanced mobile money services like financing and investing, amongst others. Such barriers have urged banks that are currently collaborating with MMSPs in these countries to come up with alternative institutions or means to resolve such issues that raise concerns over the reliability of mobile money and push the masses away from the much-needed tool (Sadana et al., 2011).

5.2.3 Security Issues

The third major issue that may be pointed out is security. The security concern raised here is mainly about the usage of mobile money to conduct fraud or other illegal transactions. This is considered a lethal matter for several reasons. Firstly, unlike bank transfers, mobile money remittances, especially in underdeveloped countries, may be done anonymously, whether due to unverified or stolen ID registrations, and are therefore much harder to trace. Secondly, money launderers and illegal goods traders are well aware of the policies set-up to detect illegal transactions. And so, to minimize the chances of them being caught they ensure their operations remain below the radar. One way they do so, as mentioned by Whisker and Lokanan (2019), is through practicing what is known as "digital smurfing," which is the breaking down of transfer amounts into smaller fractions and dispensing them through a group of individuals so as to avoid red flags.

In addition, the fact fraudsters are now able to convert their stolen cash into digital currency and transfer them at once to third parties has given them an invincibility advantage (Gow and Parisi, 2009). And finally, cross-border fund transfers also have a hand in complicating the tracing, recovering and extinguishing of such criminal activities due to prosecution restrictions (Williams, 2013). This is especially when the said transactions involve underdeveloped communities with poor legal infrastructures to deal with these matters. Therefore, we see how mobile money may be perceived as the new black market except it is legally recognized by governments.

6. Recommendations

With the prevalent issues and challenges laid out, the study now proposes a number of measures that may be adopted to develop and enhance the practice of mobile money in underdeveloped countries. These enhancements are in relation to regulation and security, user-friendliness and scope of services, and lastly, awareness and confidence. Thus, they would be elaborated on accordingly.

6.1 Enhancement of Regulation and Security

Numerous studies have shown that the first step in enhancing the practice of mobile money in underdeveloped countries is the development of the legal and information technology (IT) infrastructures to promote security. This would specifically be done through adopting the measures mentioned below.

Firstly, is to legislate on effective verification mechanisms to rid the system of anonymous and illegitimate users. Whisker and Lokanan (2019) have written that initiatives like imposing a limit on transaction volume and frequency are effective tools for monitoring or controlling user operations. This in turn facilitates the tracking of unusual activities. Furthermore, other writers have suggested the corresponding of user experience with the amount of verification data he/she is willing to provide the service provider (Chatain et al., 2011). This would mean that a user's access to the available services would be restricted to the basic mobile money services unless they offer the information needed to affect proper due diligence and Know Your Customer (KYC) compliance. In addition, Murray (2010) also states that the involvement of mobile money operators and experts in developing the relevant regulations for the said industry would increase in its soundness and efficacy. Finally, on the point of verification, it goes without saying that it is incumbent that every MMSP headquarter sets up a body that effectively verifies the details and monitors every transaction.

Moreover, apart from effective verification mechanisms, legal measures that restrict the amount of funds carried by agents – for deposit and withdrawal purposes – must also be introduced. As of now, it is only customarily upheld that agents do not carry beyond a specific amount. Nonetheless, since MMSPs do not have the same level of security as bank operators, in order to ensure the safety of the said operators against robbers, a cap on the amount of funds to be held on a daily basis ought to be legislated provided there are sufficient agents available in all areas.

In addition to the above propositions, it is also necessary that regulations legislate on the issuance of virtual mobile money transaction receipts, which stand as the sole proof of transaction for customers. One good example of this practice could be seen in Malaysia, where all MMSPs are legally mandated to issue verifiable receipts to their mobile money customers (Mobile Money International Sdn. Bhd., n.d.). Another example would be Australia which has placed MMSPs' operations in the country under government supervision and required them to submit reports to the relevant authorities. The consistent reporting and system updating would assist local authorities in pointing out violators early on, as has been the case in Ghana with MTN Momo (Rocket Remit, n.d.).

Lastly, on the legal and security-related recommendations, governments need to ensure that there exist regulations maintaining a minimal service charge. Concerns have been raised against certain MMSPs regarding their service charge being double of the amount needed to conduct a mobile banking transaction (Rocket Remit, n.d.). Aron (2018) accurately points out that while the increase in service charge repulses the lesser educated members in underdeveloped societies, the more educated actually become more willing to pay the price, knowing that higher fees translate into better security. Hence, the task becomes to identify the price equilibrium between the estimated cost (of customer protection) on MMSPs and the cost mobile money users are reasonably expected to pay for the service each time, considering their transactions are more frequent and more minute (in volume). Collectively enforced, these legal and security measures would strengthen mobile money operations and minimize the opportunity for fraud and other illegal transactions.

6.2 Enhancement of User-Friendliness and Services

These enhancements would essentially be through developing the mobile money wallet interface so as to facilitate the interaction of users and enrich their experience with the services available. An Application Programming Interface (API) is known as the tool that connects multiple applications, data and devices (Mule Soft, n.d.). Through it, customers are able to ascertain whether or not a particular service is available to them. To elaborate further, a customer intending to book an airline ticket on a certain date would be able to determine whether or not any flights are available with the help of API, which conveniently connects all airlines to customers on a single platform. This in essence makes API the ultimate connectivity tool between consumers and suppliers/service providers.

From this, we understand that in order to enhance user-friendliness and expand the scope of services provided by MMSPs, the connectivity of API must first be developed so as to include a wide range of suppliers and service providers. As of today, MMSPs such as M-Pesa and MTN MoMo have, with the help of big telecommunication companies, developed apps that allow their customers to browse through a diversified scope of services and conveniently make payment for what they need (Aron, 2018; Ericsson, 2019). It is true that internet access, which as stated earlier is costlier in underdeveloped regions, would be needed to experience more advanced mobile money services. However, the relatively low internet penetration in underdeveloped countries cannot and should not be used as an excuse to neglect the adoption of advanced user-friendly interfaces that would most likely become widespread in the near future.

When speaking of the scope of services offered in mobile money wallets or apps, one particular application or service that is considered highly beneficial – or even necessary – in underdeveloped countries is a donation/charity app that essentially allows mobile money users to browse through a list of registered charity causes that they could contribute to. This app would, on one hand, provide registered charity organizations and other NGOs with an operative platform that is more accessible by the general population and, on the other hand, enable mobile money users – whether as individuals in the country or members of the diaspora – to contribute conveniently and discretely to a cause of their choice. Mbiti and Weil (2011) write that this would only be possible upon the establishment of trust and confidence between mobile money operators and the general public, through effective regulation and security measures.

Another similar app there is a dire need for is a tax and/or *zakat* app; one that helps mobile money users calculate their different government or religious dues and, thereafter, transfer the calculated amount to the relevant offices. The service could extend to allowing users to make automated payments to relevant bodies as was initiated by Nigeria's Owolowo Obafemi University (Olasupo, 2013). Although the University's model deducted the payments from the bank accounts of donors, the tax or charity here would see the payments being taken from the mobile money wallets of donors. In summary, such innovations and services would greatly enhance the user experience and draw more individuals to adopt the service.

6.3 Increasing Awareness and Building Confidence

The final recommendation this study would propose is indeed the increasing of awareness and building of confidence. To reiterate what was mentioned in the first recommendation, in order to increase customer adoption of mobile money there needs to be sufficient security measures in place that indicate to customers that their virtual wallets would not be compromised. Currently, the sole security layer for mobile money users is their verification code. It is only through enhancing the aforementioned verification mechanisms during the registration phase and regularly reminding the masses through banners, commercials and other media platforms to never share their PINs or verification code with anyone would the current verification codes be considered adequate. An example of this is Bangladesh's bKash that has an infographic video and a dedicated helpline that users may refer to in order to verify unusual demands or clear up confusions (bKash, n.d.b.).

The second leg to building confidence amongst the general population would be way of, as mentioned previously, developing secure apps that allow users to donate funds from their mobile wallets to social causes and trace the progress of the said causes. This is what the block chain technology proposes; through connecting the spreadsheet of different donations and making the funds donated visible for everyone to observe throughout the collection phase. Apart from the issuance of virtual verifiable receipts, the adoption of such measures would unavoidably lead to word-of-mouth marketing which would further help in building confidence amongst the masses.

7. Conclusion

In summary, the study has offered a concise understanding of mobile money and highlighted a few of its existing operators along with their distinct features. Furthermore, it has also been shown that the core services of mobile money operations are essentially in accordance with the principles of Islamic finance and bring about immense public benefit. Moreover, despite the numerous shortcomings and limitations impeding the service, the study has shown that they are not beyond repair. And so, through the adoption of the abovementioned recommendations and others, the service may be enhanced and provide even greater benefit to its respective communities. Thus far, it has been made clear that mobile money has greatly contributed to the economic development of underdeveloped countries and shall continue to do so with the support from the relevant authorities.

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Blue Sukuk as a Solution to Indonesia Maritime Economic Crisis due to the Global Covid Pandemic

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Abstract

The aim of this paper is to analyze and provide a solution related to the maritime economic crisis in Indonesia which occurred due to the COVID-19 pandemic, affecting almost all countries in the world. The research technique used in this research is descriptive qualitative using secondary data. As the largest archipelagic country in the world, the ocean plays an important role in Indonesia. The marine and fisheries sector contributes to food security, livelihoods, and foreign exchange earnings. Currently, more than 6 million people are involved in Indonesia's maritime and fisheries sector, including small businessmen and fishermen. Since the COVID-19 pandemic, it has disrupted Indonesia's economic sector, one of which is in the fisheries sector. According to the Coordinating Ministry for Maritime Affairs and Investment, the COVID-19 pandemic has caused a decline in the price of fishery products in several national fishing ports by up to 50 percent. This price decline occurred due to distribution disruptions caused by the emergency to contain the spread of COVID-19. This policy resulted in the accumulation of fish stocks in almost all cold storage. Thus, a stimulus is needed so that this crisis will not harm fishermen and other related industry players further. Blue sukuk can be a solution to this problem. With the issuance of the blue sukuk, it can become a reserve fund in the maritime sector and can be a long-term solution for the government in increasing Indonesia's maritime potential.

Keywords: *Blue sukuk, maritime economic, fisherman, Indonesia*

1. Introduction

At the beginning of 2020, the world was shocked by the existence of a new virus called SARS-CoV-2, causing a disease called COVID-19. Started in Wuhan China, the virus spreads very quickly throughout the world and almost the entire world is now affected by the virus. The COVID-19 pandemic is spreading on an alarming level. The apprehension is not baseless given the fact that 28,946,628 people in the world have been infected (data as of 13 September 2020) by the virus (Worldometers, 2020). Not only it has an impact on health, but this pandemic also has an impact on the condition of the national economy, especially to people's livelihoods. According to the (*Badan Pusat Statistik,* 2019a), there are three most important sectors, namely agriculture, forestry, and fisheries which have an impact on 30.46 percent or 38.70 million people in Indonesia (Ariansyah, 2020). Fishermen are one of the sectors affected by the pandemic. Fishing communities across the region may be indirectly and directly impacted by COVID-19 cases through trade disruptions, infected people unable to work and government response policies (Campbell et al., 2020).

In Indonesia, there are 2,265,859 fishermen of which 80 percent is small scale fishermen (Ariansyah, 2020). In some areas in Indonesia, such as in East Nusa Tenggara, small fishermen have suffered a major decline in

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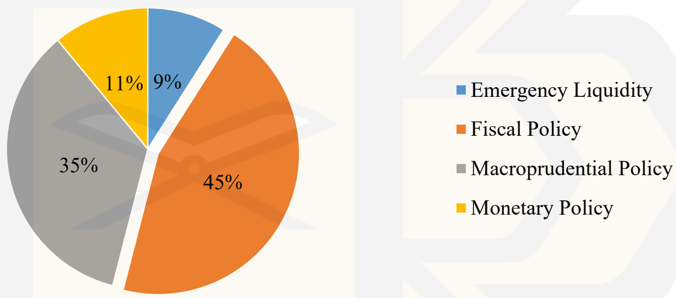
their income not only because of smaller fish catches but also as a result of a fall in prices because of distribution disruption caused by emergency measures to curb the spread of COVID-19. According to a survey conducted by local NGO *Perkumpulan Pikul*, the revenue losses could amount to IDR 2 trillion (US$133.8 million) in 2020. The survey also found that the decline in fish production and the fall in prices have severely affected the livelihood of approximately 66,525 fishing households consisting of 226,526 people (Amnifu, 2020). The fishermen on the north coast of Java Island such as in Lamongan also experience the same problem. Before the pandemic, the small crab costs IDR 65 thousand per kilogram and now it falls to IDR 45 thousand. Lobster drops from IDR 300 thousand per kilogram to IDR 100 thousand. In a larger scope, the export of sea commodities such as crab and others has fallen by 50 percent (Ariansyah, 2020).

This condition requires the government to take immediate action and provide the best solution so that fishermen do not get worse during the COVID-19 pandemic. One of the policies that have been implemented is fiscal policy. Fiscal policy is the government's way of adjusting its spending and revenues to influence the broader economy. By adjusting the level of spending and tax revenue, the government can influence the economy either by increasing or decreasing economic activities in the short term (Congressional Research Service, 2019). According to Yale University (2020) (refer Figure 1), until April 2020 fiscal policy has a tendency to be the most commonly used policy by countries in the world in overcoming the COVID-19 pandemic, namely 45%, followed by macroprudential (35%), monetary (11%), and emergency liquidity (9%). The value of fiscal policy will continue to increase in line with the launch of a number of stimulus.

Figure 1: Proportion of Policy Implementation in Overcoming the Covid Pandemic



Source: Yale University (2020)

2. Literature Review

2.1 Sukuk

The term sukuk comes from Arabic which is the plural of 'sakk' which means document or certificate. Sukuk is financial instruments similar to bonds and also shares that are compliant with Islamic law (Zolfaghari, 2017). Based on the *fatwa* of the National Sharia Council No. 32 / DSN-MUI / IX / 2002 Regarding Sharia Bonds, it is explained that Islamic bonds are long-term securities based on Shariah principles issued by the issuer to investors (bondholders) which obliges the issuer to pay income to investors in the form of profit-sharing / margin/ fee as well as paying back the investment funds at maturity. Various types of sukuk structures are known internationally and have received an endorsement from The Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) and adopted in Law No.19 of 2008 on SBSN, such as sukuk *ijarah*, sukuk *mudharabah*, sukuk *musyarakah* and sukuk *istisna'*.

According to the Securities Commission of Malaysia (SCM), the classification of sukuk into asset-based and asset-backed is made based on the sukuk's technical and commercial features. In the asset-based sukuk category, the originator only passes beneficial ownership of the asset to sukuk holders, while still keeps its legal ownership. In other words, from legal perspective there is no true sale in asset based structure since sukuk holders do not have concern in the underlying asset. As a consequence, the sukuk holders cannot sell the asset to a third party. It also means the sukuk holders only have the recourse to the originator/obligor. Whereas asset backed sukuk can be defined as an Islamic security issued pursuant to a securitization transaction (SCM, 2009). This transaction involves true sale and the transfer of legal ownership of the asset from the originator to a third party, which is normally a Special Purpose Vehicle (SPV).

2.2 Blue Sukuk

The Blue Economy is comparatively a new concept, despite humans having used the ocean for economic gain for hundreds of years. It is a broad term with its roots in the 'green economy' of the late 20th century (UNEP, 2012). As can be expected from a new concept, the Blue Economy has been the foundation of additional linked concepts, one being 'blue growth'. Blue growth is seen as a means of adding to a country's GDP and economic wellbeing, using Blue Economy as the policy tool (Wenhai et al., 2019). One of the policy tools that can be used to develop blue economy is blue bond. Blue bonds are a new and innovative financing tool (FAO, 2017) with fundamental links to green bonds (Roth et al., 2019). They function in the same way as the general bonds introduced above. The idea behind blue bonds is to enable countries to raise the capital required to invest in their Blue Economy (Hanna, 2019). This may require the restructuring of sectors within their current economy, such as their fisheries or investing in new possibilities, such as offshore renewable energy (FAO, 2017).

In 2018 the Seychelles government, with THE assistance from the World Bank, issued the world's first blue bond, pioneering the concept internationally. The proceeds from the bond were earmarked specifically for improvements in priority fisheries governance, expanding the current marine protected areas (MPAs) and the development of the Blue Economy (Roth et al., 2019). Since then, many global financial institutions have followed suit by issuing their own blue bonds. Nordic Investment Bank launched its Nordic-Baltic Blue Bond in January 2019, raising 2 billion Swedish krona ($213 million) for the Scandinavian country's water resource management and protection programs. In April, Morgan Stanley and the World Bank issued $10 million in blue bonds as part of a joint effort to solve the world's marine debris problem (Nugraha, 2019). This could be tremendous potential opportunities for Islamic finance industry in Blue Economy covering all three segments i.e. *musharakah*, *ijarah* and *sukuk* (Shahzad, 2020).

2.3 Maritime Economy

Based on BPS data, the GDP of the fisheries sector in 2019 reached IDR 420 trillion, or 2.65 percent of the national GDP which reached IDR 15,834 trillion. According to the *Kementerian Kelautan dan Perikanan* (2018), there are four superior Indonesian products, namely seaweed, shrimp, crab, tuna and skipjack. Every year, the largest commodity produced by Indonesia is seaweed with a production figure of 10 million tons. The labor force in the agricultural sector consists of laborers, business owners, and of takers who distribute their products to consumers. In February 2018, the number of workers in the agricultural sector reached 36.91 million people. This number represents 28.23% of the total workforce in Indonesia. Labor working in the agricultural sector is divided into four sub-sectors. In which, the largest employment absorption came from the food crop subsector, amounting to 46.58%, the plantation sub-sector as much as 30.79%, livestock 13.47%, and the horticulture sub-sector 9.16%. From year to year, the food crop sub-sector is the most consistent in recruiting the largest number of workers. Indonesia is also known as the Global Maritime Fulcrum (GMF) which focuses on 5 sectors, namely maritime culture, marine resources, archipelago connectivity, maritime diplomacy, and naval development (Nurhayati, 2017). As a maritime country, these sectors have a big contribution to Indonesia.

2.4 Fishermen

Fishermen are people whose livelihoods depend on the maritime sector, be it fisheries or marine. Fisherman occupies a fairly large role in the economy. Even so, the life of fishermen in Indonesia is quite concerning. 2.7 million fishermen constitute 25 percent of the national poverty rate, as most of them are living under the poverty line. Around 53% of families in coastal regions are also living in the same condition. It becomes a specific characteristic of the vulnerability of fishermen and fish farmers in the socio-economic context, particularly in facing the COVID-19 (Indonesian Traditional Fisherfolk Union (DPP KNTI), 2020).

3. Data and Methodology

The research technique used in this study is descriptive qualitative. Moleong (2007) describes qualitative research as the collection of data in a scientific setting, using the scientific method, and carried out by people or researchers. This approach was chosen because the authors wanted to comprehensively understand the potential of blue sukuk as a solution for fishermen in this Covid-19 pandemic, so as to create a stable income for the fishermen. The fall of demand for fish has an impact on export activities. The use of qualitative analysis is to optimize the potential of blue sukuk to solve Indonesia's maritime economic problems during the pandemic.

Researchers try to describe the various steps used in searching for sources, processing sources, analysis, and methods of research. Types and sources of data used in writing scientific papers is secondary data, namely data obtained indirectly through intermediary media. Secondary data are generally in the form of e-papers, e-journals, evidence, notes, or historical reports that have been compiled in archives (documentary data), both published and unpublished. The analysis is in the form of a recommended description.

4. Finding and Discussion

4.1 The Condition of Indonesia's Maritime Economy during the Pandemic

The COVID-19 pandemic has had a negative impact on the Indonesian economy, one of which is the fisheries and marine sectors. This sector has been one of the hardest hit as it affects the livelihood sector of Indonesians who work as fishermen, not to mention fish farmers and those working throughout the supply chain. Since the pandemic, almost all fishermen have experienced an economic downturn because the fish they have caught are not maximally marketed. Many countries have implemented lockdown measures to limit the movement of goods, people, and supply chains for various commodities, both in domestic and international markets. As a result, fish supply is abundant while market access is reduced (Baihaki and Muawanah, 2020).

The lockdown policy prevents domestic fish from being exported optimally. The shrimp-fishing communities are also having a hard time as fish exports, especially to key market China, have declined significantly (Mubarok and Ambari, 2020). Restrictions on exports from other countries like France, Italy, the Netherlands, the US, Thailand and Taiwan have caused a fall of 70 percent of Indonesia fish exports (Mubarok and Ambari, 2020).

Table 1: Development of Fishery Commodity Exports
January-June 2018, 2019 & 2020

Comodity	Net Weight (Ton)					
	January-June 2018	January-June 2019	Change (%)	January-June 2019	January-June 2020	Change (%)
Capture fisheries	26 488,7	45 125,7	3,77	45 148,5	40 535,5	-10,22
Fresh or cold caught fish	1 149,2	25 548,0	-3,55	25 542,1	25 559,8	0,07
Catch shrimp	1 294,2	1 294,2	12,63	1 316,1	1 356,7	3,08
Live fish caught	2 248,3	1 798,4	-20,01	1 758,4	876,3	-50,16
Crab	5 388,7	4 675,5	-13,23	4677,6	3652,2	-21,92
Mollusks	3 022,2	3 865,9	27,92	3 909,0	4 443,6	13,68
Clamshells and others	4 502,7	7 903,7	75,53	7 903,7	4 465,2	-43,50
Other aquatic invertebrates	684,9	39,9	-94,18	41,6	181,7	336,78
Aquaculture	88 053,2	87 971,8	-0,09	87 930,1	77 110,2	-12,31
Seaweed and other algae	83 133,5	82 643,8	-0,59	82 643,8	73 703,5	-10,82
Live fish cultivated	2 522,1	3 242,0	28,55	3 180,8	1 639,1	-48,47
Pearls cultivated	3,2	3,9	19,99	3,9	2,1	-46,15
Shrimp cultivated	2 394,5	2 077,8	-13,22	2 097,6	1 765,5	-15,83
Fresh or chilled farmed fish	0,0	4,3	-	4,0	0,0	-100,000

Source: *Badan Pusat Statistik* (2020)

Table 1 above shows Indonesia's total fishery exports before and during the pandemic. Before the pandemic (exports in January-June 2018 & 2019), a decline in export value occurred in several fisheries commodities. The largest decrease of 94.18% occurred in other aquatic invertebrates. This commodity is indeed erratic and not widely exported considering market availability and demand. Meanwhile, the types of fish that are commonly consumed, such as fresh fish and shrimp decreased moderately hence, is still normal. Meanwhile, aquaculture also experienced a moderate decline in several commodities, thus still in normal conditions as well. Unlike the previous year, in 2019-2020 almost all fishery commodities, both caught and cultivation experienced a decline. The average value of the decline is more than 10% for all commodities that have decreased. This decline in export value has occurred since the existence of social distancing and regional restrictions or Large-scale Social Restrictions (PSBB) applied in several regions in Indonesia, causing the hotel and culinary sector to be closed, hence the demand for fish is also reduced.

To make matters worse, access to cold chain infrastructure, including such services as a supply of ice and cold storage are limited for many small-scale fishers, be it in the coastal cities or remote fishing villages. This led to degraded fish quality and plenty of fish catches being wasted and perished (Baihaki and Muawanah, 2020).

The high domestic fish stocks have resulted in a drastic drop in fish commodity prices in almost all regions in Indonesia. Based on the results of a survey by the Indonesian Traditional Fisherfolk Union (DPP KNTI) in several areas including Bulungan Regency and City of Tarakan-North Kalimantan, Aceh, Medan-North Sumatra, Tulang Bawang-Lampung, Bintan-Kepri, Serang-Banten, Tangerang-Banten, Thousand-DKI Jakarta Islands, Semarang-Central Java, Demak-Central Java, Indramayu-West Java, Pangandaran-West Java, Surabaya-East Java, Gresik-East Java, Lamongan-East Java, Sumenep-East Java, Maumere-NTT, West Manggarai-NTT, and East Lombok-NTB, reported a significant drop in fish prices (Indonesian Traditional Fisherfolk Union (DPP KNTI), 2020).

Table 2: Farmers Terms of Trade of Fishermen/Fish Farmers Indices
and Their Change in 2018-2019 (2012 = 100)

Sub Sector, Group and Subgroup	2019						Change May'19-Jun'19
	January	February	March	April	May	June	
Farmers terms of trade of fishermen/fish farmers	106,82	107,10	106,66	106,22	106,61	106,74	0,12

Source: *Badan Pusat Statistik* (2019b)

Table 3: Farmers Terms of Trade of Fishermen/Fish Farmers Indices
and Their Change 2020 (2018 = 100)

Sub Sector, Group and Subgroup	2020						Change May'19-Jun'19
	January	February	March	April	May	June	
Farmers terms of trade of fishermen/fish farmers	101,31	100,65	100,30	98,70	99,11	99,48	0,38

Source: *Badan Pusat Statistik* (2020)

Tables 2 and 3 show the farmers' terms of trade of fishermen/fish and farmers' index in 2019 and 2020. This index is calculated from the ratio of prices received by fishermen and prices paid by fishermen. If the prices received level is higher than the prices paid level, then the index value will increase, and vice versa. This index identifies the welfare of fishermen. The standard of fishermen's welfare based on this index is 100. When the index > 100, the production price increases, which is greater than the increase in the consumption price. This means that fisherman's income increases greater than their expenditure or a surplus. In 2019, all indices value of more than 100 indicates that in this period fishermen and fish farmers experienced a surplus. Meanwhile, in 2020, the indices have decreased, even in April-June the value is less than 100, indicating that in this period the price paid by fishermen and fish farmers are greater than the price received by them for the sale of fish. This is due to the low prices of fishery commodities during the pandemic.

Decreasing in consumer demand, both on a local and international scale, has resulted in sellers selling their fish at half the normal price or even closing their fish selling points. The high price index that must be paid by fishermen is due to the operational costs such as fuel prices which remain expensive and scarce in some areas. Also, they need to pay for living costs such as to buy staple foods which the prices currently are increasing in several areas. Additional costs are also needed because of the pandemic, such as to buy disinfectants. It means that the operational costs to go for fishing during the pandemic period are relatively higher, while the income of fishermen has decreased (DPP KNTI, 2020). According to the Office of the Coordinating Minister of Maritime Affairs and Investment's Human Resource Development, Science, and Maritime Culture, Deputy Safri Burhanuddin, the fishermen's average income goes down to IDR 1.5 million (USD 102, EUR 92) per month (Dao, 2020). If the situation continues, the fishermen will suffer losses. Fishermen in East Lombok, West Nusa Tenggara barter to meet their basic daily needs. Economic hardship in some areas has made fishermen choose not to go to sea anymore because they do not have capital (DPP KNTI, 2020).

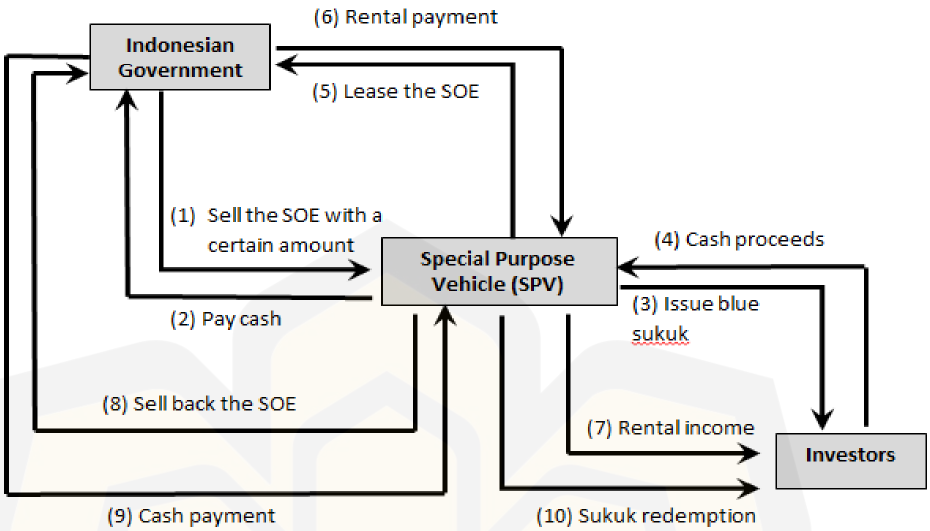
4.2 Blue Sukuk Role in Overcoming Indonesia's Maritime Economic Crisis

The COVID-19 pandemic affecting Indonesia's fisheries sector has resulted in sluggishness in the maritime economy. This problem is a big challenge for the Indonesian government to sustain economic growth and support the livelihoods of people who depend on this sector. In growing the fisheries sector amid the economic slowdown due to the pandemic, the government has begun to overcome various challenges including infrastructure, financing, and a lack of human resources (Siregar, 2020). The Minister of Marine Affairs and Fisheries proposed a 1.024 trillion-rupiah stimulus package for fisheries and aquaculture. The package will also be used to supervise fishery resources, such as surveillance for illegal foreign vessels and internal audits (Siregar, 2020). Fishermen are expected to be allocated IDR 413.27 billion (USD 28.2 million, EUR 25.4 million), while aquaculture farmers may receive a fund of IDR 406.55 billion (USD 27.7 million, EUR 25 million). Meanwhile, a fund of IDR 36.07 billion (USD 2.5 million, EUR 2.2 million) would be used to assist fish processors and marketers and IDR 106.48 billion (USD 7.3 million, EUR 6.5 million) would be allocated to combat poaching (Dao, 2020).

The government has scrapped temporarily the 3% of GDP budget deficit cap for 2020-2022 to give policymakers greater flexibility in responding to the pandemic. This measure will push the budget deficit to 5.1% of GDP in 2020, from 2.2% in 2019 (Fitchratings, 2020). Until now, it is not certain when the pandemic will end. If the government only relies on funds from the state budget, of course the budget will not be able to restore the economy as a whole because during the pandemic the budget received by the state has also decreased. Therefore, another stimulus is needed that can help sustainably restore the fisheries sector, namely through blue sukuk. The issuance of sukuk amidst the pandemic still received high enthusiasm from investors. This is evidenced by the issuance of global sukuk which is used to help the government fund the fight against the COVID-19 pandemic. The Government of the Republic of Indonesia (The Government) returned to issue Global Sukuk in the international market in 144A / Reg S Trust Certificate format with the amount of USD2.5 billion consisting of US$750 million 5-year, US$ 1 billion 10-year, and US$750 million 30-year with *Wakala* structure (BI, 2020b). The sukuk offering received positive responses from the global and domestic investors with an order size of USD16.66 billion or oversubscription of close to 6.7x above the Government's target of USD2.5 billion issuance (BI, 2020b). This shows the high level of investors' confidence in investing in sukuk. So that it could be an opportunity for the Indonesian government to restore the fisheries sector through the issuance of blue sukuk. Blue sukuk as an investment instrument and Shariah-based financing will be used for infrastructure development that supports the maritime sector. As previously explained, one of the government's steps in growing the fisheries sector is through infrastructure improvements. Blue sukuk will assist the government in developing integrated marine and fisheries centers.

In 2016, the government has prepared several policies to help support the Indonesian fishery industry through the development of more than 30 integrated marine and fisheries center or called SKPT (*Sentra Kelautan dan Perikanan Terpadu*) around the outer islands (California Environmental Associates, 2018). This is in line with what was conveyed by Jakarta based independent marine and fisheries consultant, Ahmad Baihaki. According to him, the fishing industry is highly focused on the island of Java, where the capital city of Jakarta is located and the center of Indonesia's economy. Fish caught in the eastern part of Indonesia are usually processed in Java and also for commodity export must go through the main ports of Java. It is different if the fish are caught, processed and sent abroad from ports in eastern Indonesia, of course it will save more costs. Whereas most of Indonesia's main export destinations are closer to the areas where fish is caught (Siregar, 2020). However, until January 2018, only three SKPT had been completed, namely in Simeulue, Tahuna, and Natuna (California Environmental Associates, 2018). Through the blue sukuk, the government can continue the construction of the SKPT according to the planned target. The issuance of this blue sukuk will use an asset based sukuk scheme with an *ijarah* contract. The following is the scheme.

Figure 2: Schematic of Issuing Blue Sukuk with the System Asset-based Sukuk Ijarah Contract



Source: Authors' own

In the scheme above, there are 3 parties involved in the issuance of blue sukuk, namely the Indonesian government as the party issuing the sukuk, investors as the sukuk holder and SPV as the party that will connect the government with investors.

1. The Indonesian government will use state property or State-Owned Enterprises (SOEs) as the underlying asset. The regulation on the use of State Property (BMN) as the underlying asset of State Sharia Securities (SBSN) / State Sukuk has been regulated in Law Number 19 of 2008 concerning State Sharia Securities (Law 19/2008 concerning SBSN), particularly Article 10, Article 11 and Article 12. These assets will then be sold to investors through SPV in the nominal amount needed for the construction of the SKPT.
2. SPV will pay cash as a form of purchase of SOE property.
3. SPV will issue blue sukuk to be purchased by investors.
4. SPV will receive money to buy blue sukuk from investors.
5. The sale of SOE assets by the government is basically not a true sale because the party who buys the asset through the issuance of a sukuk cannot sell or even use the asset personally. This is because these assets are needed by the government. Therefore, the government will lease SOE assets that have been sold according to the required time period, 10 15, or even 20 years.
6. During that time, the government will pay annual rental fees to SPV on the leased assets.
7. The rent will be distributed to investors as profit received per year.
8. After the lease period ends, the government will buy back the asset at the nominal value of the asset sale.
9. SPV will receive redemption money on the purchased SOE asset.
10. The investor will receive a repayment of funds, on the investment funds paid for the purchase of sukuk.

It is hoped that the fulfillment of the government's plan in developing the SKPT will give a positive impact during this pandemic, reduce the cost for fishermen and increase the export and distribution of Indonesian fisheries at the domestic level.

The existence of the blue sukuk can also be an alternative source of financing for the Indonesian government so that it does not continue to depend on foreign debt. The position of government external debt as at the end of May 2020 was recorded at USD192.1 billion (BI, 2020a). This amount is of course a burden for the government especially during the pandemic, because pandemic condition also has an impact on reducing budget revenue, hence the blue sukuk can be a more realistic source of financing.

5. Conclusion and Recommendation

In our findings, it shows that Indonesia maritime economy has been significantly affected since the COVID-19 pandemic which is currently hitting almost all countries in the world. This impact can be seen from the disruption of the fisheries sector which affects the livelihoods of Indonesian people who work as fishermen. Fish exports decreased by 70% due to the lockdown policy implemented by export destination countries, resulting in abundant fish stocks in cold storage places. The abundance of fish stocks has resulted in the low price of fish in several regions in Indonesia, which has even reached 50% lower than the normal price. This condition is very detrimental for fishermen because it causes a decrease in income while the cost of fishing is still constant and even increases in some areas. The government has implemented a fiscal policy by providing stimulus in several sectors including fisheries. The high stimulus that must be issued by the government has resulted in a deficit in the state budget, so it is necessary for the government to cover the required funds by issuing securities, one of which is issuing the State Sharia Securities (SBSN) or sukuk. Blue sukuk can be one of the fiscal policy instruments for the government to build infrastructure that can support growth and recovery in the maritime sector. In order to focus on maritime projects, the government can issue blue sukuk as a form of government attention in restoring and developing the maritime sector. Blue sukuk can be a source of financing to continue the construction of SKPT in several regions in Indonesia, with an asset-based sukuk *ijarah* contract scheme so that it can make it easier for fishermen to export during a pandemic and can reduce the costs incurred. This SKPT can also be an integrated institution that will help fishermen find new markets, considering that many export destination countries have implemented lockdowns. That way, exports will be able to increase gradually during this pandemic.

Even though it has a high potential to be issued in Indonesia, the government cannot easily issue new sukuk. According to the Director of Sharia Finance, Directorate of Management and Risk of the Indonesian Ministry of Finance, Dwi Irianti Hadiningdyah, said it was not easy to issue green sukuk (Astutik, 2019). This proves that the government needs high efforts to issue new sukuk. This possibility could occur when Indonesia wants to issue blue sukuk. So it needs an in-depth study from the government regarding how much investors' interest in the blue economy is. Is it equivalent to investors' interest in environmentally friendly projects so that when they have the potential to be published they can get high enthusiasm from the public. In addition, the government also needs to continue to disseminate and educate people, both millennial and adults, about the importance of investing in Islamic financial instruments.

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The Level of Acceptance and Awareness of Takaful in Nigeria

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Abstract

This study investigates the factors determining consumers' acceptance of takaful (Islamic insurance) in Nigeria. The main objective is to explore the Shariah view, price, service quality, attitude, awareness, subjective norm and perceived behavior control of Nigerian citizens towards the acceptance of takaful services in the country. One of the obstacles currently facing the takaful industry in Nigeria is the lack of awareness about takaful products. To examine the acceptance and awareness of takaful in Nigeria, 209 questionnaires were distributed to respondents in five states, including Lagos, Abuja, Kano, Kaduna, and Enugu; and the data collected were analyzed using SPSS, version 25. The results show that Shariah view, locality, consumer acceptance, service quality, attitude, awareness, subjective norm, and perceived behavior control are the factors influencing the awareness and acceptance level of takaful in Nigeria. The implication of this study is that the majority of respondents do not possess sufficient information to differentiate between conventional and Islamic insurance. As such, for proper implementation and development of takaful in Nigeria, it is important for the policymakers and other stakeholders to provide enough information about the takaful services, products, and operating system to the general public. The future of takaful industry in the country will be determined by a proper understanding of the operating system and the rights of participants as well as other stakeholders, including customers and insurance regulatory bodies.

Keywords: pricing, Shariah review, quality services, locality, social factors, customers' acceptance, and awareness

1. Introduction

Takaful stands as an alternative for conventional insurance (Muhammad, 2018). The root word of takaful was derived from the Arabic word "*kafala"* which means to guarantee or responsibility. Takaful literally means mutual guarantee, brotherhood, and solidarity. Islamic law has called for the protection of certain specific objectives of Shariah for the survival of society as a whole and anything that will help in achieving these objectives will not be neglected by Islamic law. Wealth and life are included in these objectives that Shariah intends to protect. Since the prime objective of insurance is to protect individuals against any type of risk with respect to life, the system of insurance is within the concept of the Islamic framework in connection with the principles of Islamic law. The acceptability of Islamic insurance will help to achieve the general objectives of Islamic law concerning safety, since it serves to protect the property and the life of people in a mutual manner (Obaidullah, 2018).

Over some decades ago, the interest in insurance has been widely increasing and is well recognized as one of the important components of Islamic financial instruments devised to improve the lives of people. The poor households usually encounter some difficulties in earning regular and substantial income to survive and to save for the future. As such, a bit of reduction in their earnings or increment in their expenditures will have a devastating effect on their standard of living. For example, they will have limited access to adequate health care services, faced with high illiteracy levels, and poor living conditions. These issues could contribute to the reduction in their properties and other reproductive assets that are meant for future earnings and present livelihood. Therefore, it will be more difficult for the poor to bear losses, such as natural disasters, theft, and fire, that may occur at any point in life (Patel, 2017; Ahmed, 2016; Muye, 2016). These issues and several

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others have accelerated the need for takaful in Nigeria.

Despite the existence of favorable conditions for the development of takaful in Nigeria, the takaful industry is faced with some major challenges which may retard its growth. Nowadays, insurance is important to everyone's life. It is obvious that insurance can improve the standard of living of people, change society's psychological needs and have adequate protection for the future. Due to the apparent importance of takaful in society, it has recently been introduced in Nigeria. Apart from being identified as a social protection scheme in the country, regulators are also optimistic about the contribution of this industry to economic development. Nevertheless, takaful industry in Nigeria is still new with no insurance legislation and only two incorporated companies, which are Jaiz and Noor insurance PLC (AbdulRazzaq and Alao Esq, 2019; Momodu, 2018).

Even with the greater number of Muslim populations in the country, the awareness of this takaful products is still low among the citizens. Notwithstanding the low level of awareness of this industry, the current practice of the takaful in Nigeria is expected to provide protection for personal and family sustainability, particularly in meeting the contingency of life (Yusuf and Obalola, 2015). Despite the immense potential of takaful contribution to the Nigerian economy towards increasing insurance penetration and the financial inclusion of most inadequate Nigerians, the introduction of takaful insurance is experiencing some significant and unusual regulatory obstacles, particularly in a multi-religious country, such as Nigeria.

Takaful companies can be patronized by everyone, irrespective of faith due to its nature of commercial activities. Takaful plays a significant role in both Islamic and conventional finance industry, particularly in Nigeria. Takaful stands as an alternative for financial protection from unknown risk and it has more advantages than conventional insurance. Moreover, there is a need to investigate the acceptance and awareness levels of takaful in Nigeria in order to offer appropriate recommendations that will help to grow this industry beyond its current unacceptable level in the country. Thus, this study aims to examine Nigerian customers' acceptance and awareness of takaful in Nigeria.

2. Literature Review

This section discusses pertinent literature on the level of awareness and acceptance of takaful products in Nigeria; in addition, it also reviews previous studies on the perception of takaful. The discussion in this section starts with the historical background of takaful industry in Nigeria, followed by the development of takaful industry in the country. Moreover, the section proceeds with the review of previous studies on the perception of takaful and finally, the factors influencing the acceptance of takaful.

2.1 Historical Background of Takaful in Nigeria

Nigeria is the largest country in Africa in terms of population. According to the World Bank, the last estimation of Nigeria's population is approximately 201 million people. Out of the estimated population, about 50% are Muslims. International Monetary Fund (IMF) projection forecasted an increase of the Nigerian population to around 210 million inhabitants by 2021 (National Population Commission of Nigeria, 2018). Besides, considering its estimated GDP of 1.1 trillion US dollars, Nigeria has been regarded as the largest economy in the whole of Africa since 2015. Earlier, the Central Bank of Nigeria (CBN) had divulged its 2020 Financial System Strategy (FSS 2020) as the blueprint designed to reposition the country in order to actualize the aim of being the Africa's major International Finance Centre (IFC) by the year 2020 (Central Bank of Nigeria, 2019; Noor Takaful Plc, 2018).

In addition, Nigeria has been optimistically prophesized, by Goldman Sachs, as one of the 11 countries in the world with great potential to possibly rival the G7 countries in the future. It should be noted at this juncture that there is a need for a robust financial system to support Nigeria's endeavors to actualize a vibrant economy. To achieve a vibrant economy, the insurance industry has experienced a recapitalization exercise in 2007 with the intent of repositioning the sector for greater efficiency and effectiveness. Being an integral part of the Islamic financial system, takaful is an important component in this development. The Central Bank of Nigeria, in its projection for 2012, initiated the so-called 'National Financial Inclusion Strategy' to pave the way towards the accomplishment of a significant increase in the access and use of financial services by the year 2020 as a result of the realization of severe financial exclusion, particularly in the Muslim dominated Northern region (Central Bank of Nigeria, 2017). Therefore, the National Insurance Commission of Nigeria (NAICOM) issued Takaful-Insurance operational guidelines in 2013 so that the development of the takaful industry can be facilitated and to ensure the enhancement of financial inclusion.

However, despite the growing potentials of this market and the government commitment to achieve this end, the growth of takaful operations in Nigeria has not been really impressive (Ardo and Saiti, 2017). Concerning Takaful Legislation in Nigeria, it is important to note that takaful operations in Nigeria are regulated by the 2013 Operational Guidelines for Takaful Insurance Operators, which became enforceable before it was launched in March 2013 by the National Insurance Commission (NAICOM). This document provides detailed and comprehensive structure for all matters concerning takaful operations in the country. As part of the information in the guidelines, Section 1 features a general overview covering the introduction, objectives, scope, implementation, and the concepts of Takaful-Insurance. Basically, the guidelines aim to increase insurance penetration and financial inclusion in Nigeria. It provides a framework within which takaful operators shall successfully carry out their business efficiently and effectively. The scope of the guidelines covers the regulation of commercial takaful activities and other related operations conducted in Nigeria (National Insurance Commission of Nigeria, 2013). Section 2 of the guidelines present general provisions and procedures for adopting an operating model by the prospective takaful operators in either of the two classes of business: family takaful or general takaful. Furthermore, this section specifies three operating models: *Mudharabah* based, *Wakala* based, and Hybrid *Wakalah Mudharabah* model comprises both *Wakala* and *Mudharabah*. Documentation and disclosure requirements relating to the operating model adopted by the takaful operators are also contained in this section of the guidelines. In section 3, the guidelines present governance standards for takaful operators. This entails the requirements for takaful operators to have an Advisory Council of Experts (ACE) as well as their required competency and code of conducts. Similarly, it includes the duties and responsibilities of the Advisory Council of Experts (ACE) and the takaful operators, including the ACE opinion in the annual report, disclosure requirements by the takaful operators, accessibility of the ACE to the public, the regulator's Takaful Advisory Council (TAC), Shariah compliance, and other relevant requirements (National Insurance Commission of Nigeria, 2013). The 2013 Takaful-Insurance operational guidelines provide three business models for Takaful operators. These include the *Mudharabah* contract (profit sharing), *Wakala* contract (agency), and Hybrid *Wakalah-Mudharabah* contract (agency-profit sharing). For effective oversight, takaful operators must obtain approval from the NAICOM after the approval of their ACEs and Board of Directors for the business model they intend to adopt. To promote innovation and product development, takaful operators may propose to adopt a different model apart from the three models provided subject to final approval by the NAICOM.

2.2 Development of Takaful in Nigeria

African Alliance insurance is the first company to introduce takaful products in Nigeria in 2015. The company is known as the country's early expert in life assurance and offers family takaful products that are similar to life insurance (conventional) that consist of both savings and protection components. Another insurance company, Niger insurance, came into the takaful market shortly after the African alliance. The company developed and introduced products that are in line with Shariah principles of savings and investment plan. Following this, cornerstone insurance came to the market by introducing halal takaful Nigeria; this company is a traditional insurer with a takaful window. In 2013, it became the first licensed composite operator in the country, offering both general and family takaful as well as a traditional product to the public in Nigeria. The operational guideline for takaful insurance was issued by NAICOM in the same year (2013), which was the first national guideline for Nigeria's takaful insurance market with the establishment of Shariah compliant framework. This is to improve the transition of traditional insurance into the takaful operator to improve performance based on Shariah principles and corporate governance. These guidelines outline and clarify the duties and responsibilities of the operators and as such, they influence the operational and disclosure requirement standard. There are three models of operating system: *Mudarabah* (profit-sharing), *wakala* (agency), and both *wakala* and *mudarabah* (hybrid). These guidelines make it compulsory for all the operators to provide a Shariah advisory council expert that will be responsible and accountable for any Shariah related matters in making decisions, judgement, sharing opinions and views. Due to the shortage of Shariah experts in the country at the initial stage of offering takaful, the stipulated guidelines allowed the NAICOM's takaful advisory council to be involved in the decision making of Shariah matters regarding takaful in the country. Since then, five insurance companies have sought approval to establish takaful business in the country. Furthermore, NAICOM is currently considering how to permit foreign participants in the provision of takaful services to accelerate the growth of takaful and conventional insurance in Nigeria.

2.3 Review of Previous Studies on the Perception of Takaful

Echchabi et al. (2014) examine the willingness of Tunisian banking customers to adopt the Islamic insurance activities, known as takaful and to determine the factors influencing their decisions. Over some decades of the emergence of Islamic banking in the world, Tunisians have had inadequate experience with its services due to the allegedly antagonistic attitude of the government towards such practices that are based on Islamic principles. Therefore, conventional banking has been the full-fledged financial authority to provide insurance services, while only one Islamic bank has thrived in the country for the past four decades. Based on this study, the researchers found that the Tunisian customers are willing to adopt Islamic insurance services (Takaful), and that compatibility of these services is the motivating factor towards their decision.

Moreover, (IFSB, 2010) conducted research to identify the effectiveness of operational and transformational standards raised by a joint working group of the Islamic Financial Services Board (IFSB) and International Association of Insurance Supervisors (IAIS) as well as peoples' perceptions about takaful practices. Mohamed and Hussnain (2017) also conducted a study to investigate the driving forces, be it economic and/or socio-demographic, which affect the demand for family takaful in the Middle East and North African regions. The researchers focused on 15 countries from the Middle East and North Africa. Based on this study, the researchers found that the reporting standards and internal controls have a low level of observance among takaful operators in Pakistan. The survey of insurance customers also indicated that most of the respondents (91 percent) are ignorant regarding the concept of takaful. Also, education was found to be the main factor which affects the respondents' income, their perceptions and level of takaful awareness.

Coolen-Maturi (2013) empirically examines the extent to which there is a real demand for takaful products among Muslims in the United Kingdom and to evaluate the level of awareness about takaful insurance and its main principles among the UK Muslim community. The result shows that the respondents are likely to opt for buying a car, health, home and home contents insurance provided the same cover is offered as conventional insurance and if prices are competitive. It was also found that Muslim communities in the UK do not have awareness about takaful insurance and its underlying principles, and that most of the respondents are only accustomed to the concepts of *riba* and *maysir*. Specifically, almost half of the sample used are uncertain as to whether takaful is in line with Islamic principles. In addition, most of the respondents prefer the obtainment of takaful products through banking channels rather than from independent takaful institutions. Not surprisingly, most of the respondents agreed to the use of Arabic terms for the takaful to show that these are Islamic products and to differentiate them from conventional alternatives in order to attract more Muslim participants.

Moreover, the study of Mohammed and Mat Nor (2014), intends to identify the factors influencing the Malaysians in their choice to choose takaful over conventional insurance. To adequately obtain necessary information to answer their research questions, the researchers employed a qualitative research approach by conducting four intensive interviews with customers and takaful operators from the Klang Valley, Malaysia. Their findings indicate that takaful customers have a clear understanding of the takaful concept and all that are involved to make an insurance Shariah-compliant. It was also discovered that takaful is necessary for Muslims as a substitute for conventional insurance; takaful customers are aware of the relationship between the insurance and religion in the contemporary business era; they know the roles of takaful agents in explaining the concept of takaful and its benefits as acts of worship (*Ibadah*); they know that promoting takaful products to Muslims by takaful agents is acts of *da'wah*; and that the growth of takaful businesses remains slow compared to conventional insurance in the Klang Valley area in Malaysia. Based on their study, several implications of the research were further discussed.

Ringim (2014) examines the perception of Muslims who have bank accounts in conventional banks towards Islamic banking products, as well as to determine the relationship between the perception levels of Nigerian account holders and their decisions to patronize Islamic banking in Kano, Nigerian. To accomplish the objectives, the researcher conducted a field survey and used proportionate stratified simple random sampling techniques to draw the sample for the research. Out of 500 questionnaires distributed to the Nigerian account holders in conventional banks, only 304 responses were received and out of these, 286 duly completed questionnaires were analyzed for this study. Having analyzed the data using appropriate software, the researcher finds positive perceptions towards the Islamic banks' products in Nigeria. Moreover, the respondents' level of decision to patronize the Islamic banks' products and services were also found satisfactory.

Wan Abdul Aziz et al. (2011) examines the civil servants' perceptions towards Islamic Motor Takaful in Malaysia, and whether there are relationships between the following four factors (i.e. product knowledge, awareness, advertisement, and the derivable benefits from the product) and their perceptions. The researchers employed a questionnaire to obtain data from civil servants who are using motor insurance in Malaysia. Having analyzed the obtained data through multiple regression and Pearson correlation analysis, the results indicate that knowledge, awareness, advertisement, and benefits of the product are the major factors influencing the civil servants' perceptions towards Islamic motor insurance. Based on their findings, the respondents show a very good perception of Islamic motor insurance. The findings also reveal that customers' perception level is positive towards Islamic motor insurance.

With the above reviewed studies, it becomes apparent that customers from different parts of the world have positive perceptions towards takaful services even though most of them lack proper awareness and understanding of how it works. As important as this area of study, very few studies, if any, have been conducted in this area from the Nigerian context investigating the perceptions of Nigerian customers towards Islamic insurance services (takaful). Therefore, this study investigates the perception of Nigerian customers towards takaful services in Nigeria. By conducting this study, it is envisaged that the present study will enrich the field of Islamic banking and finance with new information concerning Nigeria. Besides, it will also help to improve the understanding of takaful customers and Muslims in Nigeria about the benefits of takaful.

2.4 Theoretical Framework and Theory of Reasoned Action

The current study aims to determine the level of acceptance of takaful products by Nigerian citizens. To achieve the study's objective, the Theory of Reason Action of Fishbein and Ajzen (2010), Fishbein and Ajzen (1975) and Ajzen and Fishbein (1980) is employed. The main strength of this theory is in its ability to determine or predict behavior through several external and internal factors. The behavioral intention of Nigerian citizens towards the acceptance of takaful products and services can be determined by many factors, such as attitude, subjective norms, and perceived values. In relation to academic discussion regarding the new theoretical approach has discussed that the differentiation between the customer and the company is no longer considered (Saarijarvi and Kannan 2013). According to Abduh and Idrisov (2014) and Obeid and Kaabachi (2016), awareness has a positive correlation or relationship with attitude, which is hypothesized and proven by their research. This model of awareness can be regarded as an external variable. Most of the existing studies have adopted the aforementioned model and as such, the awareness of Nigerian citizens towards takaful products and services is investigated through external factors and discussed in the subsequent section.

2.5 Factors Influencing the Acceptance of Takaful

The social factor can be described as people's opinions that are influenced by custom, values, civilization, socialization, sale, advertisement, and marketing. These factors are the examples in which social factors can take place when someone's ideology is influenced by others (Lent, 2007). It has been stressed in the literature that informational social factors take place when people lack confidence in a specific situation; thus, they can get information from others as advice in making their choices or decisions (Kelman, 2006; Maiyaki and Ayub, 2015). Such behavior can influence individual acceptance level in each situation. Hence, the factors considered to have influence on the acceptance of Nigerian takaful products are discussed as follows:

- Price

Price is the total amount of money being charged or in exchange for a specific product or service (Lew and Sulaiman, 2014). The acceptability of customers to purchase a product can be prescribed as the highest price which a purchaser is willing to pay for the product. Regarding the takaful, the price offer for a particular product and service plays a significant role in decision making for enrollment and post purchase too, as customers are ready to pay for a particular products or services that satisfy his or her needs. After completing a transaction, if the participant later realized that the price being paid for the specific service or product is higher than the service or product offered to him, the customer will be dissatisfied. The higher the level of satisfaction that the consumer is willing to acquire, the higher the price the consumer will be willing to offer for the product or service.

- Locality

Porter (2000) are of the opinion that locality is mainly connected with acceptance. Several studies have indicated how products, services, market, and customers can reflect on the locality factor. However, the nature of business is also considered to be an integral part of achieving the sustainability of the business environment.

According to (Clouse, 2017), a good selection of business environments is an important aspect in ensuring continuity of competition with other businesses and remain sustainable in the future. Thus, suppose the market prospect is controlled by the public's support, the importance of locality in business cannot be neglected and any other related factors of location are regarded as compulsory and priority for business development (Kotler and Armstrong, 2010; Shepherd, 2016).

- Services quality

Some researchers have opined that service quality theory focuses on customer satisfaction and quality of product or service (Sundbo, 2015; Cho and Hwang, 2020). The dimension of service quality has different perspectives relating to several service sectors (Deshwal, 2016; Song, 2019; Shaffe and Pollack, 2009; Haron et al., 2021). However, the proportion of service quality will assist managers to know the main problem and to improve the service efficiency to suit customers desires. The perception of service quality has been studied since some decades ago. Ledikwe et. al. (2019), Haron et al. (2020) and Zeithaml (1988) describe service quality as an evaluation of customers perception towards the performance of services received from the company. In some years back, several models have been developed to evaluate service quality. Zeithaml (1988) notes that technical quality is the result of the performance of service, and functional quality as the subjective perception of service delivery. Haron et al. (2020) indicate SERVQUAL as the most acceptable model to study service quality. For the first instance, ten dimensions were suggested for the service quality, but after some previous studies in 1988, it was reduced to five dimensions for the service quality model (Zeithaml, 1988).

- Shariah View

As Shariah is the backbone of Islamic financial industries, Islamic insurance is subjected to several Shariah views relating to its entire framework. As stated, *riba* (interest) is prohibited in Islam, but The Almighty Allah has permitted trade as indicated in the Quran (2:275). This Quranic verse clearly stated that interest is prohibited in both commercial and financial transactions, irrespective of faith. In this research, Shariah is included as another focal point affecting takaful among the citizens in the country. Furthermore, it has been noted in the literature that Shariah has a positive impact on the customers' acceptance level of takaful.

3. Methodology

The researchers adopted a quantitative research design for this study using primary data. In this case, information was gathered from the public through the survey by using a self-administered questionnaire to examine the acceptance and awareness level of Islamic insurance among the Nigerian citizens. The data used for this study were collected from the Nigerian takaful customers.

When a researcher is faced with financial and time constraints, the most suitable sampling design to be used is non-probability. Hence, the non-probability sampling technique used to collect data for this study are convenience and snowball techniques. Regarding the data collection, out of 320 questionnaires distributed to the customers in Lagos, Abuja, Kano, Kaduna, and Enugu, 209 duly completed questionnaires received from the participants were used by the researchers. To achieve the stated objective, both the descriptive and inferential statistics were performed on the data collected. The analyses performed in this case are linear multiple regression, normality test and skewness using SPSS version 25.

Performing normality, kurtosis, and skewness tests on the data collected are necessary to fulfill the assumption of multiple regression. The results of skewness and kurtosis are reported in Table 1 and they show that the data is symmetric. The skewness values are less than plus 1 for all the 7 constructs, which show the normality of the data. If skewness is less than -1 or greater than 1, it indicates that the distribution is highly skewed. Most of the constructs have positive kurtosis more than one plus by using the peak of the score value as clustering in the center with a long thin tail.

Nigeria is the largest country in Africa in terms of population with the highest population of Muslims in the West African countries. According to the World Bank, the last estimation of Nigeria's population is approximately 201 million. Out of the estimated population, about 50% are Muslims (Central Intelligence Agency, 2018). The International Monetary Fund (IMF) has forecasted an increase in the Nigerian population to around 210 million by 2021 (National Population Commission of Nigeria, 2018). Lagos is the largest city in Africa and the most populous city in Nigeria. The state has an estimated population of 21 million with 13.25 million of the Muslims population in 2019. Kano state was the second populous state in Nigeria. Out of its 9.38 million population, about 9.196 million are Muslims. Kaduna was the third place with a population of 6.07

million and of which, 4.85 million are Muslims. Abuja has a population of 50% of Muslims out of 1,405 million. Most of the Muslims in the state are predominantly Sunni in the Maliki school and are also practicing Shariah. While the population of Muslim in Enugu is just about 5% of total population.

4. Summary of the Finding and Discussion

4.1 Demographic Profile of the Respondents

The data used for this study were collected from customers of takaful operators in Nigeria using the developed survey questionnaire. As mentioned, the respondents were drawn from five different states, which are Lagos, Abuja, Kaduna, Kano, and Enugu. The duly completed questionnaires used for this study were 209. As reported in Table 2, out of 209 respondents, 127 (60.8%) are males and 82 (39.2%) are females. The respondents who are within the age bracket of 20-30 are 32 (15.3%), those between the age bracket of 31-40 are 93 (44.5%), those between the age bracket of 41-50 are 58 (27.8%), those between in the age group 51-60 are 23 (11.0%), and those above the 60 are 3 (1.4%). The majority of the respondents are Muslims 193 (92.3%), while non-Muslims respondents are 15 (7.2%) out of the overall respondents.

Moving to the educational level, most of the respondents are degrees (above) holders with 81.1%. This is followed by secondary school certificate holders 7.7%; followed by primary school certificate holders with 0.5%; while the rest of the respondents did not indicate their educational level. As for the respondents' occupation, government employees are 38 (18.2%), students are 2.9 (2.9%), private companies' employee are 125 (59.8%), housewife are 7 (3.3%), self-employee are 22 (12.9), and other are 6 (2.9%). Regarding their marriage status, 170 (81.3%) are married, while 39 (18.7%) are single.

Table 1: Descriptive Statistics

	N	Mean	Std. Deviation	Skewness		Kurtosis	
	Statistic	Statistic	Statistic	Statistic	SE	Statistic	Std. Error
Pricing construct	209	3.8010	.70315	-.584	.168	.510	.335
Shariah View constructs	209	4.3809	.60892	-1.301	.168	2.936	.335
Social Factor constructs	209	3.3359	.96989	.022	.168	-.832	.335
Customer acceptance	209	4.1826	.78617	-1.346	.168	1.509	.335
Service Quality	209	4.2057	.65071	-1.297	.168	2.536	.335
Locality	209	3.7879	.69621	-.564	.168	.218	.335
Awareness of Islamic Insurance	209	4.4179	.59604	-1.173	.168	1.148	.335
Valid N (listwise)	209						

Table 2: Demographic

Demographic Profile		Percentage	Frequency
Gender	Male 127	127	60.8
	Female 82	82	39.2
	Total 209	209	100.0
Age	20-30	32	15.3
	30-40	93	44.5
	40-50	58	27.8
	50-60	23	11.0
	60 above	3	1.4
	Total	209	100.0
Marital status	Single	39	18.7
	Married	170	81.3
	Total	209	100.0
Religion	Muslims	193	92.3
	Non-Muslims	15	7.2
	No response	1	.5
	Total	209	100.0
Average monthly income in naira	Below 100,000	154	73.7
	Above100,000	55	26.3
	Total	209	100.0
Education	Primary	1	0.5

	Secondary	16	7.7
	Degree\above	170	81.3
	Other	22	10.5
	Total	209	100.0
Occupation	Students	6	2.9
	Government	38	18.2
	Private	125	59.8
	Housewife	7	3.3
	Self-employed	27	12.9
	Other	6	2.9
	Total	209	100.0
	1-3 years	104	49.8
Period of using takaful	4-5 years	65	31.1
	6-9 years	26	12.4
	10years above	13	6.2
	No response	1	.5
	Total	209	100.0
State\branch	Lagos	83	39.7
	Abuja	26	12.4
	Kano	50	23.9
	Kaduna	48	23.0
	Enugu	2	1.0
	Total	209	100.0

5. Reliability Tests

Cronbach's Alpha, which is commonly used to measure reliability, has been used to evaluate the internal consistency of the questionnaires used in this study. The two independent variables contained in the questionnaire were tested and the outcome show that all the items in the questionnaire reliably measured the respective constructs as reported in Table 3.

Table 3: Reliability Tests

Construct	Cronbach Alpha	Standardize items	No of item
Pricing	0.624	0.632	5
Shariah View	0.751	0.761	5
Social Factors	0.806	0.805	5
Customer Acceptance	0.846	0.842	6
Service Quality	0.850	0851	7
Locality	0.722	0.727	6
Awareness of Participants towards Islamic Insurance	0.851	0.853	6

Table 3 shows the reliability statistics for pricing, Shariah review, quality services, locality, social factors, customers' acceptance, and awareness. Based on the results in Table 3, Cronbach's Alpha coefficient for the above variables are: 0.624, 0.751, 0.805, 0.842, 0.851, 0.727 and 0.853, respectively. These results are all above the 0.7 minimum threshold, according to (Plummer and Tanis, 2015) except pricing which is 0.632. This indicates higher internal consistency and the indication that the questionnaire used is reliable in measuring many constructs. The Cronbach alpha for the locality in this study is higher than that of (Hair and Brunsveld, 2019) where 0.738 was reported.

Table 4: Customer Acceptance Level

Variables	SD Frq %	D Frq %	U Frq %	A Frq %	SA Frq %	Total	Mean	STD
I am pleased with the existing Islamic insurance	20 9.6	10 4.8	16 7.7	88 42.1	75 35.9	209 100.0	3.90	1.219
I fully accept Islamic insurance as one of the most convenient methods of financing	10 4.8	13 6.2	19 9.1	68 32.5	99 47.4	209 100.0	4.11	1.112
Islamic insurance offers right products and services to both Muslims and non-Muslims	12 5.7	12 5.7	15 7.2	74 35.4	96 45.9	209 100.0	4.10	1.128
I am proud to tell others that I am using or have used Islamic insurance services	6 2.9	6 2.9	15 7.2	68 32.5	114 54.5	209 100.0	4.31	.916
I am excited when using Islamic insurance services at the first time.	5 2.4	7 3.3	14 6.7	76 36.4	107 51.2	209 100.0	4.34	.923
I am willing to patronize Islamic finance business in the future.	7 3.3	5 2.4	8 3.8	78 37.3	111 53.1	209 100.0	4.26	.951

Table 4 presents the results of the acceptance level of takaful. Based on the responses received from the participants, about 163 (78%) of them strongly agreed or agreed to the existence of takaful in Nigeria; 30 (14.4%) of the participants disagreed or strongly disagreed to the existence of takaful, while 16 (7.7%) of the participants are neutral to the existence of takaful's questions asked. Similarly, 167 (79.9%) of the participants agreed or strongly agreed to the acceptance of takaful as an alternative to the convenient methods of financing; 23 (11%) of the participants disagreed or strongly disagreed to the acceptance of takaful as an alternative to the convenient methods of financing; while 19 (9.1%) of the participants are undecided regarding the acceptance of takaful as an alternative to the convenient methods of financing.

Furthermore, 24 (11.4%) of the participants disagreed or strongly disagreed that the products and services provided by takaful are the right products and services for both Muslims and non-Muslims alike; 170 (90.3%) of the participants agreed or strongly agreed that the products and services provided by takaful are the right products and services for both Muslim and non-Muslims; while 15 (7.2%) of the participant are undecided regarding this question. Similarly, 12 (5.8%) of the participants disagreed or strongly disagreed to recommend takaful products and services to other people; 182 (87%) of the participants agreed or strongly agreed to recommend takaful products and services to other people; while 15 (7.2%) are undecided regarding this question. Similarly, 12 (5.7%) of the participants disagreed and strongly disagreed to patronize takaful in future; 189 (90.4%) of the participants agreed or strongly agreed to patronize takaful; while 8 (3.8%) of the participants are undecided regarding this question.

5.1 Philosophical Stance and Hypotheses

This study adopts a positivist approach that depends on reality and quantitative data in an objective manner. It stresses on applying scientific methods to derive the fact and quantifiable result. So, the role of the researchers in this study will be limited to data collection and interpretation based on data analysis used. This suggests the independence of the researchers from this research as they will be focused on reality obtained from the sample with minimal interaction with the respondents to obtain objective findings (Hothersall, 2019). This study will rely on a deductive process to explore the validity of the hypotheses contained in the Theory of Reasoned Action (TRA) in the circumstance of the factors that determine the level of awareness and acceptance among the Nigerian citizens. Base on this, hypotheses extracted from the TRA, hypotheses 1 to 4 will be tested through statistical analysis to know the outcome result that will be confirmed or reject the hypotheses.

Table 5: Statement of Hypothesis

Statement of hypothesis	Remark
H1: Service quality has a significant influence on the behavior of consumers towards takaful services.	supported
H2: Customer acceptance has a significant influence on the behavior of consumers towards takaful services.	supported
H3: Shariah view has a significant influence on the behavior of consumers towards takaful services.	supported
H4: Subjective Norms have significant influence on the behavior of consumers towards takaful services.	supported
H5: Perceived Behavioural Control (PRICE) has no significant effect on consumer behavior towards takaful services.	rejected

Hypothesis (1) states that there is a significant relationship between service quality of takaful and behavioral intention to accept takaful products in Nigeria. This hypothesis is not rejected because of its significant contribution in explaining service quality with β = 0.285, t = 4.753, p= 0.000. Also, the Pearson correlation between service quality and consumer behavior towards the acceptance of takaful is 0.515. This shows that higher service quality will guarantee the acceptance of takaful. If people are not aware of the service quality of the operations and products of takaful, they may not support them.

Hypothesis (2) states that there is a significant relationship between customer acceptance and customer perceived behavioral control towards acceptance of takaful in Nigeria. This hypothesis is not rejected because it significantly contributed to customer acceptance of takaful with B= 0.306, t= 4.753, p= 0.000. The Pearson correlation of 0.535 suggests that people will use takaful services based on positive perception towards them.

Hypothesis (3) states that price has a significant influence on customers' acceptance level of takaful. This hypothesis is rejected because of its insignificant contribution in explaining the acceptance of takaful with B = 00.6, t =0.114, p=0.910. This finding suggests that demand is not necessarily enough to make a justification that a person will accept or reject takaful service. The outcome shows that price is not the factor that can contribute to the acceptance of takaful in Nigeria, but other factors are more significant in consumers' decisions to accept takaful. Such factors could be cost of borrowing, risk, and expected return. Yu and Tseng (2016) discover that economic factors, like cost and service quality, are more significant than the price in the consumers' choice to accept takaful. Though price can also influence customers' choice to accept takaful together with the other factors as discussed earlier.

Hypothesis (4) states that subject norms have insignificant influence on the locality towards acceptance of takaful. This hypothesis is not rejected because it has insignificant contribution to locality of takaful with B = 0.95, t= 1.655. This shows that locality is very important in deciding the product to be chosen. As indicated in Shehu et al. (2011) study, moving closer to other people does not mean that customers can disseminate their financial position, talk-less of affecting their decision. Also, the findings of (Karjaluoto et al., 2012; Khan, 2020), show insignificant influence of evidence opinion and group leaders in consumer behavior on financial issues.

Hypothesis (5) states that there is a significant relationship between the Shariah view and customers' behavior towards acceptance of takaful. This hypothesis is not rejected because of its significant contribution to behavior with B = 267, t = 4.131 p =0.000. This suggests that being associated with a particular religion is not enough to determine whether someone will accept takaful or not. This result shows that not religion alone, but other factors also contribute to the decisions to accept takaful or not in Nigeria.

Among the five research hypotheses formulated for this study, only one was rejected; the remaining four were not rejected. Therefore, consumers' behavior towards acceptance of takaful is significantly influenced only by awareness and attitudes.

6. Limitation of the Research

This study has attempted to investigate the awareness and factors affecting the level of acceptance of takaful in Nigeria by using the Theory of Reasoned Action (TRA). It is necessary to note the importance of this research in the context of takaful in the country. A significant limitation of this research is that the sample was only drawn from four different takaful operators: Jaiz Insurance plc, Cornerstone, African Alliance, and Sterling Bank. The collection of data from the customers of the above takaful operators may not be enough to accurately represent the entire customers of takaful in the country. Moreover, other factors that are not covered in this research in the TRA may be important in selecting takaful services. Hence, future research may consider covering a wider sample to investigate the acceptance of the customers of the four takaful operators and to also incorporate more variables that may be important in the choice of takaful services among the customers in the country. This research has many limitations and needs further examination by future researchers. This study focuses on the level of awareness and acceptance of takaful in Nigeria. Further research is required to compare the entire operating system of the takaful industry in the country. Secondly, since the study focuses on awareness and acceptance, the analytical result can be generalized on both private and public enterprises as well as the individual that offer takaful business within their organization or community in Nigeria. Finally, since the data for this research were mainly collected from populous states (Lagos, Kano, Kaduna, Abuja and Enugu) in Nigeria, generalizing the findings of this study to other states must be done with caution, owing to the difference in culture and other tribal factors in addressing and maintaining customers' relationship along with management issues concerning customers' loyalty and satisfaction.

7. Conclusion and Suggestions

Based on the findings, about 90% of respondents are informed about takaful; though only 13%-17% of respondents are used to the contracts in takaful and investment in the halal industry. This research was conducted using a survey questionnaire to collect data from the Federal Republic of Nigeria. The respondents for this study were selected from different states and cities across the country: Lagos, Abuja, Kaduna, Kano, and Enugu. The total number of questionnaires duly completed and used for the current research are 209 questionnaires.

The implication of this is that the majority of the respondents do not possess sufficient information to differentiate between conventional and takaful. Thus, this does assure that people will demand for takaful services rather than that of conventional insurance should they have sufficient information about takaful. Therefore, improving awareness about takaful in this regard will enhance the implementation of takaful and its development in Nigeria, particularly the Shariah board within the operating system of the takaful industry in Nigeria. It is therefore recommended that policymakers and other stakeholders should work vigorously in providing enough information about the takaful services and products to the general public.

Although the attitude towards the takaful industry is a significant determinant, which indicates a significant effect on the intention to patronize takaful services and products in the country, there is a need to increase awareness about takaful among the general public in Nigeria. There is a positive relationship between acceptance and subjective norms, suggesting that subjective norms are the main factor for the intention to patronize takaful service and products in the country. Takaful industry still needs more advertisements to increase awareness about takaful among the Nigerian citizens.

Regardless of the ethnics group, race and location, tribe, and recommendation by the family and friends, Nigerian takaful operators need to work hard to get proper recognition by improving their quality services and providing good services to the customers. The operators must know what customers want and their needs to satisfy them in giving good services to them. Moreover, based on the finding of the survey, improving awareness will increase the level of acceptance as well as the Shariah board in the operational strategies of takaful in the country. It has also been noted that perceive values do play crucial role in behavioral intention in supporting takaful services and products, and services in Nigerian' perceived values' is prescribed as to how services and products offered by insurance industry, especially takaful, are more on the product's ability to satisfy people needs or requirements. Hence, it can be finalized that such expectations or extra requirements do not play a role for the people to accept takaful services and products. Similarly, the results show that perceptions and awareness of takaful as well as quality services play significant roles in poverty eradication for the low-income earners in Nigeria, or it will satisfy the financial needs of both Muslims and non-Muslims in Nigeria. With behavioral intention to use takaful services and products in Nigeria, it is recommended for the takaful industry in the country to concentrate on the provision of experts in the field of Shariah-compliant review services, which will be emulated by conventional counterparts.

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The Relevance of Conventional and Islamic Crowdfunding as Financing Instruments for SMEs

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Abstract

Small and Medium Enterprises (SMEs) are the backbone of economy in most of the countries across the globe. SMEs support towards the economic growth and development has influenced country's GDP. Despite that, the sector still faces numbers of main constraints including lack of access to credit from formal financial institution. Nevertheless, with the advancement of financial technology, crowdfunding has emerged as an alternative platform that enables SMEs to seek fund for their business. This paper provides an overview to examine the relevance of conventional crowdfunding and Islamic crowdfunding as a financing instrument for SMEs and determine the appropriate model in crowdfunding that best suits to finance SMEs. This research applied the qualitative approach by reviewing the latest key literature in crowdfunding. Hence, the results show that the best model to be adopt as a financing tools among SMEs is equity-based crowdfunding either for conventional or Islamic crowdfunding platform.

Keywords: Islamic crowdfunding, financing instrument, SMES, equity-based crowdfunding

1. Introduction

Covid-19 had given sudden awful impact towards global economic landscape since the year 2020. SMEs had to bear the worst hit in term of financial or non-financial business performance (Hassan et al., 2020). Among the main challenges is the cash flow risk SMEs had to face as they still need to pay numerous fixed expenses despite having little or no revenue at all (Lu et al., 2020). Considering this, multiple financing assistance are proposed including the adoption of crowdfunding platform.

Despite that, crowdfunding which acts as one of the alternative funding channels for projects and campaigns had seen an incredible upsurge despite the pandemic mainly in the donation and reward-based crowdfunding platform. In this context, it is due to the response alert from the society to provide financial and non-financial assistance to the frontliners such as the healthcare workers as well as the vulnerable population, not to forget the financial support needed by the SMEs (Moine and Papiasse, 2020).

Nevertheless, this crowdfunding had also been on demand due to technological innovation and since the repercussion of global financial crisis in 2008 that had restricted the bank credit requirement, which increased constraints facing the SMEs to access for capital fund. The absence of collaterals and unconvincing business proposals also made it difficult for the SMEs to get loan approval from formal financial institutions (Mhoja et al., 2020). Hence this paper aims to address two research questions; what is the crowdfunding concept and its model from conventional as well as Islamic perspective, and which model is the best and most relevance for SMEs as financing tools.

Methodologically, this study is conducted based on selective literature review using keywords of crowdfunding and Islamic crowdfunding. The articles selected were prioritized based on number of citations and validity of them. The analysis was conducted using systematic literature review to answer the research questions. From the literature review, a few examples of crowdfunding platforms were selected according to the crowdfunding models, respectively.

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At the beginning, this paper will highlight the definition and model applicable for the conventional crowdfunding as well as acceptable model of crowdfunding from the Shariah perspective. In the next section, it will discuss the determinants of adoption as well as the performance of SMEs that adopt the platforms.

2. Definition of Crowdfunding

The concept of crowdsourcing has gained main observation from both academics and practitioners. While crowdsourcing is defined as "making an open online call for problem-solving and creative idea or critical evaluation or any other types of related business issue which allow the crowd from the society to submit the solution" (Ribiere and Tuggle, 2010), crowdfunding merely focuses in term of financial support drawn from the crowd to meet specified project goals via internet (Bradford, 2012). Crowdfunding can also be considered as a model of crowdsourcing which is outlined to simplify capital seeking process. The only fine line that differentiates between these two types of crowd is that crowdsourcing provides the labor while crowdfunding provides the fund (Allon and Babich, 2020).

In the past years, crowdfunding has emerged as one of the ways for businesses to seek financial funding as an alternative from traditional avenue for instance capital venture or angel investors without a need of standard financial intermediaries. In light of that, researches have given some definitions for crowdfunding which include a process of securing funds from a relatively small amount of contribution from relatively large number of participants through an online platform (Mollick, 2014).

According to Ley and Weaven (2011) they proposed that crowdfunding from a perspective of a venture capital means that "… source of start-up equity capital pooled via small contributions from supporting individuals collaborating through internet or social media platform". This definition highlights that by adopting the crowdfunding, SMEs in this context needs to be computer literate and have a good access to internet.

On top of that crowdfunding is also considered as "an act of raising capital, typically in small amounts, directly from a large group of investors (a crowd of investors), by passing traditional financing intermediaries (e.g., banks, stockbrokers, exchanges) but typically with the help of an internet- based platforms" (Allon and Babich, 2020). This definition added that crowdfunding also can omit any traditional financial intermediaries, hence favoring any unbanked entrepreneurs.

Most of the definitions above are always being manipulated and have a narrower concept of crowdfunding compared to the more well-known models of crowdfunding. Hence, Forbes and Schafer (2017) had outlined crowdfunding "as the process of taking a project or business, in need of investment, and asking a large group of people, which is usually the public, to supply this investment". In reality, crowdfunding exists in many forms and therefore a definition must be stripped down to describe only the fundamentals of the phenomenon.

Consequently, all the above definitions have the similar three key elements in crowdfunding which include a crowd of investors, an allocation of relatively tiny amounts of fund and the medium of social media or via internet which can facilitate the connection across the globe (Wall Street Journal, n.d.).

3. Model of Crowdfunding

Many perspectives can be considered to sub organize the crowdfunding model. This paper discussed taxonomy on compensation received by the funders which is the most well-known and applied in the current context. However, there are a few other taxonomies that can be applied such as degree of specialization, types of projects or even geographic location that can relate with different regulatory institutions imposing respective legal environments (Allon and Babich, 2020). There are three types of party which engaged directly to crowdfunding. The first party is a person or organization that seeks fund for their projects, or which runs the campaign. They can be referred as entrepreneurs or firms. The second party is a crowd of society that has the potential as the non-accredited investors. They can be referred as funder or backer, and the final party that becomes intermediaries between these two participants in the framework is the crowdfunding platform itself.

The European Commission has proposed that there are seven types of crowdfunding model which include: rewards-based crowdfunding, donation-based crowdfunding, peer-to-peer lending, equity crowdfunding, profit-sharing/revenue-sharing, debt-securities crowdfunding, and hybrid models (Internal Market, Industry, Entrepreneurship and SMEs, n.d.)

Nevertheless, this paper will only focus on four types of the most applicable models of crowdfunding available in the online platform. Firstly, donation based crowdfunding model, which places the funders as a philanthropist. Out of the contributions given, no rewards are expected as an acknowledgment besides the feeling good effect (Mollick, 2014). Post Covid-19 pandemic, there have been an upsurge in the crowdfunding platform mainly in charity-based model due to solidarity and support from the locals in providing financial and non-financial needs towards the frontliners such as healthcare workers and the vulnerable population in society which include medical and education expenses.

For instance, in the case of one crowdfunding platform in France, *Leetchi* had seen almost four times tremendous increase in campaigns launched post pandemic as compared to the Notre Dames fire incident that suffered devastating blaze. This proved that more pronounced contribution have been made by the donors to Covid 19 related campaigns (Moine and Papiasse, 2020). Nevertheless, in Malaysia there are only a few charity-based crowdfunding platforms including Skolafund, Bitgiving and Ekoperasi. These platforms connect both the donors and the recipients through a modest fund injection. Despite that, according to Meer (2014) there are two prevalent factors that play an important role for the donation based crowdfunding platform which are price efficiency and competition in the market.

On the other hand, the second approach is equity-based crowdfunding. Basically, it has the same modus operandi as venture capital works. It is just that the crowd may come from the non-accredited investors which democratize the opportunity of others to invest in the platforms. The UK has been the fastest growing region that legalize the regulatory framework in 2011, followed by the U.S. in 2015 as they approved the regulatory framework for equity crowd-funding by the Securities and Exchange Commission (Vulkan et al., 2016).

On top of that, Malaysia is the first country in ASEAN to introduce a regulatory framework to facilitate equity crowdfunding in 2015. There are six registered equity crowdfunding (ECF) platforms including pitchIN, Ata Plus Sdn Bhd, Crowdo Malaysia Sdn Bhd, Crowdplus Sdn Bhd and Fundnel Technologies Sdn Bhd, Ethis Ventures Sdn Bhd and 1337 Ventures (operated by Leet Capital Sdn Bhd) which have received approval for full operation since 2016. Hence, these equity crowd-funding operators have become the alternative venues for capital-raising sources to SMEs and innovative new businesses.

The third approach, which is commonly known as reward based crowdfunding is quite similar to the lending based as they receive something in return with the exception that the funder will not receive any financial returns or repayment for the capital they provide (Bi et al., 2017). In fact, they might be offered certain rewards for supporting campaigns which include their names being credited to a movie, opportunity to have a creative input in a product, or even chances to meet the founders of certain project (Gerber et al., 2012). For example, Kickstarter website had highlighted the top three most common reward types which are: (a) copies of the thing (e.g., the actual product, an assembled version of a DIY kit); (b) creative collaborations of various kinds (e.g., a backer might appear as a hero in the comic, or she may be painted into the mural); (c) creative experiences (e.g., a visit to the film set, a phone call from the author, dinner with the cast, a concert in the backer's backyard) (Kuppuswamy and Bayus, 2015).

Finally, the fourth model is debt based crowdfunding model. The fund is considered as a loan, with pre-condition of certain rate of return on capital invested. There are some models that collaborate with microfinance institutions to make the platform more reputable and trustworthy. For example, Kiva (www.kiva.org) one of the pioneers in lending platform, have raised almost $1.57 billion since its inception. It integrates the "Field Partners" which are the microfinance institutions across the globe to post at the website any qualified local entrepreneurs who are in need of capital. Next, lender will browse through the platform and pick any entrepreneurs that they wish to fund and make payment through PayPal payment gateway. Once Kiva receives the money, it will aggregate the loan and send it to the Field Partners, which then disburses the money to the selected entrepreneurs (Ibrahim and Verliyantina, 2012).

Despite that, the Muslim society had to limit themselves from adopting the debt based crowdfunding platform as the transactions involve the element of interest (*Riba*) which is prohibited according to the Shariah jurisprudence. Hence, the call is clear for Islamic crowdfunding platform to be available in the market, as an alternative for all the Muslims or even the non-Muslims society.

4. Islamic Crowdfunding Model

According to Bank Negara Malaysia, "Islamic finance and crowd-funding are inherently compatible and mutually reinforcing" to encourage *masalih mursalah* (unregulated public interest). The pillar of Islamic finance is built on Shariah principles that promote competency and sustainability. Besides, there are Shariah rulings that need to be adhered to such as the avoidance of interest (*Riba*), gambling (*Maysir*), uncertainty (*Gharar*) and all other prohibited matters (*Haram*) which includes society destructive activities like betting, alcohol, etc. Besides, it values ethical and highly moral values which are in congruence with Quran and the

Sunnah. Islamic finance upholds it strength with real economic activities. Hence it prevents the financial system from collapsing or at the very least prepares it to withstand moments of crisis (Hendratmi et al., 2019)

It promotes competency in the sense of having clear resources in the form of the Quran and Sunnah, and sustainability as per the five higher objectives of the Shariah (*Maqasid al-Shariah*), namely the protection of life, religion, intellect, lineage and wealth. Therefore, Islamic crowdfunding is a special model that lies on the principle that supports financial stability and social inclusiveness.

Table 1 below differentiates all contracts utilized in certain Islamic crowdfunding as opposed to the conventional crowdfunding.

Table 1: Difference between Islamic Crowdfunding and Conventional Crowdfunding

Type	Conventional Crowdfunding	Islamic Crowdfunding
Reward- based crowdfunding	Materialism	May utilize *Bay as-Salam*, which provides specific rewards, services or gifts to investors who fund the projects or businesses via crowdfunding.
Donation-based crowdfunding	Philanthropist	May utilize *Waqf*, *Zakat*, *Sadaqah*, *Hibah* which are based on the Shariah law.
Equity crowdfunding	Angel investors venture capitalist	May utilize *Mudarabah* or *Musharakah*. *Musharakah* crowdfunding is quite the same with equity-based crowdfunding. On the other hand, for *Mudarabah* crowdfunding, the funder will provide the whole amount of capital pledge, and the firm will fully responsible for the management. Once the profit is acquired, the funder and firm will allocate the profit according to the pre-determined ratio. However, in the case of loss, the investor will have to bear the monetary loss, while firm loss their effort.
Debt crowdfunding	Lending is based on interest; also known as P2P crowdfunding	Sale based contracts- *Murabahah* (cost plus), *Tawaruq*, *Ijarah.*

Source: Ibrahim et al. (2018)

Based on Table 1 above, most of the Islamic crowdfunding has adopted specific contracts for each model. All the contracts are based on Shariah law that in congruence with Quran and Sunnah, *Ijma'* as well as *Qiyas* (Ibrahim et al., 2018). However, all the above models can be utilized by Muslim consumers except for the lending-based crowdfunding as it incorporates usury (*Riba*) in the transaction.

5. Islamic Crowdfunding Analysis and Performance

Considering this, Islamic crowdfunding platform, are still in its nascent stage as compared to the conventional crowdfunding. The society perceives it as a complicated structure, and strict rules that may appear less entices to some inventors. Furthermore, some have mistakenly thought the platform is meant to be only for Muslim investors (Kazaure et al., 2020).

In fact, Islamic crowdfunding is open to everyone with the underlying basis similar to any other types of investment. The only key element in this model is that it adheres to all the Shariah jurisprudence and law in Islam. Hence two established Islamic crowdfunding platforms, namely Ethis.co (previously EthisCrowd) and Kapital Boost had been chosen for the analysis in term of the structure and the impact on the society. Ethis.co is one of the pioneers in Islamic crowdfunding which utilizes Shariah-compliant equity based Islamic crowdfunding in Malaysia. It is based in Singapore and is operating in 3 countries; Indonesia, Malaysia and Dubai, which is supervised by each country regulatory bodies respectively. Ethis.co is considered the world's first real estate Islamic crowdfunding platform and one of the first investment Islamic crowdfunding platforms in the world (Mustafida et al., 2021).

It adopts *Murabahah* (cost plus profit) contract in a direct sale and purchase of real estate assets and construction materials. Besides, Ethis has extended the contacts used into an advanced variation of *Murabahah*

(*Istisna'* plus *Murabahah*) model which enables the crowd to order assets such as house from developer and make progressive payments to contractors as these houses are built before selling them to Islamic banks at a profit. Most Ethis crowdfunding projects are affordable housing campaigns (Mustafida et al., 2021).

While Kapital Boost, is a hybrid crowdfunding based platform. It combines equity based and donation based crowdfunding model aims to promote the SME's business to grow and not to mention safeguarding the social welfare of underprivileged community. SMEs can seek asset financing via *Murabahah* structure, or by adopting *Qard* and *Wakalah* contracts or invoice financing (cash advance on unpaid invoice) to inject cash capital immediately. Most of the investments require turnaround of 90 to 360 days. Kapital Boost conducts a robust due diligence screening process to ensure less risk taken and the investments are ethical (Kapital Boost, n.d.).

6. Conclusion

The growth prospect for conventional and Islamic crowdfunding is huge considering the relative number of SMEs expansion throughout world. While traditional financing tools including venture capital or angel investors, both avenues rarely provide capitals for the unbanked SME entrepreneurs. On the other hand, start-up or even seed capital easily get funded through these online crowdfunding platforms which are also exciting as they utilize social media as the marketing platform. However, based on the four models discussed above, the most suitable and applicable financing tool for SMEs entrepreneurs seeking additional funds is the equity-based crowdfunding. With lower cost than the bank and higher accessibility, it is a better option for SMEs to choose for.

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Islamic P2P Crowdfunding (IP2PC) Platform for the Development of Paddy Industry in Malaysia: An Operational Perspective

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Abstract

Crowdfunding for agriculture provides a new social financing medium for agricultural financing, which is essential for promoting farmland revitalization and targeted poverty reduction among paddy farmers. The government sector and the social security system are unable to meet the demands of this growing systemic problem. In addition, paddy farmers in most developing countries strive to attain their basic needs and are among the most impoverished communities on the planet. This paper aims to present an Islamic P2P crowdfunding model as an alternative financing solution for paddy farmers in Malaysia. Besides, a standard operations procedure (SOP) has also been developed to ensure efficient management of the paddy project investments. This study uses document research methodology to analyze the related papers, journal articles and other published sources. Also, the literature on the financing gap faced by farmers and the crowdfunding solutions in agriculture has been reviewed critically and used to develop an alternative model. This study's findings reveal that Islamic P2P crowdfunding is expected to provide paddy farmers in Malaysia with an alternative source of funds to meet their liquidity constraints and finance their small businesses. The paper has also proposed an end-to-end operational procedure that can ensure the complete protection of different players' rights in the platform. The proposed model and SOPs can help policymakers and regulatory authorities to develop the required policies and create the needed agricultural crowdfunding regulations.

Keywords: Paddy farming, P2P crowdfunding, liquidity constraints, SOPs

1. Introduction

On a global scale, there is a massive obstacle related to the food supply. A red flag has been raised by the World Bank which requested increasing food supply by seventy per cent in the next thirty years to continue feeding the world population and meet their day-to-day food requirements (World Bank, 2019). It can be observed from this report that food production is at its lowest levels, and it is a worldwide issue caused by several correlated factors. Likewise, the agriculture sector's contribution to the Malaysian economy has shrunk in the last few years, which has negatively impacted rice production that is considered one of the most important commodities for the Malaysian population. The rice production quantity in the country has been sufficient to meet sixty-five per cent of the local needs, whereas the remaining rice supply is imported from countries like Vietnam and Thailand (Vengedasalam et al., 2011).

The agricultural sector is one of the most potent industries that have the potentials to overcome poverty issues. Based on the World Bank report, this field's development is efficient two to four times in raising incomes among underprivileged communities. It is accounted for contributing one-third of the global domestic product in 2014. Furthermore, future studies expected that this industry could feed up to 9.7 billion people by 2050 (World Bank, 2020). However, the agricultural sector's liquidity issues were one of the main obstacles that

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entrepreneurs face, which might have a negative impact on the global food production.

Adams and Hunter (2019) claimed that banking institutions are reluctant to give loans to farmers who lack the required collaterals. Besides, the higher default risk associated with these business activities together with the high transaction cost are also some of the factors. Also, financial institutions are hesitant to target small farmers due to the following reasons: (1) income instability; (2) the higher investments required in agriculture; (3) the higher default rate and difficulties to mitigate this type of risk; (4) the financial needs that have exceeded agricultural production (Anderson and Ahmed, 2015).

Due to the lack of financial resources, some smallholder farmers have turned to seek financing from private lenders. Some of these lenders are affluent individuals, while others are intermediaries who purchase farmers' crops and sell them on the open market. In exchange for offering financial assistance, lenders ask farmers to sell their crop yield at a reduced price (MasterCard Foundation, 2017). As a result, a higher interest rate does not seem to be a viable option because it leads to adverse selection (Coleman et al., 2006).

Entrepreneurs and researchers from all over the world have been drawn to the use of crowdfunding in farming businesses. Many crowdfunding platforms have been created to provide fund seekers with seamless access to alternative financial solutions. An example of this is Igrow Asia, which is a platform that connects farmers and investors. A farmer may use the platform to apply for funding and to expand their business. On another side, the investors will have the opportunity to participate in one or more campaigns listed on the platform, to have a social impact and enjoy high returns[1]. Farmfundr is another equity crowdfunding platform that focuses on farmland investments in the United States. It provides opportunities to invest directly in farming activities that produce crops, while highly qualified farmers manage farming activities. There are two profit generation methods for investors at Farmfundr, which are land appreciation and annual crop sales (DiLallo, 2021). According to FAO (2017), agricultural investments are preferable to lower the poverty rate, particularly amongst underprivileged people. Hence, investing in agribusinesses is the key to eradicate poverty and minimizing food security issues.

2. Literature Review

2.1 Crowdfunding: Concept and Types

"Crowdfunding" is an alternative financing method through which funds are raised in small amounts from many people or institutions to finance certain businesses. Lambert and Schwienbacher (2010, p.6) indicated that crowdfunding is similar to an open public offering of financing sources, in which activities are done online and via the internet means. As an extension to this, Jenik et al. (2017) described crowdfunding as a financing-based process or a market in which funds are raised from a large number of people or legal entities without going through any financial intermediaries. In order to connect borrowers seeking funds to finance their commercial activities, funds are collected in small amounts using mobile phones or internet-based platforms. From the above definitions, it can be inferred that crowdfunding is a financial mechanism that enables general public and institutions to help nascent entrepreneurs by investing online in their businesses. In brief, crowdfunding is an innovative financing solution that uses technology to raise funds and play the same role as traditional financial institutions such as banks (Mollick, 2014).

Understanding the various forms of crowdfunding is critical in determining if one or more are suitable for the agricultural sector. The majority of the authors agreed on four types of crowdfunding except for the European Commission (2015), which addressed six forms of crowdfunding, as illustrated in the following paragraph:

1. Donation-based or charity crowdfunding: in most cases, the amount raised from donors is insufficient to meet large scale goal. Every individual contributes towards a specific campaign on the platform without expecting any forms of return.
2. Reward-based crowdfunding: this is closed to charity crowdfunding, and the only difference is that people donate without expecting any profit. However, and as a token of appreciation, they will be receiving a non-monetary reward like goods or services.
3. Peer to Peer (P2P) financing: This platform connects borrowers with the crowd-lenders with an explicit understanding that the capital will be repaid plus interest. However, the amount of money borrowed through the platform is mostly smaller in comparison with traditional bank loans.

[1] https://www.techinasia.com/igrow-startup-arena-jakarta-2014-startup-asia-jakarta

4. Profit/revenue sharing: in exchange for financing venture, future gains or earnings will be shared with the crowd.
5. Debt-securities crowdfunding: debt securities such as bonds are issued on an online platform, where individuals are called to invest.
6. Hybrid model: This is to provide companies with a model embedding more than one of the crowdfunding types mentioned above.

This study focuses on peer-to-peer financing (P2P), which is different in terms of approach and context. P2P was defined by the World Bank Group, People's Bank of China (2018), as an internet-based platform that provides an alternative source of financing for the credit applicants, where the platform managers undertake detailed due diligence to identify low-risk borrowers and match them with individual investors. P2P is divided into two, commercial and non-commercial. Commercial P2P financing is a profit-driven platform where crowd lenders expect reasonable returns based on the level of risk taken. In contrast, most crowd funders in the non-commercial P2P financing do participate in the platform to empower the underprivileged borrowers without expecting anything in return (Bachmann et al., 2011).

P2P platform is considered an information intermediary rather than a credit intermediary. The platform management is responsible in providing the necessary projects' information, disclosure, information exchange, credit evaluation, and other services of matching and managing the communication between the lenders and borrowers. In brief, the P2P solution is a platform that matches lenders with borrowers without being held responsible for any losses or default risk. Diemers (2015) has laid down several factors that could impact the fintech industry's success, and this includes the position of a country as a leading global financial hub, the understanding of fintech benefits by capital markets firms, banks and insurance companies. Besides this, a vast operating fintech workforce is required together with a growing venture capital ecosystem.

2.2 Shariah Compliant P2P Crowdfunding

Islamic P2P Crowdfunding is defined as "the use of small amount of money obtained from a large number of individuals or organisations, to fund a project, a business or personal loan, and other needs through an online web-based platform in accordance with the Shariah principles" (Achsien and Purnamasari, 2016). One of the main differences between conventional and Islamic P2P lending is that the latter assigns an internal or external Shariah committee to oversee and review all business activities.

The Shariah-based crowdfunding platforms have experienced exponential growth in the last decade. Islamic financial instruments have been integrated into innovative crowdfunding solutions to develop alternative Islamic financing and investment models for the global Muslim communities. In the most conventional P2P lending businesses, there is a direct interaction between lenders and borrowers, where one party borrows money with a promise of repaying the total amount plus interest. In contrast, the Islamic or Shariah-compliant P2P model is based on asset financing through *Murabahah* agreement, where both parties agreed to the cost and mark-up of a specific purchased asset (Rajagopalan and Mirza, 2020).

In 2016, eight Islamic crowdfunding platforms named Funding lab, Ethiscrowd, Kapital Boost, Easi up, Launchgood, Blossom Finance, Narwi and Skola fund joined together to create an Islamic Fintech Alliance. This alliance's main objective was to enhance trust, promote Islamic fintech standards and broaden its access and social impact by ensuring support from regulators and different stakeholders (Ashfaq and Zada, 2021).

Ethis crowd is one of the first Islamic P2P crowdfunding companies that has adopted Islamic financial instruments and applied them in its fundamental business activities and operations. This institution's main activity is to match global investors and entrepreneurs to finance the Indonesian social housing projects. The crowdfunding platform's objective is not only profit-oriented but also to create social impact, as noted by Zatadini et al. (2019), who interviewed Husni Bajamal (Ethis employee). Mr Husni stated that the main objective of Ethis is to enable Indonesian families to own affordable houses. Similarly, investors will have a dual advantage of profit generation and social impact created.

The equity financing models such as *Mudarabah* and *Musharaqah* are used by Ethis crowd where the investors and entrepreneurs share performance, the risk of default, and profit. In addition, *Istisna' Murabaha* hybrid product is one of the main products used as a contractual relationship between the parties to finance the housing projects (Ethiscrowd, 2018). Kapital Boost is another Shariah based crowdfunding that is headquartered in Singapore and whose main business is to empower start-ups and SMEs in Southeast Asia financially. This platform operates in line with the Shariah principles and uses *Murabaha, Qard* and *Wakalah* agreements as an Islamic contract concluded between the parties. 74% of the funding campaigns at Kapital Boost are done through the *Murabahah* financing, whereas 26% of the funding was via *Qard* and *Wakalah* contract scheme (Hendratmi et al., 2019).

Besides the Ethiscrowd and Kapital boost, Blossom finance platform has adopted the famous cryptocurrency bitcoin and integrated it with a *Mudarabah* capital financing model (Redman, 2015). Equity financing is largely used in these crowdfunding platforms. However, Kapital boost uses the *Murabahah* agreement that carries lower risk than the other types of financing, enabling the investors to buy products and sell them to SMEs for the cost-plus profit margin (Hendratmi et al., 2019). Peer to Peer crowdfunding could be the game-changer in the future of Islamic finance, given a broader opportunity for small businesses to close the financing gap challenges they are facing.

Another Islamic finance product found useful in Islamic P2P crowdfunding and the agriculture industry is the Salam contract. Saiti et al. (2018) proposed a *Salam*-based crowdfunding structure that is a viable Shariah compliant instrument that can be adopted to finance agri-businesses in Afghanistan through crowdfunding platforms. This contractual arrangement has also been found to be effective and efficient for both investors and entrepreneurs.

Beehive is a certified Shariah-compliant platform that offers Islamic investments to empower SMEs in the United Arab Emirates, using commodity *Murabahah*. This platform follows the principle of profit and risk-sharing rather than the regular model used in banks, where the entire risk is transferred to the customer (Beehive, n.d.). Another similar Islamic P2P platform was launched in the Middle East region called Liwwa.com, this platform enables people to invest in small businesses. Furthermore, many other Shariah-based lending platforms, such as Halalfunder.com from Canada and UmmahHub.com launched in the UK, and served the same purpose (Achsien and Purnamasari, 2016).

Yuningsih and Muhammad (2020) evaluated the Shariah compliance of the Ethiscrowd P2P crowdfunding platform based on four essential parameters namely *'aqd* (contract), legal documentation, *Maqasid al shariah* and financial reporting. They have assessed few agreements adopted by the platform, such as *Istisna'* and *Murabahah* agreements, and they found that Ethiscrowd has fulfilled three Shariah compliance agreements, which are *Maqasid al Shariah*, *'aqd* and legal documentation. Nevertheless, the financial reporting parameter yet to be fulfilled as this company has not published any financial report that needs to be disclosed to the public.

Having said that, and according to Ethis Ventures' Crowdfunding Report (2018), there is a Shariah audit that is conducted every quarter by its Shariah committee to ensure its compliance with the Shariah principles. However, one of the main challenges facing the company is that some project developers misunderstand the Shariah basis of the contract. The Shariah compliance procedures are essential for every Islamic P2P crowdfunding platform to abide by in order to attract local and global investors. Thus, many efforts need to be made by the authorities to set Shariah guidelines and policies that will ensure all Shariah materials and requirements are in place during the P2P crowdfunding practices.

2.3 Financing Gap, the Status of the Paddy Sector in Malaysia and the Role of Crowdfunding

The financial industry perceives these emerging platforms as a disruptive technology that could threaten their financial operations. This threat also extends to the Islamic banking industry. A range of Islamic crowdfunding platforms operate to provide alternative financing and encourage entrepreneurs or business owners to access these services; additionally, these platforms offer a Shariah-compliant financial instrument which an additional advantage. Achsien and Purnamasari (2016) stated that the new emerging businesses encounter a financing gap that has negatively impacted their daily activities, so, unfortunately, banks always seem to be profit-oriented and look for stable projects.

Several developing nations promote growth programs for small and medium businesses to increase their development opportunities and enhance their economic activities. Small and medium-sized enterprises (SMEs) make up roughly 40% of GDP and 60% of jobs (World Bank, 2020). The SMEs' financing gap in developing countries has reached 3.4 trillion US Dollars, signifying that lack of financing has been one of SMEs' main challenges. Thus, the increasing number of crowdfunding solutions subject to authorities' supervision can tackle the financing and credit problems (SME Finance Forum, n.d.). Anshari et al. (2019) added that farmers do have lands, but they lack access to the financial resources to cover their operational cost. Therefore, they do refer to financial institutions to purchase mechanized materials.

According to a report on the effect of crowdfunding platforms on SMEs' growth, 70 per cent of borrowers have observed a substantial increase in their turnover, while 63 per cent have recognised a substantial benefit. In addition, a third of businesses that raised funds via crowdfunding platforms have faced difficulties in finding alternative sources of funding. Although 79 per cent of these businesses attempted to receive financing from banks before approaching crowdfunding websites, only 22 per cent successfully obtained funding (UNDP, 2019).

Rice is a valuable commodity and one of the world's most important food crops, especially in the Asian countries. The growth of the rice industry is related to the population trend and consumption level. As of 2020 statistics (United Nations, 2019 revision), Malaysia's population reached 32.32 million people, increasing at a rate of 1.3 per cent, which is requiring further efforts from the government and local farmers to produce sufficient rice to meet the growing demand.

Malaysia's rice production is lower compared with the neighbouring countries, as stated in a statistical report. According to the Food and Agriculture Organization's 2016 statistics, as cited by Omar et al. (2019), among the Asian countries, Malaysia is one of the main importers of rice after Indonesia, with more than 821,869 Metric Tons (MT) and a self-sufficiency level (SSL) of 70%. In comparison, the rice exporting countries are Cambodia, Thailand and Vietnam. During the third Malaysian Plan, between 1976 and 1980, and before the globalisation and trade liberalisation deal, the SSL reached a peak of 90% (Ismail and Ngadiman, 2017). Furthermore, according to 2018 statistics, rice imports decreased slightly to 808,000 MT (Hirschmann, 2020). Malaysia's lack of rice self-sufficiency could cost millions of ringgits and expand its trade deficit (Fatah and Cramon-Taubadel, 2017).

Another issue was raised by Omar et al. (2019), who said that palm oil contributes 40.2 per cent to Malaysian GDP, compared to 2.3 per cent for paddy and rice. This is due to the massive gap between total harvested fields for palm oil, which has increased from 1 million hectares in 1982 to 5 million hectares in 2016. In contrast, there was no significant increase in paddy harvesting areas, which is fluctuating for the past 50 years, between 0.5 million hectares to 1 million hectares.

According to Huang et al. (2018), crowdfunding platforms can play a key role in funding micro, small, and medium businesses. MSMEs constitute the majority of companies with access to online platforms in China. Regarding the project success, these platforms have a significant impact on entrepreneurs' behaviour and successful result. According to Lee and Chiravuri (2019) project creators (entrepreneurs) who have successfully raised funds through crowdfunding platforms are more likely to explore other industries in the crowdfunding market and create campaigns with higher funding goal. Anshari et al. (2018) introduced a similar digital market place model that supports agriculture's sustainability and connects all consumers through a centralised crowdfunding and payment platform focused on promoting resourcefulness, transparency and public engagement in agriculture.

Iddris (2019) interviewed experts in crowdfunding and start-ups, and he found that several factors contribute to the innovation in microenterprises in Africa. These are business growth, marketing innovation, feedback and pre-sell, which do have a wider managerial implication for small businesses. Besides, creativity, funding and democratisation are also considered as impactful factors.

From a financing perspective, Yang et al. (2020) selected 629 agricultural crowdfunding campaigns from April 2019 to April 2020 in China and conducted the multiple regression analysis to determine factors influencing the financing performance. The results indicated that service value, personnel value and image value of agricultural crowdfunding projects have a significant influence on financing performance. Therefore, the projects' successfulness of agricultural projects is based on certain factors that need to be taken into account while raising funds.

The potential and impact of crowdfunding for the development of the paddy farming sector are even higher due to the increasing demand for rice in Asia and the food security issue that is a result of the growing number of population. The development of Islamic crowdfunding companies is a necessity to close the financing gap and provide numerous benefits for the paddy farmers and local communities in Malaysia.

3. Research Method

This qualitative-based research uses document research methodology to analyse the related papers, journal articles, and other published sources. The research includes the review of theoretical and empirical studies on crowdfunding, Islamic crowdfunding and paddy farming to explore the existing themes that can be used for the proposed conceptual framework. This study discusses the required practices of the Shariah committee in a P2P crowdfunding platform to ensure a full Shariah compliance and reviewed the existing crowdfunding models in the literature to analyse the data. The following section discusses the conceptual framework of a Shariah based P2P crowdfunding model and the required operational parameters for a successful implementation. With regards to the Shariah basis and operational analysis, the paper referred to the Shariah crowdfunding related articles, Shariah standards and the related Islamic crowdfunding platforms to establish an end-to-end operating system.

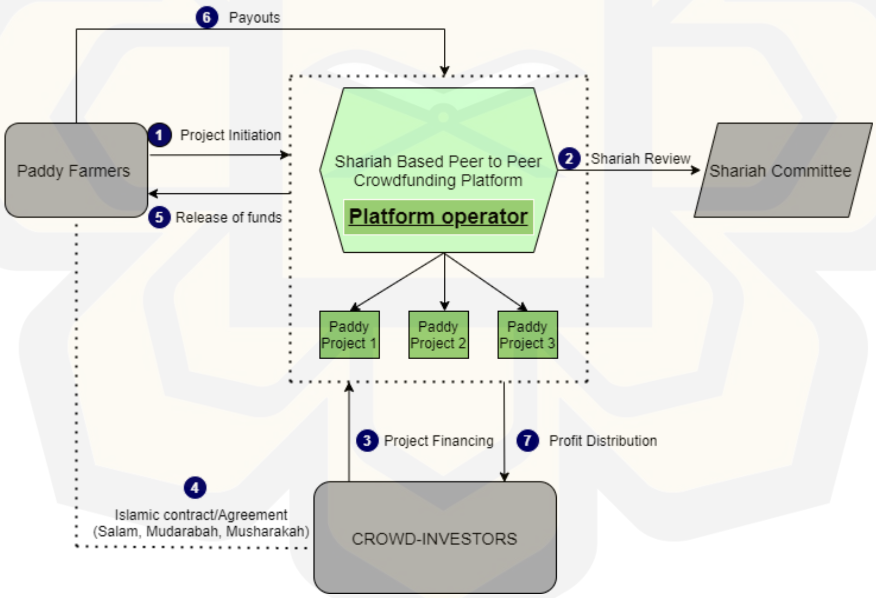
4. Proposed Islamic Peer to Peer Crowdfunding Structure for Financing Paddy Farming in Malaysia

4.1 The Islamic Peer to Peer Crowdfunding (IP2PC) Model

Agriculture is a critical component for achieving food security, and its development depends on discovering initiatives to help farmers overcome their financial challenges. This study proposes a Shariah based P2P crowdfunding platform (as shown in Figure 1) that can be adopted to finance paddy farming businesses in Malaysia. The parties involved in the crowdfunding platform are as follows:

- Paddy farmers
- Platform management
- Shariah advisory committee
- Crowd-investors

Figure 1: Islamic P2P Crowdfunding Platform



Source: Authors' Own

Diagram Flow Process:

Step 1: The paddy farmers approach the platform for online submission of their business proposal. The crowdfunding operators to go through a due diligence procedure and select the best project that conforms to the platform standards.

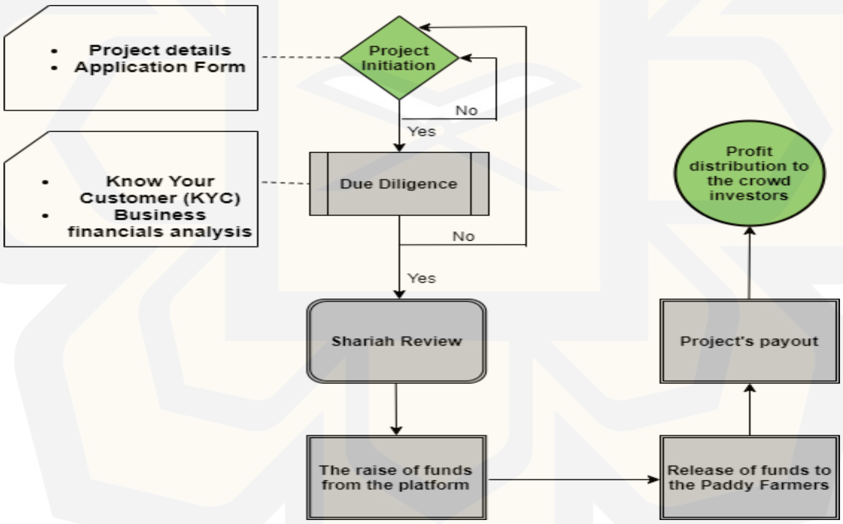
Step 2: The Shariah committee to undergo a Shariah review process on the project and to confirm that all activities are in line with the Shariah principles. Firstly, the Shariah committee is responsible in ensuring the Shariah compliance of funds collection and distribution procedures, and for the structuring of the underlying agreements. Besides, all marketing materials and contents must be revised to avoid any misleading information disclosed to the public. Finally, and importantly, the Shariah committee needs to review the financials in order

to guarantee a full practice of Shariah standards (Yuningsih and Muhammad, 2020).
Step 3: The crowd of investors is to check the different projects listed in the platform and choose to participate in one or more. In addition, there will be a fee management imposed on each investment by the platform operator.
Step 4: The contractual relationship between the investors and the paddy farmers can be on an equity or a sale-based arrangement, such as *Musharakah, Mudarabah* or *Salam.*
Step 5: The platform management will release funds to the paddy farmers as soon as the campaign reaches its target. The funds' distribution can be done in one lump sum or tranches.
Step 6: Upon accomplishing the paddy project, the payouts start when the product is sold by the paddy farmers, who will begin paying back capital plus profit to the platform management.
Step 7: The platform operator starts the disbursement of profit plus capital to the crowd investors. The profit distribution will be based on the proportion of the profit agreed upon during the agreement between the parties.

4.2 The Operational Structure of IP2PC for a Successful Model Application

The adoption of standard operations procedures is found to be of immense benefit for any quality initiative. It is defined as "a set of written instructions that document a routine or repetitive activity. It is a set of detailed written instructions to achieve uniformity of the performance of a specific function. A standard operating procedure or SOP is a set of instructions that address the who, what, where and when of an activity". (Singh, n.d.) In the IP2PC model, the SOPs followed are a set of processes and steps needed for platform providers to increase the quality of services (Figure 2).

Figure 2: IP2PC Model Operations Manual Structure



Source: Author's own

Step 1 – Project initiation

It is the first step in the proposed crowdfunding platform where farmers do submit their project proposal online. The platform management provides an online subscription page that allows farmer users to log in, fill in and upload the required documents. There are two requirements at this stage:

- Project details: the farmer users must create a business project proposal based on the request form available on the platform. The proposal should include the project core value proposition, project plan, project timeline and product sale strategy. The system should also enable uploading documents, images, and videos to disclose all information related to the project and enhance transparency with the investors.
- Application form: the project proposal application form should request the project title, name of organisation/business, the management and the team's full details, address, contact details, farming

connect membership details, the land or project owner, the tenant in case the land is leased and landlord details, the ownership or property land agreement, and a brief description of the business (Local action Group, n.d)

Step 2 – Due diligence: The due diligence assessment criteria will define the need to enter into a project or investment partnership with the parties. It refers to a set of protocols for having a comprehensive review of an investment agreement in the context of deciding on an appropriate capital investment that entails significant economic risks (Novikov et al., 2018).

Cumming et al. (2019) used empirical data analysis to assess the different factors influencing the application of due diligence in crowdfunding platforms. They found a strong relationship between due diligence and legislation updates. Besides, a correlation also exists between the size of the crowdfunding platform and the fundraising success rate. According to the authors, due diligence has the potential to identify and limit the lower quality projects and hence increase the success rate of the listed campaigns.

In this model, the crowdfunding operator must undergo the due diligence procedure for both investors and business owners. The following are the two aspects of due diligence that need to be taken into account:

- Know your customer (KYC): The Financial Action Task Force (FATF) has promoted the policies for a robust financial system and prepared the basic requirements to know your customer. These policies aim to protect the platform against terrorist financing, money laundering, and weapons proliferation (Adl and Haworth, 2018). There are specific procedures outlined by Adl and Haworth to identify the targeted customers' background. Hence, investors' required information in this crowdfunding platform is the identification card details to ensure that the potential investor is not involved in any illegal activities. Besides, the applicant or business owner must provide his or her details and company information. This information is to be cross-checked with the national or international data system providers to check whether they are free from any sanctions, bankruptcy, or insolvency filing.
- Business financial analysis: financial due diligence is the key to the success of paddy farming projects. The main objective here is to investigate the past, present and future financial performance of the targeted business owners. According to KPMG (n.d.), financial due diligence is an investigation analysis conducted on companies to determine the critical financial risk, assess the businesses' key issues, and identify the critical factors behind maintainable cash flows and sustainable profits. The platform operators need to select a profitable paddy farming project in order to maintain positive relationships with their investors. Therefore, financial due diligence is considered one of the most important steps for a crowdfunding operator to attract investors and avoid a future lawsuit, especially when the regulatory authorities require due diligence.

Step 3 – Shariah Review

The Shariah department ensures overall operation activities and product offerings are in line with Islamic principles, so upon receiving any project, the necessary Shariah checks should be performed to ensure the project is legitimate and to verify the creditworthiness of the paddy farmer. These operational activities are done to achieve wealth protection as one of the main Shariah objectives (*Maqasid al-Shariah*). Bank Negara Malaysia (2019) has listed the Shariah Advisory Committee duties and responsibilities that can also be applied in Islamic P2P crowdfunding. These duties are as follows:

- Provide necessary advisory on Shariah matters to the financial institution and be responsible for all Shariah opinions, decisions and views provided by them.
- The Shariah department should also be responsible for the endorsement of the Shariah policies and procedures prepared by the bank and to ensure that all contents are free from elements that are not in compliance with Shariah guidelines.
- To ensure the Islamic products of the bank are in line with the Shariah principles. The Shariah department must approve all terms and conditions, provisions of the contracts and agreements used in the execution of transactions. They should also endorse the marketing advertisements, product manual and brochures used to promote the products.

The Shariah guidelines and requirements set by the regulatory bodies within a particular jurisdiction must be strictly followed. Shariah compliance is important when the global Muslim market is targeted. Thus, platform managers must always ensure that all P2P crowdfunding activities comply with the Islamic law.

Step 4 – Fundraising, payouts and disbursement of funds

The main potential of crowdfunding is to raise capital and help close the financial gap facing small businesses. The fundraising procedure is heavily related to social media promotion and online communication with the crowd to easily share information about crowdfunding campaigns in certain geographical targeted areas (Agrawal et al., 2010). An effective marketing strategy is a crucial factor for a successful raise of funds. Crowdfunding appears to be an excellent platform for small businesses to reach global investors and gain support for their projects, products, and services without relying on pre-existing resources.

The next stage is the disbursement of funds to the business owners or farmers. The disbursement procedure should be mentioned in the contractual agreement with the fund seeker. In addition, funds disbursement can be in a predetermined tranche (Asian Development Bank, 2017) or one lump sum. The crowdfunding operator must ensure that all required documents or collaterals are submitted before distributing funds to the end beneficiaries. The distribution of profit or the payout procedure is the last stage where the payment of profit plus capital to be paid back to the capital providers, who will be receiving their proportion, based on the invested amount stated in the agreement.

5. Conclusion

The funding gap issue is one of the main barriers encountered by paddy farmers. The emerging crowdfunding platforms serve as alternative financing solutions for the last decade. This innovative and unique solution has successfully closed the financing gap of many global businesses and helped them grow. Various crowdfunding models have been developed and discussed in various literatures. Nevertheless, there is a lack of studies on the potential of Islamic P2P crowdfunding to empower paddy farmers.

Furthermore, less attention has been paid to producing a standard operations procedure (SOP) of a crowdfunding platform that aims to finance the paddy farming sector. Hence, this article contributed to the literature by highlighting the prospects of Islamic P2P crowdfunding as a new fintech solution that can support small paddy farmers in meeting their financial needs. The emphasis was on creating an Islamic P2P crowdfunding model that discussed the role of different stakeholders in the platform. Besides, and for successfully implementing of the IP2PC model, the authors developed a standard operations procedure shedding light on various operational activities and investment procedures needed for a successful investment.

There are three different parties involved in the IP2PC model: paddy farmers, investors, and platform operators. The paddy farmers or the fund seekers approach the platform to receive funds for their small businesses. Upon receiving the financing, they execute the projects and share returns in every harvesting period until the entire invested amount is repaid. The global investors explore the investment opportunities provided in the platform and do invest online in one or more paddy projects. Finally, crowdfunding operators play the role of platform management and do coordinate between different parties involved and ensure effective implementation of Shariah compliance supervision through its Shariah committee department. From an operational perspective, the IP2PC structure discusses the different requirements needed to protect the investors' rights, highlighting the roles and responsibilities of different parties for successful kick-off paddy farming projects. Thus, this study developed a viable and sustainable solution that would address the financing issues faced by paddy farmers, which can be the real vehicle towards developing the agriculture industry. This paper's novelty lies in the proposed IP2PC model and the SOPs developed to enhance the management system of crowdfunding platforms that aim to match global investors with paddy farmers of different states in Malaysia. Finally, and more importantly, Islamic P2P crowdfunding embedded in paddy fields can be a vehicle towards achieving sustainable food security and nutrition in Malaysia.

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Assessment of 5Cs Relationship towards Credit Risk Management: Evidence from Islamic Banks

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Abstract

This study aims to provide a new approach to assess the Character, Capacity, Capital, Condition, and Collateral (5Cs) variables towards the Islamic Bank Credit Risk Management from the Islamic Banks in Nigeria. The study used a quantitative approach using a structured questionnaire; 310 individuals participated. Data are sourced from Islamic Bank staff, customers of Islamic Bank, experts from financial institutions and some Shariah scholars of the advisory board of Islamic banks. The study employed structural Equation Modeling (SEM), using AMOS and SSPS, are used for analysis. The results indicate a positive relationship between Character, Capacity, Capital, Condition, and Collateral (5Cs) and Islamic Bank Credit Risk Management; such can also control and mitigate Credit Risk in an Islamic Bank in Nigeria. In the managerial part, such credit risk should be considered vital in examining and controlling credit risk-mitigation. The paper indicates a positive and significant relationship between the Character, Capacity, Capital, Condition, and Collateral (5Cs) and Islamic Bank's Credit Risk Management. The authors innovatively use a unique sample to assess the relationship between 5Cs and Islamic Bank's Credit Risk Management. Even though 5Cs and Credit Risk Management are well-known in the conventional financial concept system, while have not been elaborate on Islamic Banks as the paper attempts to fill the gap. The study is limited to Northern Nigeria and did not cover the entire regions of the country due to the resource constraints and short study period.

Keywords: 5Cs, credit risk management, Islamic banks, credit

1. Introduction

Islamic banking, which origin can be traced back to the 1960s, is considered one of the fastest-growing sectors based on an interest-free system. The scheme was initially started in 1963 in Egypt (Wan Ibrahim and Ismail, 2015). The size and number of Islamic banking are continuously growing in different parts of the World, currently operating in more than 75 countries around the World (Salman and Nawaz, 2018). Since then, Hasan (2020) recorded that Iran and Sudan's financial services operate in line with Islamic principles (Hussain et al., 2016). In some other countries, such as the Western World, conventional financial institutions co-exist with Islamic banks under the same umbrella as an Islamic window or subsidiary (Hasan, 2020). History indicates that during the second wave of the 2008 world financial crisis, Islamic banks emerged unscathed, suggesting the asset and credit of Islamic financial institutions (IFIs) were nearly twice of conventional banks (Chamberlain et al., 2020). However, Daher et al. (2015) indicated that Islamic banks lacked strong risk management. IFI refers to a financial institution that strictly adhere to the rules and tenets of Shariah, which distinguished the practical operations of Islamic bank and conventional system, such as the prohibition of interest rate, the reliance on profit-sharing and tangible assets, respectively (Yusof et al., 2015). According to Heckmann et al. (2015), risk refers to uncertain future events that could influence the achievement of organizational goals and objectives, including financial, strategic operational and financial compliance. It could also indicate an uncertain future possibility like a failure of a borrower to repay on time.

Credit risk arises whenever a borrower fails to meet their obligations as specified in the loan contract. Financial institutions' health impairs properly managed credit risk and effective management often requires

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dealing with factors affecting credit risk management (Taiwo et al., 2017). Credit risk is one of the significant risks experienced by the conventional system as well as the Islamic banks as a new actor in a field where it is not immune to such risk. Many literature reviews discussed the risk related to products rendered by Islamic banks, such as *Mudarabah*, *Musharakah*, *Murabaha*, *Salam*, *Istisnah* and other related instruments. Instead, in this regard, the study focuses on individual capacity and capability towards credit risk management. In the process, the study will answer the following question: How can Personal Character, Personal Capacity, Capital, Personal condition as 5Cs affect Credit Risk Management?

The study is organized in the following sequence; the second section is the literature review, aligns with credit risk management's determinant factor. The third section is the methodology used for analysis. The last section is the results presentation discussion, conclusion, and limitation.

2. Literature Review

This section focuses on factors affecting credit risk based on individual borrowers' ability to repay the debts based on client assessment towards credit risk management. The guidelines of credit risk in an Islamic bank is designed by a risk management board, which is clearly defined as a potential failure that needs to be assessed in terms of its obligation and attributes on the beneficiaries to manage the essential and possible failure from scratch (Iheduru, 2004). The individual's assessment and identification of the individual capacity through 5Cs of credit which an Islamic bank tactically adopted is to gauge the potential borrower's creditworthiness. The five Cs consist of Character: which is identifying the applicant's credit history; Capacity: indicating the income to debts ratio of the borrower; Capital**:** once the client is a business owner or borrowing through an organization, the capital amount of that organization used for investment needs to be checked; Collateral: its attribute to an asset that backs the borrowing or stands as security for the borrowing; and Condition: is act as the reason for borrowing and the amount to be generated during or at the end of the investment.

2.1 Information Theory of Credit

The Information Theory of Credit refers to the amount a firm or individual credit rating has as financial institutions to predict the possibility of repayment of the loan from an individual or firm as a prospective customer. The more the financial institution assesses the potential customer's credit history, the more profound borrower would be evaluated by the bank (Frost et al., 2019).

2.2 Determinant Repayment of the Loan

The recovery of a loan from an individual or firm can be attributed to various factors, ranging between credit management administration and economic conditions. One of the most significant and critical determinants of loan repayment depends upon the robustness of credit appraisal, which can manage customer credit lines (Chaibi and Ftiti, 2015). The credit assessment helps financial institutions tactically grape an insight into a customer's financial weakness or strength to analyze its repayment patterns and credit score history. However, credit assessment's effectiveness depends on the procedure and method used to evaluate the customers' credit history (Lessmann et al., 2015). Chaibi and Ftiti (2015) discussed that accessing credit approval in a financial institution is simple but subjective, which is a fairly complex method that refers to computer-generated models. The focus on such a procedure is to avoid defaulting after credit issuance. It has been proven that credit management policies discourage loan repayments (Freel et al., 2012). According to Owusu-Antwi and Antwi (2010), interest rate contributes to credit defaulting, especially if it is high. Still, borrowers can settle their debts if the interest rate happens to be low. Therefore, a higher interest rate discourages borrowers from repayments and applications. Quintuss et al. (2015) indicated that the economic conditions affect and influence the loan repayments and further highlighted that the wide fluctuation of the economic cycle may disrupt the capacity and ability of the customer to repay loans as planned. Therefore, credit policies on recovery and disbursement should consider such a factor while planning for credit policy.

2.2.1 Empirical Studies

Abdirahman (2020) investigated the relationship between performing loan and non-performing loan practices in conventional financial institutions. The study shows that there is a need for financial institutions to espouse practices of non-performing loan management. The approach ensures limited lending, sufficient collateral, loan securitization, procedure in addressing loans and clear lending assessment facilities. The findings further revealed the positive relationship between financial performance and non-performing loans practices and management, which will lead to improved financial performance based on credit risk. Nyasaka (2017) examined the relationship between non-performance and credit risk management. The study aimed to identify and discover a new effective way to employ credit management techniques in assessing non-performing loans. The study tried to establish the relationship between credit risk practices and non-performing loans by examining Kenya's financial institutions. The findings indicated a combination of intensive credit risk management practices linked with close supervision by the last resort, which will significantly enhance the non-performing ratio and confirm a strong relationship between credit risk management and non-performing loans. Haile (2015) studied the determinants of loan defaulting and employed a credit scoring model of conventional financial institutions. The research found that the customer's characteristics, profitability, customer's activity, revenue stability, financial situation, contractual relationship, financial institution customers' relationship and credit risk control influence financial institution's credit risk. The findings revealed that factors like marriage, women, bank proximity and aged influenced a better technology system which is flexible to adjust to market changes at all times. The findings also identified that frequent loan maturity, project diversification collateral and personal guarantee are adversely affecting default risk. Shuya and Sharma (2018) revealed that poor loan repayment is due to the delay in loan disbursement to respective beneficiaries and becoming burdensome disbursement procedures. Some considered political affirmation to influence loan approvals. Disyatat (2011) suggested that the lending policy should always be in line with bank strategy and considered factors such as industry norms, existing credit policy, prevailing economic climate and general economic condition to influence lending policy.

2.2.2 Character

Character is considered a subjective evaluation of personal integrity of the borrower. Such assessment checks the trustworthiness and previous records of borrowing to justify its honesty in loan repayment without imposition from lenders. This indicates human and moral factor towards commitment and responsibility. The generated information to be noted in observing character is the borrower's previous credit reference (Moulton, 2007).

2.2.3 Capacity

The capacity assessment indicates the borrower's ability to settle its loan on the due date (Kodongo and Kendi, 2013). The evaluation of customer financial information will determine the capacity of the borrower. The borrower's ability is to be determined using several tools of predictions such as profit margin, coverage ratio, debt service and quick ratio.

2.2.4 Capital

The bank determination towards industry, organization or firm is significant in accessing the organization's risk. An industry with high equity can handle all expenses to ensure smooth profitability and breakeven (Greenwood et al., 2010).

2.2.5 Collateral

The collateral serves as an alternative source for repayment of the loan if there be a failure to securitize financial exposure. This collateral must have a value to deploy and cover the loan amount (Berger and Black, 2011).

2.2.6 Condition

The condition refers to the reason behind the loan and the state of the economic environment. The loan approved is based on a fair study on critical condition and stipulation. This is to discover borrowers' vulnerability in the current economic situation (Daly, 2010) and to measure the hindrance that may cause the risk default on loan repayment.

The objective of this study is to detect the assessment impact of 5Cs in the Islamic banks towards credit risk management.

2.2.7 Research Framework

This research is developed through a framework based on the above literature from the concept of 5Cs on Islamic bank's credit risk management.

Figure 1: Research Framework

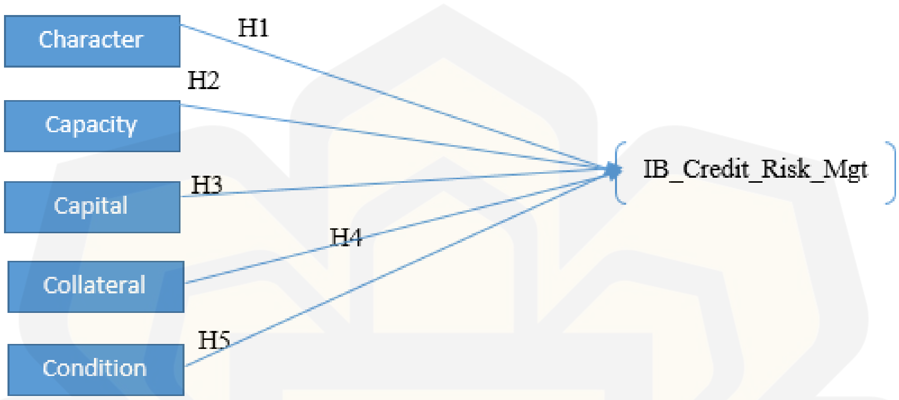

Table 1: Hypotheses and Variables

Hypotheses	Variables
H1	Character (CH) significantly affect Credit Risk Management (CRM)
H2	Capacity (CA) significantly affect CRM
H3	Capital (CP) significantly affect CRM
H4	Collateral (CO) significantly affect CRM
H5	Condition (CD) significantly affect CRM

3. Methodology

3.1 Research Design

Many researchers have proposed a causal research design in this type of study. The study adopted a quantitative approach that examined the relationship between the factors, effect and cause, which is evaluated statistically using the Structural Equation Modeling. The study was deemed suitable and relatively assessed to test how the independent variables affect credit risk management of the Islamic bank. The effect analysis is considered significant and satisfactory in it attempts to find the relationship between the existing variable through Islamic bank. Both the AMOS and SSPS software are used for the analysis.

3.2 Data Collection

The data were gathered from the customers of Islamic bank, experts from financial institutions, Shariah scholars of the advisory board of Islamic banks using a structural questionnaire for analysis. This study tries to obtain data from appropriate individuals to avoid biased results. After removing missing values and data screening, the total number of returned questionnaires was 310 for analysis, which is tactically considerable under the Structural Equation Modeling based on the Confirmatory Factor Analysis, in confirming the 5Cs on Islamic bank and credit risk management.

The Structural Equation Modeling (SEM) used flexible and litheness model for conducting multiple predictions and variables criterion, model errors in measurement for variable construct latent and relationship in a single model (Bisbe and Malagueño, 2015). SEM shields all indictors reflected in the constructs, which have been analyzed based on the SEM including the Confirmatory Factor Analysis (CFA) and the Covariance-Based Structural Equation Modeling (CB-SEM) of which the study considered as the model of analysis as (CB-SEM) in the research. Reliability and validity were also used to determine the consistency in the data. The composition reliability, Cronbach's alpha, Average Variance Extracted (AVE), and convergent discriminant validity were all checked for accuracy of the research variables.

4. Results and Analysis

Table 2: Demographic Analysis

Var.	Freq.	Percentage
Gender		
Male	190	61
Female	120	39
Age		
18-30	30	9
31-40	150	46
41-Above	140	45
Education		
Primary	10	0.3
Secondary	50	16
Degree	150	48.5
Master –above	100	32.4
Working Experience		
Working in financial Institutions	80	26
Financial experts	150	48
Others	80	26
Monthly turn over		
Less Naira 50,000,	50	15.8
N100,000 – N250,000	180	58.2
N300,000 – N500,000	40	13
N501,000 – Above	40	13

Referring to Table 2, the description of the above indicates the profile and characteristics of the respondents. The sample shows that 61 per cent are male while 39 per cent are female respondents. A total of 46 per cent of respondents were above the age of 31-40, indicating that most of them are financial experts and financial institution workers who were youth and middle age. 50 per cent of the respondents were degree holders who attended universities, implying that most of them are skilled people working with a financial institution or financial experts. Furthermore, the monthly turnover of the participants indicate that 58.2 per cent of the respondents earn between N100,000-N250,000 equivalent ($263-$657) per month. The number of staff determines the size and capacity of the financial institution.

4. 1 Measurement Model

4. 1.1 Reliability and Validity

The study accessed the reliability of data in three different assessments namely: Cronbach alpha, Average Variant Extracted (AVE) and composite reliability. The factor loadings of constructs as recommended loading should be 0.5 (Hair et al., 2017). The idea of recognizing discriminant validity is to measure the legitimacy. Hair (2010) shows that `bigger discriminant acceptability shall be considered below 0.85.

Table 3: Factor loading, Measurement of CR, AVE and Cronbach's alpha

Variables	Code	Factor Loadings	Composite Reliability (CR)	Average Variance Extracted	Cronbach's Alpha
Character			0.847	0.800	0.826
	CH1	0.642			
	CH2	0.914			
	CH3	0.845			
			0.758	0.714	0.770

Capacity					
	CA1	0.747			
	CA2	0.729			
	CA3	0.666			
Capital			0.902	0.906	0.790
	CP1	0.916			
	CP3	0.897			
Collateral			0.838	0.795	0.787
	CO1	0.769			
	CO2	0.783			
	CO3	0.833			
Condition			0.697	0.732	0.696
	CD2	0.695			
	CD3	0.767			
IB Credit Risk Mgt.			0.682	0.719	0.681
	CRM1	0.697			
	CRM2	0.742			

All standard factor loadings must meet the minimum of 0.5, showing the positive loadings above 0.5. There were some variables which loaded below the level 0.5 and were removed such as CD1 and CRM3 which were poorly loaded as indicated during a pilot test of the variable loadings as recommended by Hair et al, (2017). The reliability and validity were also used in the above Table 3 to indicate and represent each group as defined in the above Composite Reliability (CR) columns. The Average Variance Extracted (AVE) and Cronbach's Alpha were considered significant and good loadings only in the case of Condition and IB_CRM shows near to 0.7, hence is also considered.

Figure 2: Measurement Model

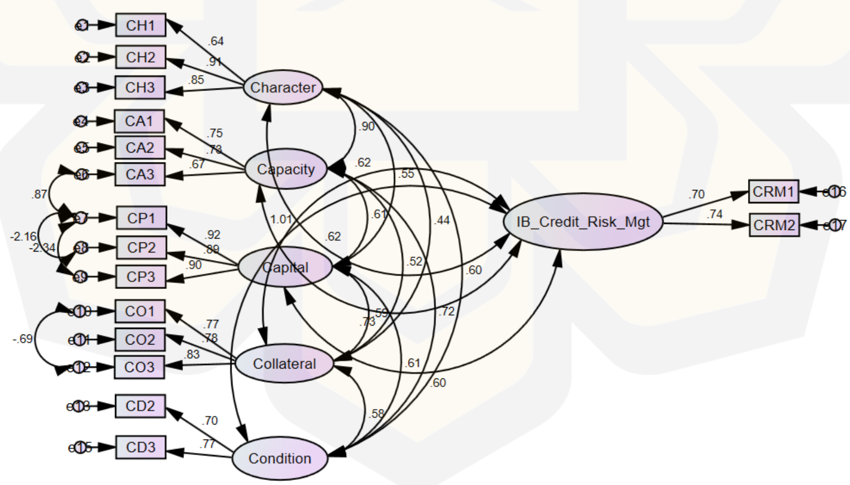

Table 4: Correlation Coefficient

Var.	(1)	(2)	(3)	(4)	(5)
Character (1)	1				
Capacity (2)	.897	1			
Capital (3)	.553	.614	1		
Collateral (4)	.431	.518	.594	1	
Condition (5)	.605	.720	.611	.581	1

The relationship between Character and all other variables are >0.5, except Collateral-Character (0.431). While the other variables shoed a positive and significant relationship as predicted by (Abdirahman, 2020; Haile, 2015; Nyasaka, 2017), especially between Character and Capacity.

Table 5: Goodness of Fit Indices

Measures	Position	Authors	Suggestion
CMIN/DF 3.018	Acceptable	Marsh and Hocevar (1985), Bantler (1990)	< 5.0
GFI 0.915	Satisfactory fit	Chau (1997), Grover (1993)	> 0.9
AGFI 0.864	Good fit	Byrne (2010)	> 0.8
CFI 0.944	Satisfactory fit	Bentler (1990), Hatcher (1994)	> 0.9
NFI 0.919	Satisfactory fit	Bentler and Bonett (1980)	> 0.9
TL 0.921	Satisfactory fit	Forza and Filippini (1998)	> 0.9
IFI 0.945	Satisfactory fit	Byrne (2010)	> 0.9
RMSEA 0.076	Good fit	Byrne (2001)	< 0.08

The CB-SEM is considered by endorsing latent variables and goodness of fit (GOF). The model GFI indicates a high acceptance level at above 0.9, as recommended by (Chau, 1997) and (Grover, 1993). AGFI is above 0.8, as recommended by (Bryne 2010). CFI also indicates a level of acceptance as above 0.9, while RMSEA is considered below the level of 0.8 (Bryne, 2001). The study indicates that the research model is developed and confirmed and has good overall goodness of fit as indicated in Table 5. The path coefficient measurement shows positive results, as shown in Figure 2, which illustrates an influential relationship among the constructs variables.

Table 6: Discriminate validity

Variable	CH	CA	CP	CO	CD	IB_CR_Mgt
Character	.192					
Capacity	.266	.192				
Capital	.240	.272	.154			
Collateral	.219	.255	.217	.223		
Condition	.319	.213	.275	.293	.327	
IB_CR_Mgt	.306	.329	.406	.528	.432	.307

Notes: Character (CH), Capacity (CA), Capital (CP), Collateral (CO), Condition (CD), Islamic Bank Credit Management (IB CR Mgmt)

Discriminant validity, to which extent the construct is distinct from each other, discriminates between a particular latent construct and other constructs of a similar nature and should not be above 0.85 as indicated by (Hair et al., 2017).

Figure 3: Measurement Model

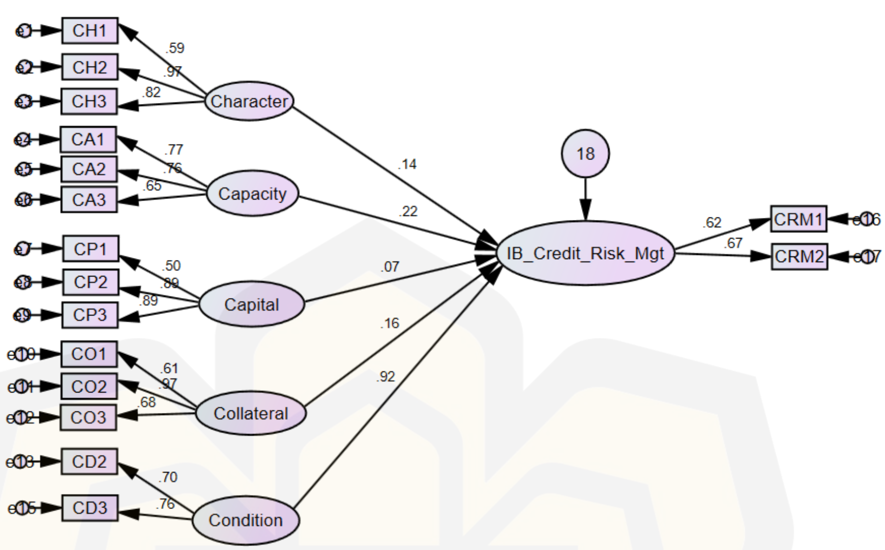

Table 7: Hypotheses Testing

Var.		Est.	S.E	C.R	p-value	Hypotheses status
Character	-> IB_CRM	.142	.048	2.481	.013	Accepted (H1)
Capacity	-> IB_CRM	.221	.056	3.466	0.001	Accepted (H2)
Capital	-> IB_CRM	.068	.083	1.178	.239	Rejected (H3)
Collateral	-> IB_CRM	.160	.056	2.795	.005	Accepted (H4)
Condition	-> IB_CRM	.924	.045	8.665	0.001	Accepted (H5)

On the hypotheses testing, the study indicates the acceptability of four out of 5Cs which support the positive effect and relationship between variables, due to the significant level of their respective p-value as indicated in Table 7 and subsequence the explanation of the hypotheses.

The hypothesis (H1) indicates the acceptability as when Character goes up by 1 standard deviation, the IB_Credit_Risk_Management (IB CRM) goes up by 0.142 standard deviations. The probability of getting a critical ratio as large as 2.481 in absolute value is .013. In other words, the regression weight for Character in the prediction of IB CRM is significantly different from zero at the 0.05 level (two-tailed). These statements are approximately correct for large samples under suitable assumptions of (Moulton, 2007) and show a positive relationship.

The hypothesis (H2) shows the acceptability as when Capacity goes up by 1 standard deviation, the IB CRM goes up by 0.221 standard deviations. The probability of getting a critical ratio as large as 3.466 in absolute value is less than 0.001. In other words, the regression weight for Capacity in the prediction of IB CRM is significantly different from zero at the 0.001 level (two-tailed). These statements are approximately correct for large samples under suitable assumptions and indicate a positive relationship as supported by (Kodonga and Kendi, 2013).

The hypothesis (H3) rejected the assumption of Capital towards IB CRM, as when Capital goes up by 1 standard deviation, IB CRM goes up by 0.068 in standard deviation. The probability of getting a critical ratio is as large as 1.178 in absolute value is .239. In other words, the regression weight for Capital in the prediction of IB CRM is not significantly different from zero at the 0.05 level. Therefore, the assumption contradicts the prediction of (Greenwood et al., 2010).

The hypothesis (H4) shows the acceptability as when Collateral goes up by 1 standard deviation, IB CRM goes up by 0.16 in standard deviation. The probability of getting a critical ratio as large as 2.795 in absolute value is .005. In other words, the regression weight for Collateral in the prediction of IB CRM is significantly different from zero at the 0.01 level (two-tailed). These statements are approximately correct as supported by (Berger and Black, 2011) for large samples under suitable assumptions and show a positive relationship.

The hypothesis (H5) shows the acceptability as when Condition goes up by 1 standard deviation, IB CRM goes up by 0.924 in standard deviations. The probability of getting a critical ratio as large as 8.665 in absolute value is less than 0.001. In other words, the regression weight for Condition in the prediction of IB CRM is significantly different from zero at the 0.001 level (two-tailed). These statements are approximately correct for large samples under suitable assumptions and, therefore, show a positive relationship, as Daly (2010) indicated.

4.2 Discussion

The CB-SEM Analysis is employed in this study, covering customers, experts, bankers, and some scholars supervising Islamic financial institutions' activities in Nigeria. The research assesses the effect of 5Cs on credit risk management in Islamic Banks.

The study examined the connection between 5Cs and Credit Risk Management in Islamic Banking. Five constructs of independent variables were measured: Character, Capacity, Capital Collateral, and Condition were tested and their respective relationship on how one affects the other was measured. The association between 5Cs variables and IB_CRM is considered applicable towards Islamic Bank CRM. However, capital prediction indicates a negative relationship between them. While each variable has unique characteristics, each of them has variation in Islamic Bank. This indicates that the cordial relationship is not always significant towards a specific risk, so the bank needs to be more aware and to thoroughly analyze every loan proposal that comes in, not treating it in the same way as analyzed by the conventional financial institutions. The result also shows that the type of risk found in the credit risk management in Islamic Bank and the solution is related to 5Cs (Character, Capacity, Capital, Condition, and Collateral) as credit criteria commonly used to make a lending decision. The most significant criterion is Character, Capacity, Condition, and Collateral, while Capital is not considered significant, as the top-ranked terms do not reflect the criteria. The bank can use this result to reshape the risk analysis since only four of the 5Cs criteria are exposed significantly in at least one constellation. In this regard, analysts in analyzing Capital need more in-depth investigation in their analysis, as capital being as one of the most crucial criteria.

The study indicates a positive link between Character and IB CRM as recommended by (Moulton, 2007). The test associated between Capacity and IB_CRM indicates a positive relationship as predicted by (Kodongo and Kendi, 2013). Capital and IB CRM rejected the prediction of (Greenwood et al., 2010). The prediction supported the Collateral and IB_CRM, while Condition and IB_CRM are also accepted indicating a strong relationship between the IB CRM and Condition. The correlation coefficient shows a relationship between IB CRM and 5Cs indicating a positive effect on Islamic Bank CRM. The study hence indicates that applying a 5Cs activity on IB_CRM is a proper measure to control and mitigate credit risk in Islamic Banks in Nigeria.

5. Conclusion

To sum up, the study indicates that 5Cs influence IB_CRM. The research findings show that 5Cs can also be used in Islamic banks to control and mitigate credit risk in Islamic Banks in Nigeria despite Capital showing a negative relationship with IB_CRM.

5.1 Theoretical Contribution

The study has significantly promoted an integrated system on the relationship between 5Cs and IB CRM. In the past, many studies were conducted using credit analysis based on ranking the 5Cs through regression analysis. However, this study investigates how 5Cs affect credit risk management of Islamic Banks, adopting the CB-SEM analysis approach. The research proposes that Character, Capital, Collateral, and Condition have an inclusive impact and strong relationship with IB CRM. This discovery first, will assist managers, risk managers, and other stakeholders in Islamic banks to control and mitigate risk levels. Secondly, the research has open up to the Basel Committee's recommendations regarding credit risk liquidation and awareness of Islamic bank.

5.2 The implication for Policy and Strategy

From the study findings, the following strategy and policy planning needs to be considered for a successful management of credit risk practice in Islamic banks in Nigeria. Management should consider risk management as vital and examine it time by time for controlling and mitigating activities. Islamic banks therefore should make proper screening through the 5Cs before granting such loans to avoid such risk.

5.3 Limitation of the Study

This study nevertheless did not cover the entire regions in the country, focusing only in the northern part of Nigeria. The research hence may be extended to a wider area in the future to increase the generalization of the study findings in the context of 5Cs towards IB_CRM. Future research may also adopt the approach by extending to the entire region in the country.

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Research Questionnaire

Section A

DEMOGRAPHIC INFORMATION

Gender

Male	
Female	

Age range

18- 30	
31- 40	
41-60	
61-Above	

Education

Primary	
Secondary	
Degree	
Master above	

Working Experience

Working in financial Institutions	
Financial experts	
Others	

Monthly turn over

Less N50,000	
N100,000 – N250,000	
N300,000 – N500,000	
N501,000 – Above	

Section B

Character

This section presents statements regarding the relationship between Character as one of the 5Cs towards Islamic Bank that affects Credit Risk Management. Please, kindly identify how you agree with each statement by ticking the appropriate scale.

	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
I think the borrower's personal integrity needs to be assessed before issuing credit based on Islamic Bank in Nigeria.					
Character assess the trustworthiness and previous record of a borrower to justify honesty in loan repayment.					
Character generates information based on moral factor and commitment and responsibility observance of character as the borrower of credit reference.					

Capacity

This section presents statements regarding the t relationship between Capacity as one of the 5Cs towards Islamic Bank that affects Credit Risk Management. Please, kindly identify how you agree with each statement by ticking the appropriate scale

	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
Capacity assessment of borrower's ability to settle loan and enhance the Capacity of CRM					
Evaluate the customer's financial information in determining the capacity of the borrower to enhance capacity CRM					
The capability of Investment of borrower based on performing factors such As profit margin, debt service, coverage ratio, and quick ratio in enhancing CRM.					

Capital

This section presents statements regarding the relationship between Capital as one of the 5Cs towards Islamic Bank that affects Credit Risk Management. Please, kindly identify how you agree with each statement by ticking the appropriate scale

	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
The capital assessment of any organisation is based on determination of institutions activities on equity and organizational risk					
Assessing firm’s capital in handling expenses comparing with the generated income of the organisation, such assessment enhances CRM.					

I always ensure smooth profitability and breakeven for organisation income and expenses analyzing such determine the enhancement of CRM.					

Collateral
This section presents statements regarding the relationship between Collateral as one of the 5Cs towards Islamic Bank that affects Credit Risk Management. Please, kindly identify how you agree with each statement by ticking the appropriate scale

	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
Collateral serves as an alternative source for a borrower to repay on time and mitigate CRM.					
Collateral is seen as a security and securitizes financial exposure in repaying on time or liquidating collateral assets to repay a loan.					
Collateral must have a value to deploy and cover the amount borrowed, such as mitigate and enhance CRM.					

Condition
This section presents statements regarding the relationship between Condition as one of the 5Cs towards Islamic Bank that affects Credit Risk Management. Please, kindly identify how you agree with each statement by ticking the appropriate scale

	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
The condition has to be spelt out clearly with any condition and stipulation for the borrower that gingers the borrower repaying on time.					
The loan approved based on fair study and critical condition indicates the borrower vulnerability in the current economic system.					

Islamic Bank Credit Risk Management
This section presents statements regarding the relationship between Islamic Bank that affects Credit Risk Management towards the 5Cs. Please, kindly identify how you agree with each statement by ticking the appropriate scale

	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
The Character, Capacity, and Capital enhance CRM in an Islamic Bank.					
The Collateral and Condition enhance CRM in an Islamic Bank.					

END OF QUESTIONNAIRE
THANK YOU!

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