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Assessing Satisfaction of Islamic Economics and Finance Curriculum: An Application in International Islamic University Malaysia

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Abstract

This study investigates the satisfaction levels of students and lecturers regarding the Islamic economics and finance curriculum at IIUM. In the study used surveys and tested the data with various statistical methods. The results showed that both students and lecturers were satisfied with the curriculum, indicating its potential contribution to the development of similar programs in other universities. The study also highlights the usefulness of the questionnaire for measuring satisfaction levels. The main limitation of the study is that it was conducted in only one university and one faculty. This study is one of the limited number of studies examining the curricula of institutions providing education in Islamic banking and finance and is one of the first to compare the satisfaction levels of both students and faculty members in a faculty.

Keywords: *Islamic economics curriculum, Islamic finance, Satisfaction of curriculum*

1. Introduction

Islamic economics and finance are relatively new fields, and the process of establishing a curriculum for them has not yet matured. While Islamic finance has shown growth in practice, the theoretical development of Islamic economics as a science is still in progress. In addition, there are continuing discussions about the necessity of a theoretical framework for Islamic economics.

The curriculum required for each education program is also required for Islamic economics and finance education. While preparing the curriculum, the laws of the country where the curriculum is prepared are taken into account along with the theoretical background of the relevant field. However, when it comes to Islamic economics and Islamic finance, additional principles derived from the Qur'an and Sunnah should be taken into account. In addition, providing Islamic economics education with a well-prepared curriculum is also important in terms of training the personnel needed by the sector, spreading the economic principles of Islam, and connecting the students who will receive education in this field with the economic history of Islam (Tıktık, 2021). Moreover, since the processes of training qualified personnel for developing Islamic finance activities could not keep pace with the spread of Islamic finance services, both academia and professional organizations faced difficulties in this regard.

There are undergraduate, graduate, and doctoral programs in various universities in Malaysia, where Islamic finance activities are intense, to train the necessary human resources for this field. Different curricula have been developed for each program. International Islamic University Malaysia (IIUM) is one of the universities that teach Islamic economics and Islamic finance in Malaysia. This study, it has tried to measure the degree of satisfaction of the lecturers working at IIUM and the students studying at this university about the Islamic economics and Islamic finance curriculum. The questionnaire forms prepared for this purpose were applied to

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both target groups, applied face-to-face and online, and the data obtained were analyzed and interpreted with the SPSS statistical program. As far as can be determined, the study is the first to investigate the degree of satisfaction of both lecturers and students with the Islamic economics and Islamic finance curriculum in a university. The study consists of three parts after the introduction. In the first part, the literature on the subject is summarized. In the second part, the primary data obtained as a result of the survey application were examined and subjected to several statistical tests. In the last section, the data obtained are interpreted.

2. Literature Review

In developing the curriculum for Islamic economics and finance, it is essential to use Islamic principles as a foundation. The 59th verse of the Qur'an's surah Nisa, which is one of the primary sources of these principles, emphasizes this requirement. Given that *fiqh* is the branch of Islamic studies that develop regulations and practices based on Islamic principles, it is necessary to refer to Islamic *fiqh* when determining the curriculum.

Various teaching methods will be needed for a sustainable and dynamic education for Islamic finance (Ab Halim et al., 2018). Therefore, it is a must to have jurists as well as educators, economists, and experts who prepare secular legal texts in the curriculum process for Islamic economics and finance. As Alhabshi (2017) states, this issue requires a multidisciplinary process with dimensions such as economic, sociological, psychological, and legal. However, the curriculum to be created needs to be designed to meet the needs of the Islamic finance market and long-term human resources planning is needed (Haneef, 2018).

In the context of the Islamic finance education curriculum, the Islamic Finance and Transactions Program Standard was created in Malaysia in 2013 and developed in 2018. According to this standard, it is envisaged that the following courses will be given along with the common areas of training given in the field of Islamic finance: Law and Sharia Law (*Fiqh*), Accounting, Islamic Sciences, Business, Finance and Information Processing (Alhabshi, 2021). Although there are courses similar to those in Malaysia and Turkey, additional courses such as Economics, Statistics, and Econometrics are offered. This information shows that in terms of Islamic finance, not only *fiqh* education is sufficient, but also modern finance education is needed. In addition, Arabic education may be required, which will facilitate the understanding of classical *fiqh* texts. The study of Al Muhsin and Ahmad (2019) also supports this. It can be said that modern financial information will be useful in understanding the current financial structure and revealing its differences from Islamic finance. This idea is supported by the study of Shahzad et al. (2019). As a matter of fact, according to the study, since there is not enough education for understanding modern financial services in institutions providing *fiqh* education, supportive courses should be given on this subject.

A recent study in Turkey, where undergraduate, graduate, and doctoral education in Islamic economics or Islamic Finance is not common, draws attention to an important result that reveals the importance of training in these fields. According to the study, Islamic bank employees lack knowledge about financing instruments such as *murabahah* and partnership models, *mudarabah*, and *musharakah*, which are the most widely used financing instruments by these banks (Bildirici Çalık, 2021). According to this result, it can be said that Islamic finance needs a good curriculum and educational institutions in which this curriculum is implemented for Islamic finance to become widespread by qualified personnel. Considering that Islamic finance education is not common, it can be said that these personnel do not know the aims and principles of Islamic economics in detail because they have traditional economics education. As a matter of fact, in the same study, while the rate of employees who received Islamic financial training was 59.9%, most of those who received training received only one training.

3. Aim of the Study

Malaysia is one of the first countries that come to mind when it comes to Islamic banking and finance. Malaysia not only uses institutions in this field effectively, but also maintains its place in the world market seriously. With the start of Islamic banking and finance activities, the first International Islamic University Malaysia (IIUM) was established in Malaysia in 1983 and studies were started to train expert personnel. The aim of this study is to determine the satisfaction levels of the instructors and students of IIUM, KENMS faculty, who have approximately 40 years of experience, with the existing curriculum. In addition, it is to prepare the ground for the creation of the most ideal curriculum in this field by determining the expectations from the relevant curriculum.

4. Methodology

The universe of the study consists of the students and lecturers at the International Islamic University Malaysia (IIUM), the Kulliyyah of Economics and Management Sciences (KENMS). As of 2022, there are approximately 1,000 students at KENMS and nearly 150 academic staff. An online and face-to-face survey was applied to the interested parties in the faculty, which includes approximately 1150 students and teachers. Although many students and academicians were reached online, sufficient feedback could not be received. With the end of the Covid-19 period and the start of face-to-face education in universities, face-to-face surveys were applied to many academicians and students. Some data were not included in the analysis due to incomplete and inaccurate data. In the study, a total of 226 survey data were included in the analysis. Of these, 182 belong to students and 44 belong to academicians. The obtained data were analyzed with SPSS 26 Package program.

The study consists of three parts and 41 questions. The chapters covered; Demographic Information, Preliminary Questions About Islamic Banking And Finance, and Questions On Islamic Banking And Finance Curriculum Satisfaction. In the third part of the study, Likert analysis, 6 different scales were used. These are; Level of Course Satisfaction (CS), Level of Course Area Satisfaction (CAS), Level of Content Satisfaction (CONTS), Level of Quality Lecturers Satisfaction (QLS), Level of Material Satisfaction (MS) and Level of Application Satisfaction (AS). The scales are shown in Figure 1.

Figure 1: Determined scales

The data obtained in the study were subjected to various analysis. The data were first subjected to reliability analysis, then the results of the frequency analysis of the data were interpreted, then the T test, one of the parametric tests, was applied. Finally, the data obtained by performing Chi-square analysis with Exploratory Factor Analysis was interpreted. The analyses are summarized in Table 1.

Table 1: Stages of data analysis

Stage	Method	Purpose of Analysis
1	Reliability Statistics	The reliability level of the questionnaire was measured.
2	Frequency Analysis	It was used to show and summarize the sample characteristics numerically.
3	KMO and Bartlett's Test	It is carried out to determine the adequacy of the sample.
4	Normality Test	It was applied to determine whether the variables considered are parametric or non-parametric.
5	Independent Groups T-Test	It was used to test whether the two-group variables were statistically significantly different between the group means.
6	Exploratory Factor Analysis	It was carried out in order to analyze the validity and reliability of the prepared question scale and to summarize a large number of data collected from the variables, to create fewer sub-dimensions with the least loss.
7	Chi-Square Tests	It was applied to test the relationship between two qualitative variables.

In social sciences, it is important to develop scientifically testable hypotheses and test them with research results (Kurtulus, 1998). A hypothesis is a judgment that determines the relationship between two or more measurable variables (Churchill, 1999). One of the important points in social sciences is the hypotheses created in the analysis of the variables that determine the satisfaction levels. In testing these hypotheses, demographic characteristics of the participants, such as their educational status, gender, and age, are important explanatory variables. The hypotheses of the study are indicated in Table 2.

Table 2: Hypotheses of the study

H_{A0}	Lecturers are not satisfied with the course, course area, content, instructor, materials and application in the curriculum of IIUM, KENMS, where Islamic finance and banking education is given.
H_{A1}	Lecturers are satisfied with the course, course area, content, instructor, materials and application in the curriculum of IIUM, KENMS, where Islamic finance and banking education is given.
H_{B0}	Students are not satisfied with the course, course area, content, instructor, materials and application in the curriculum of IIUM, KENMS, where Islamic finance and banking education is given.
H_{B1}	Students are satisfied with the course, course area, content, instructor, materials and application in the curriculum of IIUM, KENMS, where Islamic finance and banking education is given.

5. Analysis and Findings

Many analyses were carried out in the study of the level of satisfaction with the curriculum applied to the students and teachers of the International Islamic University of Malaysia (IIUM), The Kulliyyah of Economics and Management Sciences (KENMS). In the study, first, the reliability level of the questionnaire was measured. The data obtained are presented in Table 3.

Table 3: Reliability analysis results

Cronbach's Alpha	N of Items
.921	41

As a result of the reliability analysis, it is seen that Cronbach's Alpha value is 0.92. This result shows that the study has a high level of reliability.

5.1 Frequency analysis results

The data with a high level of reliability were subjected to frequency analysis. The data obtained are presented in Tables below. The gender status of the study is given in Table 4.

Table 4: Gender

Valid	Frequency	Percent %	Valid Percent %	Cumulative Percent %
Male	132	58.4	58.4	58.4
Female	94	41.6	41.6	100.0
Total	226	100.0	100.0	

While 58% of the respondents were men, 42% were women. In terms of gender, it is seen that there is an almost equal distribution among the participants. The age range of the participants is indicated in Table 5.

Table 5: Your age?

Valid	Frequency	Percent %	Valid Percent %	Cumulative Percent %
18 and under	2	.9	.9	.9
Between 19-24	148	65.5	65.5	66.4
Between 25-29	22	9.7	9.7	76.1
Between 30-34	12	5.3	5.3	81.4
Between 35-39	14	6.2	6.2	87.6
40 and over	28	12.4	12.4	100.0
Total	226	100.0	100.0	

It is seen that the majority of the respondents, that is, approximately 66%, are between the ages of 19-24. It is understood that this age group is high because it is university age. It is thought that the fact that approximately

24% are 30 years old and above is due to the age group of the teachers.

Table 6: Educational status?

Valid	Frequency	Percent %	Valid Percent %	Cumulative Percent %
Lecturer	44	19.5	19.5	19.5
Student	182	80.5	80.5	100.0
Total	226	100.0	100.0	

An important variable of the study is educational status. Because in the study, the perspective of students and teachers towards the curriculum is examined. According to the sample group, a sufficient number of teachers and students were surveyed. While 20% of the respondents are teachers, 80% are students. This situation is seen as sufficient for KENMS, which has 1000 students and 150 academicians.

Table 7: What is your level of knowledge about Islamic banking?

Valid	Frequency	Percent %	Valid Percent %	Cumulative Percent %
A little	38	16.8	16.8	16.8
Normal	150	66.4	66.4	83.2
A lot	38	16.8	16.8	100.0
Total	226	100.0	100.0	

In this question, in which the level of knowledge about Islamic banking was asked, it is seen that the majority of the participants have sufficient knowledge about Islamic banking. Considering the total rate, it is understood that 83% have sufficient information on this subject.

Table 8: Is Islamic banking and interest (conventional) banking the same concept?

Valid	Frequency	Percent %	Valid Percent %	Cumulative Percent %
Yes	6	2.7	2.7	2.7
No	142	62.8	62.8	65.5
Partially	78	34.5	34.5	100.0
Total	226	100.0	100.0	

When asked whether Islamic banks and conventional banks have the same concept, it is seen that 63% of the respondents said no. The rate of those who say yes is in the minority, like 3%. As a result, approximately 97% of the lecturers and students of the KENMS faculty state that Islamic banks have a different structure from conventional banks. This ratio tells us that there are serious differences between the two banks.

Table 9: Are Islamic finance and banking operations conducted in conformity with Islam's religion?

Valid	Frequency	Percent %	Valid Percent %	Cumulative Percent %
Yes	166	73.5	73.5	73.5
No	20	8.8	8.8	82.3
Undecided	40	17.7	17.7	100.0
Total	226	100.0	100.0	

In the question given in Table 10, it was asked whether the transactions related to Islamic banking and finance were compatible with the religion of Islam. When the answers given are examined, 74% of the participants state that the methods applied are in accordance with the Shari'ah rules. It was stated that 9% did not agree with this situation. The two questions below were directed to students only. Frequency analyses of the results obtained are given in Table 10 and Table 11.

Table 10: Are you worried about finding a job? (Only for students)

Valid	Frequency	Percent %	Valid Percent %	Cumulative Percent %
Yes	128	56.6	70.3	70.3
No	38	16.8	20.9	91.2
Undecided	16	7.1	8.8	100.0
Total	182	80.5	100.0	
Missing System	44	19.5		
Total	226	100.0		

It has been tried to find out whether the students have anxiety about finding a job. When the data obtained are examined, it is seen that the majority of the students have anxiety about finding a job. These results indicate that there are sufficient number of employees in this sector as well as in all sectors. It is seen that only 17% of the participants do not experience this anxiety. In addition, students were asked whether they would work in a conventional bank when given the opportunity. The results obtained are presented in Table 11.

Table 11: Would you also work in a conventional bank if given the opportunity? (Only for students)

Valid	Frequency	Percent %	Valid Percent %	Cumulative Percent %
Yes	88	38.9	48.4	48.4
No	56	24.8	30.8	79.1
Undecided	38	16.8	20.9	100.0
Total	182	80.5	100.0	
Missing System	44	19.5		
Total	226	100.0		

When the data are examined, it is seen that approximately half of the students have a positive attitude towards working in an interest-bearing bank and 20% are undecided. These results indicate that 70% of the students have a positive view of working in an interest-bearing bank. It is also thought that the reason for this result, which is incompatible with Islamic banking and finance, may be due to the previous anxiety of finding a job. However, these results, which are incompatible with this field, show us that some courses are not successful enough. It is understood that more lessons should be given on the point of faith and sincerity.

Table 12: When learning Islamic finance and banking, which of the following foreign languages should be taught first?

Valid	Frequency	Percent %	Valid Percent %	Cumulative Percent %
English	132	58.4	58.4	58.4
Arabic	68	30.1	30.1	88.5
None	26	11.5	11.5	100.0
Total	226	100.0	100.0	

It was asked which foreign language should be learned in Islamic banking and finance education. While 58% of the participants said English, 30% gave the answer as Arabic. This situation shows us that it would be more appropriate for the foreign language to be taught in this field to be English. The reason for this is that when the source is examined, it shows that there are more English sources, and it is possible to adapt to the international literature in this field. It also tells us that English can be put at the forefront while creating the curriculum.

Table 13: Do you believe that an internship should be required in the fourth year of undergraduate study?

Valid	Frequency	Percent %	Valid Percent %	Cumulative Percent %
Yes	194	85.8	85.8	85.8
No	12	5.3	5.3	91.2
Undecided	20	8.8	8.8	100.0
Total	226	100.0	100.0	

Participants were asked whether there was an internship opportunity in the last year. They emphasize that the vast majority, i.e. 86%, should have an internship. This situation also indicates that it is extremely important to provide internship opportunities in the last year. For this reason, putting the internship in the last year while creating the curricula emphasizes that the students will take place in the sector with more experience when they graduate.

Table 14: Do you think online education is beneficial?

Valid	Frequency	Percent %	Valid Percent %	Cumulative Percent %
Yes	156	69.0	69.0	69.0
No	36	15.9	15.9	85.0
Undecided	34	15.0	15.0	100.0
Total	226	100.0	100.0	

It was asked whether online training, which are used a lot especially during the pandemic period, are useful. When the answers given were examined, it was seen that approximately 70% of them viewed online education positively. These results indicate that while the curricula are being prepared, online courses can be given according to the program, or it is possible to benefit from academics from different countries and universities by organizing different programs.

Likert style questions consist of 6 scales. There are 5 questions in each scale. The frequency analysis results of the answers to these questions are listed in Table 15.

Table 15: Questions on Islamic finance and banking curriculum satisfaction

Expressions	Answers										N	Mean	SD
	Strongly Disagree		Disagree		Slightly Agree		Agree		Strongly Agree				
Level of Course Satisfaction	f	%	f	%	f	%	f	%	f	%			
Islamic finance and banking courses in the curriculum are sufficient. (CS1)	10	4,4	16	7,1	44	19,5	118	52,2	38	16,8	226	3.70	.979
The courses in the curriculum are sufficient in terms of covering different subjects. (CS2)	2	.9	16	7.1	46	20.4	142	62.8	20	8.8	226	3.72	.760
The courses in the curriculum are sufficient for students to develop their abilities. (CS3)	2	.9	16	7.1	38	16.8	140	61.9	30	13.3	226	3.80	.791
The courses given in the curriculum are sufficient in terms of preparing them in daily life. (CS4)	6	2.7	16	7.1	58	25.7	118	52.2	28	12.4	226	3.65	.884
The courses in the curriculum are sufficient in terms of credits and hours. (CS5)	2	.9	12	5.3	58	25.7	114	50.4	40	17.7	226	3.79	.827

Level of Course Area Satisfaction													
The curriculum is sufficient in the field of Fiqh. (CAS1)	6	2.7	16	7.1	44	19.5	122	54.0	38	16.8	226	3.75	.910
The curriculum is sufficient in the field of Islamic Economics. (CAS2)	6	2.7	18	8.0	38	16.8	128	56.6	36	15.9	226	3.75	.910
The curriculum is sufficient in Islamic Finance. (CAS3)	8	3.5	8	3.5	54	23.9	108	47.8	48	21.2	226	3.80	.935
The curriculum is sufficient in the field of Islamic Management. (CAS4)	8	3.5	14	6.2	58	25.7	104	46.0	42	18.6	226	3.70	.960
The curriculum is sufficient in the field of Islamic Accounting. (CAS5)	6	2.7	20	8.8	64	28.3	102	45.1	34	15.0	226	3.61	.937
Level of Content Satisfaction													
The courses in the curriculum are theoretically sufficient. (CONTS1)	6	2.7	8	3.5	46	20.4	122	54.0	44	19.5	226	3.84	.870
The courses in the curriculum are practically (Technology and Applied Econometrics etc.) sufficient. (CONTS2)	0	0	28	12.4	72	31.9	106	46.9	20	8.8	226	3.52	.823
The courses in the curriculum are determined in accordance with the need of each semester. (CONTS3)	4	1.8	20	8.8	58	25.7	124	54.9	20	8.8	226	3.60	.838
The courses are taught in accordance with the content. (CONTS4)	4	1.8	10	4.4	54	23.9	120	53.1	38	16.8	226	3.79	.837
The courses in the curriculum are kept up-to-date in terms of content. (CONTS5)	10	4.4	12	5.3	44	19.5	108	47.8	52	23.0	226	3.80	.999
Level of Quality Lecturers Satisfaction													
There are lecturers who are experts in Islamic Finance and Banking. (QLS1)	0	0	2	.9	38	16.8	88	38.9	98	43.4	226	4.25	.760
Lecturers have sufficient knowledge in their field. (QLS2)	4	1.8	2	.9	32	14.2	94	41.6	94	41.6	226	4.20	.845
The lecturers explain the topics in a clear and understandable way. (QLS3)	2	.9	2	.9	40	17.7	114	50.4	68	30.1	226	4.08	.768
The lecturers use material sufficient. (QLS4)	0	0	14	6.2	50	22.1	106	46.9	56	24.8	226	3.90	.843
Lecturers prepare students for real life. (QLS5)	2	.9	16	7.1	56	24.8	100	44.2	52	23.0	226	3.81	.900
Level of Material Satisfaction													
There are sufficient materials for Islamic Finance and Banking courses. (MS1)	4	1.8	14	6.2	58	25.7	112	49.6	38	16.8	226	3.73	.875
Islamic Finance and Banking course materials cover the same topics. (MS2)	4	1.8	12	5.3	64	28.3	118	52.2	28	12.4	226	3.68	.825
Generally, the materials of the lecturers are sufficient. (MS3)	6	2.7	20	8.8	58	25.7	86	38.2	56	24.8	226	3.73	1.02
There are sufficient materials on the internet. (MS4)	2	.9	16	7.1	58	25.7	106	46.9	44	19.5	226	3.77	.874
The materials used are not relevant to the courses. (MS5)	32	14.2	80	35.4	50	22.1	42	18.6	22	9.7	226	2.74	1.20
Level of Application Satisfaction													
The courses in the curriculum are sufficient in terms of internship/practice. (AS1)	6	2.7	18	8.0	62	27.4	108	47.8	32	14.2	226	3.63	.916
The contribution of the internship/practice courses in the curriculum prepare students for life is sufficient. (AS2)	4	1.8	12	5.3	44	19.5	124	54.9	42	18.6	226	3.83	.853
Practical courses in the curriculum are given in accordance with technological developments. (AS3)	6	2.7	22	9.7	60	26.5	106	46.9	32	14.2	226	3.60	.938
Practical courses give importance to inbound and outbound mobility. (AS4)	0	0	8	3.5	66	29.2	112	49.6	40	17.7	226	3.81	.761
Students can do internships in the company of their choice. (AS5)	2	.9	12	5.3	52	23.0	100	44.2	60	26.5	226	3.90	.884

When the results are examined, it is seen that all questions except the MS5 question are above the average of 3.50. In other words, it is seen that the level of satisfaction with the scales is high. When the averages are examined, it is seen that the satisfaction levels from the lecturers have the highest average. It is stated that the instructors have sufficient knowledge in the relevant field. When all the averages were examined, it was seen that the lowest level of the courses in the curriculum had less proficiency in technology and applied econometrics. It is understood that the courses in this field can be increased and included in the curriculum.

5.2 Exploratory Factor Analysis

Factor analysis is a statistical technique used extensively in social sciences. The purpose of factor analysis is to reveal hidden variables that make a difference together with the variables (Costello and Osborne, 2005). One of the most important decisions that the researcher can make to use factor analysis is whether the number of data is sufficient for this analysis. Three methods are mentioned for this. The first is testing the correlation matrix. The second is the testing of partial correlations between the variables and finally the Kaiser-Meyer-Olkin (KMO) measurements. In this study, the KMO test was used.

5.3 KMO and Bartlett's test

Although KMO is not a statistical test, it is a guide in determining sample adequacy. KMO measurements take values between 0-1. The close approximation of the measurement result to 1 indicates the suitability of the data for factor analysis. For the application of factor analysis, it is recommended that the KMO results be greater than 0.80. However, it was accepted to be applied within the results found above 0.60. The interpretation of KMO measurements is as follows (Sharma, 1996; Çilingirtürk, 2011).

Table 16: Qualifications for KMO

KMO	Sample Adequacy
0,90 - 1,00	Very good
0,80 - 0,89	Good
0,70 - 0,79	Middle
0,60 - 0,69	Bad
0,50 - 0,59	Too bad
0,50> below	Unacceptable

One assumption necessary for the application of factor analysis is that the correlation matrix is nonzero. For this purpose, Barlett tests the equality of the correlation matrix to the unit matrix in the null hypothesis. The fact that $p<0.05$ provides the assumption of use of factor analysis (Alpar, 2003). The results of the research's KMO and Barlett test are given below.

Table 17: KMO and Bartlett's tests

		CS	CAS	CONTS	QLS	MS	AS
Cronbach's Alpha		.851	.911	.801	.861	.690 .805 (-MS5)	.853
Kaiser-Meyer-Olkin Measure of Sampling Adequacy		.819	.827	.745	.761	.718	.761
Bartlett's Test of Sphericity	Approx. Chi-Square	474.495	792.446	368.146	592.630	317.821	543.937
	df	10	10	10	10	6	10
	Sig.	.000	.000	.000	.000	.000	.000
% of Variance		63.360	73.784	56.055	64.423	63.263	63.677

First, reliability analyses of the determined scales were carried out. It has been observed that all scales have a reliability of over 80%. Only a low rate of negative correlation was observed between the fifth question of MS and the other questions. The item was not included in the MS5 factor analysis because the total correlation value was low. For this reason, it was removed from the scale and subjected to reliability analysis again. In this case, it was observed that Cronbach's Alpha value increased to 0.805.

Since KMO values are greater than 0.500 and *p* values are less than 0.05, it is understood that the relevant items are suitable for factor analysis. As a result of the analyses made, it was seen that the factor loads of the questions were greater than 0.600. In addition, it has been observed that each group can take place in a single factor group, that is, it consists of a single factor structure. Thus, it was seen that the scales were suitable for exploratory factor analysis. The explained variance rates were formed in one dimension and it is seen that they are greater than 50%.

5.4 Normality test

In order to determine whether the variables considered are parametric or non-parametric, first of all, the normality test should be applied. In the normality test, skewness and kurtosis between -3.0 and +3.0 indicate a normal distribution (Matore and Khairani, 2020).

Table 18: Normality tests

Scales	N	Minimum	Maximum	Mean	Std. Deviation	Skewness		Kurtosis	
						Statistic	Std. Error	Statistic	Std. Error
Course Satisfaction	226	6.00	25.00	18.6460	3.36497	-1.099	.162	1.952	.322
Course Area Satisfaction	226	6.00	25.00	18.6106	3.99429	-.737	.162	.763	.322
Content Satisfaction	226	7.00	25.00	18.5487	3.26868	-.633	.162	1.140	.322
Quality Lecturers Satisfaction	226	9.00	25.00	20.2478	3.30530	-.582	.162	.482	.322
Material Satisfaction	226	6.00	20.00	14.9204	2.86012	-.423	.162	-.003	.322
Application Satisfaction	226	9.00	25.00	18.7788	3.46085	-.448	.162	-.181	.322
Valid N (listwise)	226								

As a result of the analyses made, it is understood that the scales show a normal distribution since all the variables are between -3.0 and +3.0. In this case, the application of parametric tests was deemed appropriate.

5.5 Independent Groups T-Test

In the study, two groups, students and academicians were handled. Due to the normal distribution of the scales, it was decided to apply for the Independent Groups T-test. Some of the descriptive statistics of the scales are presented in Table 19.

Table 19: Group statistics

Group Statistics

	Educational status?	N	Mean	Std. Deviation	Std. Error Mean
Course Satisfaction	Lecturer	44	18.5000	4.27812	.64495
	Student	182	18.6813	3.11787	.23111
Course Area Satisfaction	Lecturer	44	19.1818	4.74108	.71474
	Student	182	18.4725	3.79398	.28123
Content Satisfaction	Lecturer	44	18.6818	3.46929	.52301
	Student	182	18.5165	3.22752	.23924
Quality Lecturers	Lecturer	44	20.3182	3.05586	.46069

Satisfaction	Student	182	20.2308	3.37058	.24984
Material Satisfaction	Lecturer	44	15.6818	2.83477	.42736
	Student	182	14.7363	2.84337	.21076
Application Satisfaction	Lecturer	44	18.2727	3.25907	.49132
	Student	182	18.9011	3.50550	.25984

When the descriptive statistics of the scales are examined, it is seen that the course satisfaction, content satisfaction and application satisfaction levels of the lecturers and students are at the same levels, and the lecturers are more satisfied than the students at the level of course area satisfaction. In addition, it is seen that the lecturers are more satisfied than the students in terms of material satisfaction. According to the scales, the part that both lecturers and students are most satisfied with was measured as quality lecturers' satisfaction. The results of the Independent Samples Test performed according to these values are given in Table 20 below.

Table 20: Independent Samples Tests

Independent Samples Test

		Levene's Test for Equality of Variances		t-test for Equality of Means			Mean Difference	Std. Error Difference	95% Confidence Interval of the Difference	
		F	Sig.	t	df	Sig. (2-tailed)			Lower	Upper
Course Satisfaction	Equal variances assumed	5.197	.024	-.320	224	.749	-.18132	.56642	-129.752	.93488
	Equal variances not assumed			-.265	54.538	.792	-.18132	.68511	-155.457	119.193
Course Area Satisfaction	Equal variances assumed	3.533	.061	1.057	224	.292	.70929	.67084	-.61267	203.125
	Equal variances not assumed			.923	57.020	.360	.70929	.76808	-.82875	224.733
Content Satisfaction	Equal variances assumed	.098	.754	.300	224	.764	.16533	.55023	-.91896	124.963
	Equal variances not assumed			.287	62.230	.775	.16533	.57513	-.98426	131.493
Quality Lecturers Satisfaction	Equal variances assumed	.001	.977	.157	224	.875	.08741	.55648	-100.918	118.401
	Equal variances not assumed			.167	70.564	.868	.08741	.52408	-.95768	113.250
Material Satisfaction	Equal variances assumed	.646	.422	1.981	224	.049	.94555	.47739	.00480	188.631
	Equal variances not assumed			1.984	65.540	.051	.94555	.47650	-.00594	189.705
Application Satisfaction	Equal variances assumed	.085	.771	-1.081	224	.281	-.62837	.58118	-177.366	.51691
	Equal variances not assumed			-1.131	69.133	.262	-.62837	.55580	-173.713	.48039

It has been observed that there is no significant difference between the lecturers and students in terms of course, course area, content, instructor, and practice, and they are satisfied with the relevant aspects. However, it was seen that there was a significant difference between the material satisfaction levels and that the lecturers were more satisfied with the materials than the students. It is understood that the students are less satisfied with the materials than the teachers.

5.6 Chi-Square Analysis

Chi-square analysis is applied to test the relationship between two qualitative variables. The analysis results obtained in the chi-square test are evaluated according to two situations. These are interpreted as tables that are 2x2 and tables in excess of them. If the tables of the variables considered for chi-square analysis are outside of 2x2, the percentage of statistics is checked. If the statistical value is below 20%, there is a significant relationship. If it is above 20%, the test is considered invalid. In this case, it is recommended to increase the number of samples or to combine the variables. In this section, the relationships between educational status and antecedent variables were tested. In the chi-square analysis, only Educational status? * Is Islamic banking and interest (conventional) banking the same concept? , and Educational status? * Do you believe that an internship should be required in the fourth year of undergraduate study? Chi-square analysis of the variables was considered invalid. The results of the chi-square analysis are given in the tables below.

Table 21: Educational status? * What is your level of knowledge about Islamic banking?

			What is your level of knowledge about Islamic banking?			
			A little	Normal	A lot	Total
Educational status?	Lecturer	Count	0	28	16	44
		% within Educational status?	0.0%	63.6%	36.4%	100.0%
	Student	Count	38	122	22	182
		% within Educational status?	20.9%	67.0%	12.1%	100.0%
Total		Count	38	150	38	226
		% within Educational status?	16.8%	66.4%	16.8%	100.0%

Chi-Square Tests

	Value	df	Asymptotic Significance (2-sided)
Pearson Chi-Square	21.667a	2	.000
Likelihood Ratio	26.681	2	.000
Linear-by-Linear Association	21.389	1	.000
N of Valid Cases	226		

a 0 cells (0.0%) have expected count less than 5. The minimum expected count is 7.40.

In the chi-square analysis made between education level and Islamic Banking knowledge, it was concluded that there was a significant relationship between the variables. It is seen that all the teachers and 80% of the students have sufficient knowledge of Islamic banking.

Table 22: Educational status? * Is Islamic banking and interest (conventional) banking the same concept?

			Is Islamic banking and interest (conventional) banking the same concept?			
			Yes	No	Partially	Total
Educational status?	Lecturer	Count	0	30	14	44
		% within Educational status?	0.0%	68.2%	31.8%	100.0%
	Student	Count	6	112	64	182
		% within Educational status?	3.3%	61.5%	35.2%	100.0%
Total		Count	6	142	78	226
		% within Educational status?	2.7%	62.8%	34.5%	100.0%

Chi-Square Tests

	Value	df	Asymptotic Significance (2-sided)
Pearson Chi-Square	1.814a	2	.404
Likelihood Ratio	2.959	2	.228
Linear-by-Linear Association	.000	1	.995
N of Valid Cases	226		

a 2 cells (33.3%) have expected count less than 5. The minimum expected count is 1.17.

Lecturers and students were asked that Islamic banking and conventional banking do not have the same concepts. When the relationships between the answers given were examined, it was seen that there was no significant relationship between the chi-square results. While 68% of the lecturers and 63% of the students claimed that there was no similar concept, 35% of the whole group stated that such a situation was partially in question. In addition, the compatibility of Islamic banking and finance with the religion of Islam was asked. The results obtained are indicated in Table 23.

Table 23: Educational status? * Are Islamic finance and banking operations conducted in conformity with Islam's religion?

Are Islamic finance and banking operations conducted in conformity with Islam's religion?						
			Yes	No	Undecided	Total
Educational status?	Lecturer	Count	34	6	4	44
		% within Educational status?	77.3%	13.6%	9.1%	100.0%
	Student	Count	132	14	36	182
		% within Educational status?	72.5%	7.7%	19.8%	100.0%
Total		Count	166	20	40	226
		% within Educational status?	73.5%	8.8%	17.7%	100.0%
Chi-Square Tests						
			Value	df	Asymptotic Significance (2-sided)	
Pearson Chi-Square			3.811a	2	.149	
Likelihood Ratio			4.046	2	.132	
Linear-by-Linear Association			1.399	1	.237	
N of Valid Cases			226			
a 1 cells (16.7%) have expected count less than 5. The minimum expected count is 3.89.						

When the results of the chi-square analysis are examined, it has been seen that the percentage of statistics is below 20%, that is, there is a significant relationship between the conformity of Islamic banking and finance transactions to the religion of Islam according to education level. In the analyses made, it was seen that 77% of the teachers and 73% of the students were satisfied with the compliance with the religion of Islam. In total, it is understood that 18% are undecided and 9% do not trust Islamic banks in this regard.

Table 24: Educational status? * When learning Islamic finance and banking, which of the following foreign languages should be taught first?

When learning Islamic finance and banking, which of the following foreign languages should be taught first?

			English	Arabic	None	Total
Educational status?	Lecturer	Count	24	10	10	44
		% within Educational status?	54.5%	22.7%	22.7%	100.0%
	Student	Count	108	58	16	182
		% within Educational status?	59.3%	31.9%	8.8%	100.0%
Total		Count	132	68	26	226

	% within Educational status?	58.4%	30.1%	11.5%	100.0%

Chi-Square Tests

	Value	df	Asymptotic Significance (2-sided)
Pearson Chi-Square	7.105a	2	.029
Likelihood Ratio	6.205	2	.045
Linear-by-Linear Association	2.583	1	.108
N of Valid Cases	226		

a 0 cells (0.0%) have expected count less than 5. The minimum expected count is 5.06.

The relationship between education level and foreign language education is examined in the table. In the analyses made, 59% of the students and 55% of the lecturers advocate that English should be given as the preparatory language in the first year. A total of 30% of the respondents stated that Arabic would be more beneficial. It is also seen that there is a significant relationship between the two variables in the chi-square analysis performed between both scales. The answers given to the question about providing internship opportunities at the end of the education period are given in the table below.

Table 25: Educational status? * Do you believe that an internship should be required in the fourth year of undergraduate study?

			Do you believe that an internship should be required in the fourth year of undergraduate study?			
			Yes	No	Undecided	Total
Educational status?	Lecturer	Count	40	2	2	44
		% within Educational status?	90.9%	4.5%	4.5%	100.0%
	Student	Count	154	10	18	182
		% within Educational status?	84.6%	5.5%	9.9%	100.0%
Total		Count	194	12	20	226
		% within Educational status?	85.8%	5.3%	8.8%	100.0%

Chi-Square Tests

	Value	df	Asymptotic Significance (2-sided)
Pearson Chi-Square	1.367a	2	.505
Likelihood Ratio	1.561	2	.458
Linear-by-Linear Association	1.349	1	.245
N of Valid Cases	226		

a 2 cells (33.3%) have expected count less than 5. The minimum expected count is 2.34.

There is no significant relationship in the chi-square analysis. When the descriptive statistics are examined, it is stated that the majority of the instructors should have an internship in the last year. Students also state that the internship should be done. It is understood that only 5% of them do not view the internship positively.

Table 26: Educational status? * Do you think online education is beneficial?

			Do you think online education is beneficial?			
			Yes	No	Undecided	Total
Educational status?	Lecturer	Count	36	2	6	44
		% within Educational status?	81.8%	4.5%	13.6%	100.0%
	Student	Count	120	34	28	182
		% within Educational status?	65.9%	18.7%	15.4%	100.0%
Total		Count	156	36	34	226
		% within Educational status?	69.0%	15.9%	15.0%	100.0%

Chi-Square Tests

	Value	df	Asymptotic Significance (2-sided)
Pearson Chi-Square	5.812a	2	.055
Likelihood Ratio	7.135	2	.028
Linear-by-Linear Association	1.997	1	.158
N of Valid Cases	226		

a 0 cells (0.0%) have expected count less than 5. The minimum expected count is 6.62.

Finally, the educational status and whether they find online education useful or not were examined. It is seen that there is a significant relationship as a result of chi-square. When the data were examined, it was seen that the instructors were more satisfied with the online trainings. When the answers given were examined, it was seen that 82% of the lecturers viewed online education positively, and 66% of the students were satisfied with online education. 19% of students state that online education is not beneficial.

6. Conclusion

Malaysia is one of the first countries that come to mind when it comes to Islamic banking and finance. With the start of Islamic banking and finance activities, the International Islamic University Malaysia (IIUM) was established in Malaysia in 1983 and started to train expert personnel. The aim of this study is to contribute to the creation of the ideal curriculum by determining the satisfaction levels of the faculty, which has approximately 40 years of experience. The universe of the research consists of the Kulliyyah of Economics and Management Sciences (KENMS) of IIUM, with approximately 1150 students and lecturers. In the study, a satisfaction survey was applied to 44 faculty members and 182 students working in the KENMS faculty. The results of the survey were subjected to reliability, frequency, independent groups T-test, exploratory factor analysis and chi-square analysis. As a result of the analyses made, it was found that the questionnaire had a reliability level of 92%. It was stated that 83% of the respondents had sufficient knowledge of Islamic banking and finance and that these banks had a different concept from conventional banks. It is understood that students have serious job anxiety after graduation, and this anxiety may cause them to work in conventional banks if they are given the opportunity. 58% of the participants stated that English preparation should be given in the first year and 86% stated that an internship should be given in the last year. As for online education, it was seen that the teachers were more satisfied, and in general, 70% were satisfied with the online education.

Likert style questions consist of six sections and 30 questions. Determined satisfaction scales were determined as Course Satisfaction, Course Area Satisfaction, Content Satisfaction, Quality Lecturers Satisfaction, Material Satisfaction and Application Satisfaction. In the frequency analysis, it is found that all questions except one question (MS5) are above the average of 3.50. It is understood from the specified scales that the satisfaction levels are high. When the averages are examined, it is stated that the level of satisfaction with the instructors has the highest average, and the instructors have sufficient knowledge in the relevant field. When all averages are examined, it is stated that the lowest level is technology and applied econometrics courses in the curriculum, and these courses do not have sufficient levels. It is understood that the courses in this field can be increased and included in the curriculum.

In the analyses, it was observed that the factor loads of the questions were greater than 0.600 (The item was not included in the MS5 factor analysis because the total correlation value was low). In addition, it has been observed that each group can take place in a single factor group, that is, it consists of a single factor structure. Thus, it was seen that the scales were suitable for exploratory factor analysis. When the results of the T-test analysis were examined, it was seen that there was no significant difference in terms of course, course area, content, teacher and application, and they were satisfied with the relevant aspects. However, it was seen that there was a significant difference between the material satisfaction levels and that the teachers were more satisfied with the materials than the students. It is understood that the students are less satisfied with the materials than the teachers. Chi-square analysis was applied to test the relationship between qualitative variables. The relationships between educational status and antecedent variables were subjected to the chi-square test. In the analyses, only Educational status?, Is Islamic banking and interest (conventional) banking the same concept?, Educational status?, Do you believe that an internship should be required in the fourth year of undergraduate study? Chi-square analysis of the variables was considered invalid.

As a result, it has been observed that both the lecturers and the students are generally satisfied with the Islamic banking and finance curriculum in the faculty of KENMS, IIUM (H_0 hypotheses are Rejected, H_1 hypotheses are accepted). It is understood that the survey questions determined by the exploratory factor analysis can be used to measure curriculum satisfaction levels. In addition, it has been observed that ideal curricula can be created by making use of the curricula of the universities in the ranking and the curricula of the KENMS faculty. It is thought that the study will make a great contribution to those who will create a curriculum related to the Islamic banking and finance.

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SRI-Linked Sukuk: An Enabler for the Transition to Low-Carbon Activities

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Abstract

In achieving a low-carbon economy, the Securities Commission Malaysia (SC) is facilitating companies, particularly the high-emitting greenhouse gas industry moving towards low-carbon activities with the issuance of the SRI-linked Sukuk Framework (SRILSF). This paper will analyse the SRILSF, explore the features of the SRI-linked sukuk and innovation by the issuer in selecting the Key Performance Indicators (KPIs) and Sustainable Performance Targets (SPTs) and finally, an observation of the issuance toward the institutional investors with sustainable portfolio. This paper adopted content analysis to study the characteristics, and core components of the SRILSF. Additionally, a comparative study was performed to exhibit different requirements between SRILSF with SRI Sukuk Framework and International Capital Market Association (ICMA)'s Sustainability-Linked Bond Principles (SLBP). Finally, this paper will provide an analytical review of available sustainability-linked sukuk issued in Malaysia, focusing on the core component of the sukuk. The paper acknowledges that ICMA's SLBP is a voluntary adoption of the issuing process, while SRILSF is a Framework issued by a capital market regulator where one need complies to make an issuance, and non-compliance will result in a breach of such Framework. This paper also acknowledges there are different requirements set for the appointment of an external reviewer for post-issuance, and the credential requirements of the external reviewers set ICMA's SLBP and SRILSF. The issuance of SC's SRILSF is an important milestone in sustainable regulatory development of Malaysian capital market as it provides opportunities for Malaysian' capital market issuers that seek to transition or commit to sustainable objective. The issuance of SRI-linked sukuk will attract more sustainable-focused investor, specifically institutional investors with sustainable portfolios.

Keywords: *Sustainability, SRI sukuk, SRI-linked sukuk, Sustainability-linked sukuk, Sustainability-linked bond*

1. Introduction

1.1. Background

Climate change issue has become the most crucial agenda that need to be addressed both at local and international level involving various actors' participation such as government, intergovernmental, non-governmental organisations (NGOs), private sectors and even an individual citizen to play their part to combat this issue. There are over 3,000 international agreements related to environmental between governments and international organizations (International Environmental Agreements (IEA) Database Project, 2022). The most prominent is Paris Agreement (2015) whereby signatories countries to submit climate action plans to reduce the Greenhouse gas emissions (GHG) in 2020 and new target set for zero-carbon solution by 2030 (United Nations Climate Change, 2022). United Nations Sustainable Development Goals (UN SDGs) is another important agreement with several goals focusing on climate change, affordable and clean energy, and sustainable cities and communities (see more at UN SDGs). Malaysia being a signatory party both to the Paris Agreement and UN SDGs had strategic plan to combat the climate change issue begun in 2009 with the introduction of The National Climate Change Policy (Economic Planning Unit, 2011) and aim for a carbon-

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neutral nation by 2050 (Economic Planning Unit, 2019)[1]. In line with the nation's objective, the Securities Commission Malaysia (SC), a regulator for the capital market segment in Malaysia had in 2014 launched the Sustainable and Responsible Investment (SRI) Sukuk Framework to facilitate the sustainable and responsible investment (Securities Commission Malaysia, 2014), followed by SRI Roadmap in 2019 with recommendations to assist the development of SRI (Securities Commission Malaysia, 2019) and on June 30, 2022, the SC launched the SRI-linked Sukuk Framework (SRILSF) to enable companies with sustainability concerns to raise financing to tackle climate change or social agenda (Securities Commission Malaysia, 2022f). Issuance of sustainability-linked bond and sukuk is relatively new as world witness the first Sustainability-linked Bond (SLB) launched in 2019 by Enel SpA with an issuance amounting to USD1.5 billion (Norton Rose Fulbright, 2020) and in 2020, Etihad Airways issued the world's first Sustainability-linked Sukuk (SLS) worth USD600 million (Ravindirane and Jan, 2020). There is rapid growth for the sustainable-linked bond/sukuk segment according to (Climate Bonds Initiative, 2022) as for first quarter of 2022, 11.9% (USD24 billion) increased of total issuance from first quarter of 2021. Since its introduction, the corporate had led the issuance of SLBs until Chile became the first country to issue the world's first sovereign SLB worth US$2 billion with aim to reduce Chile's carbon emissions and to increase its use of renewable energy (BNP Paribas, 2022). The growth of sustainability-linked bond/sukuk is a positive trend, as study indicates an increased interest of institutional investors to incorporate sustainable issues in their investment decisions (Kordsachia et al., 2021) and sustainability-linked bond/sukuk is here to facilitate companies that wish to transition and to tackle the climate issue.

1.2. Objective

The primary objective of this paper is to explore the feature of the SRILSF by the SC and to perform comparative studies between the Framework with SRI Sukuk Framework as well as Sustainability-linked Bond Principles (SLBP) by the International Capital Market Association (ICMA). In addition, this paper will also explore the feature and core components of SLSs issued in Malaysia by Yinson Holdings Berhad and Cenviro Sdn Bhd issued under SLBP of ICMA. Although sustainability-linked bond/sukuk is relatively new in the market, there are numbers of studies conducted on the sustainability-linked bond, however there is non-existence of study performed on SRI-linked sukuk since the issuance of the SRILSF in June 2022 and Malaysia has yet to witness the first SRI-linked sukuk issued under the SRILSF. Hence this paper is premier contribution to the SRI-linked sukuk literature and Islamic capital market study in Malaysia and may serve as reference to the potential SRI-linked sukuk issuers, regulators, and sustainable institutional investors and academician. This paper will be presented in the following orders: Part 2: Research Methodology, Part 3: Literature reviews related to sustainability-linked bond/sukuk, Part 4: Features of SRI-linked sukuk framework followed by comparative study of the Framework with SRI Sukuk Framework and ICMA's SLBP, Part 5: Case study on SLSs issued in Malaysia, Part 6: Observation and conclusion.

2. Methodology

This paper employs the most important research technique in social science i.e., content analysis (Krippendorff, 1989) as its roots from social research (Bengtsson, 2016). Content analysis according to Given (2008) is method of classifying qualitative data into groups of related concepts, patterns, themes, or relationship. This method of analysis narrows the numbers of data to be collected, categorised, and identify data into groups and try make sense of it (Silverman, 2014). For this paper, data collected from available documents, newspaper, peer-reviewed journals, frameworks, guidelines, and principles are categorised under the following themes: sustainability, sustainable investment, sustainability-linked bond, sustainability-linked sukuk, SRI sukuk and SRI-linked sukuk. In addition, this paper also adopted comparative method to study themes mentioned earlier.

[1] Assigned task to identify options and strategies to achieve a low-carbon economy

3. Literature Review

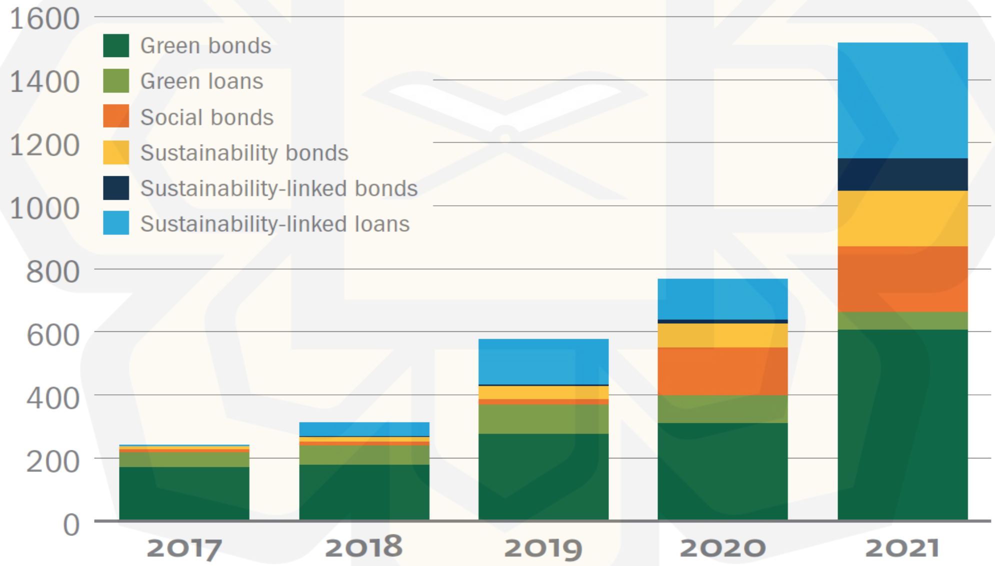
3.1. Concept of sustainability-linked sukuk

Literature on SRI-linked sukuk is practically non-existent since the issuance of the SRI-linked Sukuk Framework. Due to similarities of its core components to sustainability-linked bond/sukuk (SLB/S), this paper will gather relevant literatures on SLB/S. International Capital Market Association (ICMA)(2020) in their Sustainability-linked bond Principles (SLBP) defines SLBs as:

"any type of bond instrument for which the financial and/or structural characteristics can vary depending on whether the issuer achieves predefined Sustainability/ ESG objectives."

Indeed, green bonds is the most popular sustainable related fixed-income instrument (Flammer, 2021), however, SLB/S provide an alternative fixed income instruments available for the market players as more companies moving toward 'sustainable activities' and to tackle the climate change. According to Dey et al. (2020) SLB/S is a product innovation as its creation is a concept where debt instruments is linked to sustainability performance. This innovative fixed income instruments that integrate sustainability target has become latest phenomenal to facilitate companies to enhance their sustainable performance, compare with other "sustainable fixed income instruments". Although in principle, SLBs issuance concern on environment, social and governance targets, however in reality, nearly all SLBs issuances are linked to environment targets (Berrada et al., 2022). Survey conducted in 2020 among investment managers indicates that SLBs are viewed as most suitable investment approaches that focused on climate change, with 88% respondents considering or already invested in SLBs (Naxitis Investment Management, 2021).

Figure 1: Sustainable debt annual issuance, 2013–2021 ($ billion)



Source: De La Orden and De Calonje (2022)

Unlike green bonds that focuses on the utilisation towards green project, SLBs does not specify the use-of-proceeds of the bond, however the focus is on the issuer's performance on the pre-determined sustainable indicator (Giráldez & Fontana, 2021). Hence, SLBs is also known as the KPI bonds (Ramirez et al., 2022) and SLBs tenure is commonly between 5 years to 12 years (Vulturius et al., 2022). Since its novel introduction into the securities market in 2019, there had been few studies conducted on SLBs such a study by Kolbel and Lambillon (2022) found that under the SLBs issuances, the issuers benefit from lesser cost of principal, as investors pay for the sustainability enhancement. According to De La Orden & De Calonje (2022), SLB investors pool's is commonly substantial with large spread that come with highly demand pricing mechanisms that is however straightforward and easy to track. In term of most active and supportive regulation on SLB, European Union (EU) is considered as a forerunner in promoting sustainable activities as parts of the financial system (Alexandraki, 2021). Study conducted by Ramirez et al. (2022) found the existence of premium to investors in SLBs issuance under the EU.

3.2. ICMA Sustainability-linked bond principles

ICMA is an association based in Zurich with long standing history and had since 1963 been promoting the development of international capital and securities markets with its member via the issuance of market practices and regulatory policies (ICMA, 2022). As off 15 December 2022, there are 647 members globally registered with ICMA including three Malaysian local financial institutions i.e., CIMB Bank Berhad, Malayan Banking Berhad and RHB Bank Berhad. ICMA is committed via its mission in promoting robust cross-border securities market to support a viable economic development. To date, ICMA has issued Principles, Guidelines and Handbook related to sustainable finance *inter alia* Green Bond Principles, Social Bond Principles, Sustainability Bond Guidelines, Sustainability-Linked Bond Principles (SLBP), Climate Transition Finance Handbook and Guidance Handbook which are supported by international market initiatives (ICMA, 2022). SLBP introduced in June 2020 is a voluntary process guideline to all types of issuers and any type of financial capital market instruments. The Principles provides recommendations on structure features, disclosure and reporting that incorporate environment, social and governance (ESG) outcomes (ICMA, 2020). The issuer of SLBs are binds to a predefined, measurable, and verifiable sustainable objective via Key Performance Indicators (KPIs) and Sustainability Performance Targets (SPTs) (Berrada et al., 2022). In summary, ICMA's SLBP consist of 5 main core components i.e. (i) *Selection of Key Performance Indicators (KPIs)*; (ii) *Calibration of Sustainability Performance Targets (SPTs)*; (iii) *Bond characteristics*; (iv) *Reporting*; and (v) *Verification.* Will be elaborated more in Section 4.2 (ii) of this paper.

3.3. Sustainable-focused institutional investors

Integration of ESG issues as part of investment decision by institutional investor globally are expected to increase (US SIF, 2018). There had been calls from giant institutional investors such as Blackrock to focus on climate change indicating strong investment appetite on sustainable portfolio (Giráldez and Fontana, 2021). Sustainable investors signatories to the United Nations Principles for Responsible Investment (PRI) are majority to institutional investors (Kordsachia et al., 2021) and there is evidence demonstrating institutional investors that join the PRI display greater ESG footprints (Gibson et al., 2020). This is validated by a survey conducted by Morgan Stanley (2020) indicated that 95% of asset owner integrating or plan to integrate sustainable portfolio in all or part of their investments focusing more on environmental issues *inter alia* climate change. Voluntary commitment adhering to the investment principles requires the institutional investors to draw a plan to incorporate sustainability agenda as part of its investment decision on annual basis for public's views (Kordsachia et al., 2021). Study by Brandon et al. (2021) indicates that institutional investors are in favour for the sustainability portfolios as there is increasing trend of institutional investors interests on stocks with high-ranking sustainability scores. According to Velte (2022), study showed that participations of sustainable institutional investors lead to the increased of ESG outputs with highest participations from pension funds, mutual funds and hedge funds. In Malaysia, institutional investors are urged to hold a minimum of 5 percent of their assets under the sustainable portfolio ("Prime Minister's Keynote Address at Invest Malaysia," 2015) and to date[2] there are 14 signatories parties from Malaysia that signed up as members to the PRI namely the Employee Providence Funds (EPF), Khazanah Nasional Berhad (Khazanah) and Kumpulan Wang Amanah Diperbadanankan (KWAP) representing institutional investors (UN PRI, 2022).

4. Sri-Linked Sukuk Framework

4.1 Sustainable environment of Malaysian Islamic capital market

The SC, a statutory body responsible *inter alia* to regulate and develop the Malaysian Islamic capital market by issuing and enforcing regulations to ensure good, effective, and fit behaviour of all market participants (Securities Commission Malaysia, 2022a). To support the growth and development of Malaysian Islamic capital market, the SC had been active in issuing Framework and Guidelines in particularly on sustainable agenda (Razali et al., 2022). The following diagram exhibits summary of sustainable growth milestones of the SC:

[2] As of 13 February 2023

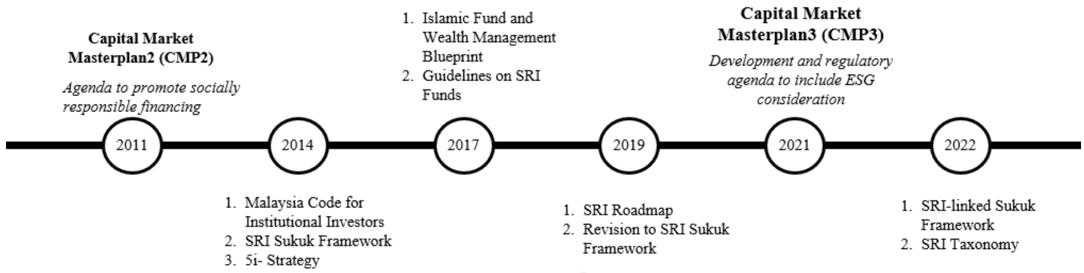


Diagram 1: Sustainable growth agenda by the SC
Source: Authors' own

Malaysia had been forefront for sustainable sukuk issuance with the world's first SRI Sukuk by Khazanah Nasional Berhad (Khazanah) worth RM1billion Sukuk Programme in 2015 (Khazanah Nasional Berhad, 2015). Since the issuance of Ihsan Sukuk by Khazanah, numerous SRI sukuk issuances in Malaysia and as of June 2022, RM8.8 billion SRI sukuk issued in Malaysia under the SRI Sukuk Framework (Securities Commission Malaysia, 2022e). The SRI sukuk issuance in Malaysia had financed various green, social and sustainable projects such as Sukuk Ihsan that aimed to improve quality education (Khazanah Nasional Berhad, 2015), Cagamas Bhd sukuk issuance to fund the purchase of eligible Islamic financing for affordable housing (TheStar, 2021), Tadau Energy Sdn Bhd green sukuk issuance to finance a 50MWac solar project in Kudat, Sabah (Tadau Energy Sdn Bhd, 2017) and up to RM2 billion SRI sukuk programme by PNB Merdeka Ventures Sdn Berhad utilised to finance the green Merdeka PNB118 tower (Malaysian Sustainable Finance Initiative, 2022).

Since the issuance of Guidelines of SRI Funds in 2017 (Securities Commission Malaysia, 2017), there have been 34 SRI funds launched as at 2021, with a total of net asset value of RM5.07 billion (Securities Commission Malaysia, 2022b). As at 20 November 2022, there are 22 SRI fund with Islamic fund status issued in Malaysia such as BIMB ESG Sukuk Fund, Makmur myWakaf Fund and MIDF Amanah ESG Mustadamah Fund (Securities Commission Malaysia, 2022d). To continuously support the development of SRI in Malaysia, the SC had in 2018 established the Green SRI Sukuk Grant Scheme which was later renamed to SRI Sukuk and Bond Grant Scheme when the grant was expanded to all eligible projects under the SRI Sukuk Framework (Securities Commission Malaysia, 2021). With the issuance of SRILSF on 30 June 2022 (Securities Commission Malaysia, 2022f) the SC had announced on 23 August 2022 that the SRI Sukuk and Bond Grant Scheme will be expanded to issuances of SRI-linked sukuk (Securities Commission Malaysia, 2022g). The eligible issuer may claim up to 90% of the cost incurred in appointing the independent reviewers for the sustainable sukuk. As of June 2022, 15 issuers involved in various sustainable projects such as renewable energy had benefitted the Grant (Capital Market Malaysia, 2022). In addition to the Grant, sustainable sukuk issuer that benefit the Grant are also entitle for income tax exemption for five years from year 2021 to year 2025 (Capital Market Malaysia, 2022).

4.2 Features and key component of SRI-linked Sukuk framework

This subsection will provide (i) analytical review of the SRILSF and comparison study between (ii) SRILSF and SRI Sukuk Framework and (iii) SRILSF and ICMA's SLBP. In respect of compliance and development of SRI Sukuk Framework, there had been many studies conducted (see, Noordin et al., 2018; Rabiah et al., 2019; Wahab and Mohamed-Naim, 2019). As for ICMA's SLBP, there had also been numerous studies conducted despite its introduction in 2020.

(i) SRI-linked Sukuk framework

The key features of SRILSF lies on its core component under Paragraph 9.07 (see Table 1 below). SRI-linked sukuk is defined based on its characteristics either financially or its structure that meets its sustainable targets. Selection of Key Performance Indicators (KPIs) by the issuer is pivotal in achieving the sustainability targets[3].

[3] Paragraph 9.09, Chapter 9 of SRI-linked Sukuk Framework

The selected KPIs by the issuer must *inter alia*[4], (i) be an important element to issuer's sustainable and corporate policy, (ii) focus on environment, social or governance (ESG) related issuer in issuer's business and (iii) able to be controlled by the issuer. In addition, Sustainable Performance Targets (SPTs) set by the issuer is as important as selection of KPIs that can be measured to be improved over a pre-set period. The selected SPT should be *inter alia* ambitious but practical, in line with issuer's sustainable, corporate and ESG strategy and pre-set or simultaneously set with the issuance of the SRI-linked sukuk.[5]

(ii) SRI Sukuk framework and SRI-linked Sukuk framework

SRI sukuk and SRI-linked sukuk differs in terms of its definition. SRI sukuk according to SRI Sukuk Framework is sukuk where the proceed is used to fund activities or projects in relation to Eligible SRI projects[6], while SRI-linked sukuk is defined as sukuk where the financial or structure characters of the sukuk or both rely on or meets the predefined sustainable targets[7]. In other words, key characteristic of SRI sukuk issuance must tie to the Eligible SRI projects as defined under SRI Sukuk Framework while SRI-linked sukuk is not tied to any SRI projects but rely on its end goal of sustainability targets. By shifting the focus to achieving the KPIs under SRI-linked sukuk, rather than on specific parameters as in the case of SRI sukuk, it will allow for wider sustainable strategies to the issuer. Hence, SRI-linked sukuk is seen as alternative instrument that provides for flexibility in capital raising instead of being limited to eligible project under the SRI sukuk issuance. Table 1 below represent summary of key differences for SRI Sukuk Framework and SRI-linked Sukuk Framework.

Table 1: Key differences of SRI Sukuk Framework and SRI-linked Sukuk Framework

Criteria	SRI Sukuk Framework Relates to:	SRI-linked Sukuk Framework
Eligible projects	a) environment and natural resources; b) energy conservation; c) renewable energy; d) Reducing GHG emission; e) social or f) Improving the quality of life	Not applicable
Core components	a) Utilisation of proceeds; b) Process for project evaluation and selection; c) Management of proceeds; and d) Reporting.	*a)* SRI-linked sukuk characteristics; *b)* Selection of Key Performance Indicators (KPIs); *c)* Calibration of Sustainability Performance Targets (SPTs); *d)* External review; and *e)* Reporting.
Utilisation of proceeds	Eligible SRI projects above	General utilisation of proceeds
External review	Issuer may appoint external reviewer to assess and provide report of the Eligible SRI project	Pre- issuance: appointment of external reviewer Post-issuance: appointment of independent verifier
Reporting	Annual reporting relating to Eligible SRI projects, utilisation of proceeds and unutilised amount.	Annual publication of selected KPIs, progress of SPTs, any changes to the issuer's sustainability, business and ESG strategy that may impact the KPIs and SPTs.
Disclosure requirements	Disclosure related to: a) SRI objectives; b) utilisation of Eligible SRI projects; c) impact objectives from the Eligible SRI projects; d) evaluation processes of Eligible SRI projects;	Disclosure relating to: a) rationale and selection process of KPIs, sukuk structure or financial characteristics; b) plan to achieve the SPTs; c) motivation and timeline for the outlined SPTs; d) baseline of selected KPIs;

[4] Paragraph 9.10, Chapter 9 of SRI-linked Sukuk Framework
[5] Paragraph 9.12 and Guidance to Paragraph 9.12, Chapter 9 of SRI-linked Sukuk Framework
[6] Paragraph 7.02, Chapter 7 of SRI Sukuk Framework
[7] Paragraph 9.02, Chapter 9 of SRI Sukuk Framework

e) criteria used to identify and manage material environmental or social risks related to Eligible SRI projects; f) management of proceeds; and g) compliance with ESG standards	e) recalculations or pro-forma adjustments of baselines will take place; f) fallback mechanisms in case the SPTs cannot be calculated, and g) any other factor may affect the achievement of the SPTs.

Source: Authors' own

(iii) SRI-linked Sukuk Framework (SRILSF) and ICMA's Sustainability-Linked Bond Principles (SLBP) The features and requirements of SRILSF mirrored ICMA's SLBP with certain variations. Definitions of SRI-linked sukuk and sustainability-linked bond is similar in principle as any sukuk, or bond can be categorised as SRI-linked sukuk or sustainability-linked bond if the issuer is able to achieve the predefined sustainability objective. However, to be characterized as SRI-linked sukuk, the sukuk must comply with all requirements under the SRILSF, hence entitled to adopt or use the title of SRI-linked sukuk.[8] Both SRILSF and ICMA's SLBP shared similar core components with different terms used for sukuk and bonds, although ICMA's SLBP doesn't distinguish sukuk or bond in its principles as it maybe be voluntary adopted by issuer (see Table 2). Besides that, an obvious different requirement for the utilisation of proceeds under SRILSF must be for Shari'ah-compliant purposes. In addition, given the complexity of the SRI-linked sukuk, the SC is silent on combination of SRILSF with another available Framework and under SRILSF, an external reviewer must be appointed for both pre and post issuances, while it is only recommended for pre-issuance and necessary to appoint external reviewer for post-issuance under ICMA's SLBP. Table 2 below represent summary of key different requirements between SRILSF and ICMA's SLBP.

Table 2: Key requirements between SRI-linked Sukuk Framework and ICMA's SLBP

Criteria	SRI-linked Sukuk Framework	ICMA's SLBP
Eligible issuer	Corporation as defined under the Capital Markets and Services Act 2007	All types of issuers and any type of financial capital market instruments
Use of proceed	General purposes which are Shari'ah-compliant	General purpose
Combination of Principles	Silent. Issuer may combine with another Framework	Issuer may choose to combine SLBP with Green Bond or Social Bond Principles
Selection of KPIs	Selected KPIs but be intended to be uses as sustainability targets by the Issuer. 1. relevant, core and material to the issuer's overall business, and of high strategic significance to the issuer's current and/or future operations. 2. measurable or quantifiable on a consistent methodological basis; 3. externally verifiable; and 4. able to be benchmarked as much as possible using an external reference or definition to facilitate the assessment of the SPT's level of ambition	Issuer's sustainability performance is measured using sustainability KPIs that can be external or internal. 1. relevant, core and material to the issuer's overall business, and of high strategic significance to the issuer's current and/ or future operations; 2. measurable or quantifiable on a consistent methodological basis; 3. externally verifiable; and 4. able to be benchmarked, i.e. as much as possible using an external reference or definitions to facilitate the assessment of the SPT's level of ambition.
Calibration of SPTs	1. Silent on good faith 2. At issuer's discretion, notwithstanding it must be ambitious and realistic	1. Issuer setting the SPTs in good faith 2. SPTs should be ambitious
External reviewers	1. Pre-issuance: A must for issuer to appoint Second Party Opinion	1. Pre-issuance: Recommended for issuer to appoint Second Party Opinion

[8] Paragraph 9.03, Chapter 9 of SRI-linked Sukuk Framework

	2. Post-issuance: A must for issuer to appoint an independent verifier	2. Post-issuance: Necessary for issuer to appoint external reviewers to assess
Credential of External Reviewers	Silent	Encourage external reviewers to make available their qualification and related skill/knowledge and able to clearly demonstrate the review(s)
Reporting	Relevant information must be published designated website	Related bond documentation may be disclosed in documents for example in *framework, investor presentation, external review or on issuers' website or annual sustainability or annual reports*

Source: Authors' own

In addition to the differences highlight above, we observed that issuers of SRI-linked sukuk are eligible to apply up to 90%o of the external review costs[9] incurred under the SRI Sukuk and Bond Grant Scheme (the Grant Scheme) by the SC (Securities Commission Malaysia, 2022g). Expansion of the Grant Scheme to SRI-linked sukuk is to encourage issuance of sukuk under the SRILSF in Malaysia.

5. Case Study

In the absence of official regulation that regulate sustainability-linked sukuk issuances, the market voluntary adopted the SLBP by ICMA. In Malaysia, prior to the issuance of SRILSF, two Sustainability-linked Sukuk and two Sustainability-linked Bond[10] have been issued with total issuance of USD1.45 billion under ICMA's SLBP (Securities Commission Malaysia, 2022e). This subsection will provide analytical review on alignment of Yinson Holdings Berhad (Yinson) and Cenviro Sdn Bhd (Cenviro) Sustainability-linked Sukuk with ICMA's SLBP. This review is done by extracting the core components of the two earlier mentioned Sustainability-linked Sukuk from its Framework and Second Party Opinion Report.

5.1 Corporate and Sukuk structure

Yinson, founded in 1983 as transportation and logistics company in Johor Bahru, and in 2019, diversified its portfolio into renewable energy (Yinson Holdings Berhad, 2022). On December 7, 2021, Yinson issued Malaysia's first sustainability-linked sukuk with issuance price of RM1 billion under Sukuk Wakalah structure. Cenviro stands for "*Clean Environment*" (Cenviro Sdn Bhd, 2022a) a waste management company owned by Khazanah Nasional Berhad (Kareem, 2022). Cenviro via its subsidiary Kualiti Alam, manages Malaysia's one and only integrated high-risk waste management centre in Negeri Sembilan with services such as incineration plant and a centre for clinical waste treatment (Cenviro Sdn Bhd, 2022b). Cenviro on 16 March 2022 issued its first sustainability-linked sukuk worth RM54.6 million from as Sukuk Wakalah Programme up to RM500 million. The two tranches worth RM26.29 million and RM28.31 million was for a tenor of eight years and 12 years respectively from 20 years Sukuk programme (Kareem, 2022). Table 3 represents summary information of Yinson and Cenviro's sustainability-linked sukuk:

Table 3: Summary information of Yinson Holdings Berhad and Cenviro Sdn Bhd's sustainability-linked sukuk

Item(s)	Yinson Holding Berhad	Cenviro Sdn Bhd
Issue date	7 December 2021	17 March 2022 (first issue date)
Shari'ah principle	Sukuk Wakalah	Sukuk Wakalah
Issuance size	RM1 billion	RM54.6 million
Tenure	5 years	8 years and 12 years
Principal adviser	HSBC Amanah Malaysia Berhad	RHB Investment Bank Berhad
Utilisation of Proceed	To finance company's future infrastructure projects	To finance: 1. Principal expenditure of Kualiti Alam waste management center

[9] Maximum RM300,000 per issuance
[10] Hap Seng Management Sdn Bhd and Sunway REIT

		2. New satellite waste management centre project.
Second Party Opinion	ISS ESG	RAM Sustainability

Source: Author's own

5.2 Selection of Key Performance Indicators

Since utilisation of proceed of sustainability-linked sukuk can be used for general purposes, its coupon mechanism is linked to KPIs and SPTs and in the event the issuer failed to achieve the set KPI, a step-up payment will be imposed upon the issuer (Berrada et al., 2022). Hence, selection of KPI is important to avoid any penalty imposition and it must be relevant, core and material to the issuer's overall business and externally verified (ICMA, 2020).

Yinson had selected to focus on 3 KPIs under its sustainability-linked sukuk issuance i.e. (i) to increase its renewable energy from 300 GWh in year 2021 to 22,400GWh in year 2025; (ii) to lower its carbon amount from its vessel operations from 16.3kg in year 2021 to 8.0kg in year 2050; and (iii) to reduce carbon for Yinson Group overall power generation consumption from 279.1kg in year 2021 to 23kg in year 2050 (Yinson Holdings Berhad, 2021). Yinson's KPIs selection summarised in Table 4.

Table 4: Yinson Holdings Berhad KPIs selection

KPIs	(Baseline) 2021	2025	2030	2050
1.Renewable energy generation of Yinson controlled plants (GWh)	300	1,700	5,600	22,400
2.Carbon intensity (kg CO_2e*/boe**)	16.3	16.2	11.4	8.0
3.Carbon intensity (kg CO_2e/MWh***)	279.1	192.5	136.7	23

* Carbon dioxide equivalent; ** A barrel of oil equivalent; *** Megawatt-hour

Source: Yinson Holdings Berhad Sustainability-linked Sukuk Framework (Yinson Holdings Berhad, 2021)

Cenviro on the other hand opted to focus only one KPI i.e., to reduce the greenhouse gas (GHG) emissions intensity (tCO_2e/mt) in line with its 5-Year GHG Reduction Roadmap developed in 2020. Cenviro expected to increase the volume of waste treatment from 5% to 20% within 5 years and had identified 6 categories of GHG emissions (RAM Sustainability, 2022) summaries in Table 5.

Table 5: Cenviro Sdn Bhd's categories of GHG emissions

Category	1	2	3	4	5	6
Description	Direct GHG emission & removals	Indirect GHG emissions from imported energy	Indirect GHG emissions from transportation	Indirect GHG emissions from products used by organisation	Indirect GHG emissions associated with the use of organisation's products	Indirect GHG emissions from other sources

Source: RAM Sustainability (2022)

5.3 Sustainability Performance Targets (SPTs)

SPTs set by the issuers according to ICMA (2020) should be ambitious, that correspond to KPIs and be beyond a "Business as Usual" course of issuer, comparable to a benchmark or with external reference, in line with issuers sustainability or ESG policy and defined at set timeline, before or at time of issuance. In Yinson's sustainability-linked sukuk, all 3 selected SPTs are aligned with ICMA's requirements that tied to 3 focused KPIs earlier (Yinson Holdings Berhad, 2021), summarized in Table 6. Cenviro's sustainability-linked sukuk SPTs selection is more straightforward, where Cenviro aims to reduce GHG emission by year 2025 from year

2020 (baseline) (RAM Sustainability, 2022). Cenviro had identified 3 priority areas to achieve the SPTs summarised in Table 7.

Table 6: Yinson Holding Berhad's Strategy to achieve SPTs

KPI	SPT	Observation Dates	Alignment with Strategic Plan
1	Renewable energy generation of Yinson controlled plants (GWh)*	Baseline (2021) – 300 GWh • January 31st 2025 – 1,700 GWh • January 31st 2030 – 5,600 GWh • January 31st 2050 – 22,400 GWh	To increase Yinson's Renewable Generation Capacity
2	Reduce Scope 1 CO2e/boe-intensity by 30% by 2030	Baseline (2021) – 16.3 • January 31st 2025 – 16.2 • January 31st 2030 – 11.4 • January 31st 2050 – 8.0	To be carbon neutral by 2030 and to reach net zero by 2050, steepening the carbon intensity reduction curve
3	Year Absolute carbon intensity (kg CO2e/MWh)	Baseline (2021) 279.1 • January 31st 2025 – 192.5 • January 31st 2030 – 136.7 • January 31st 2050 – 23.0	To increase and expand its generation of renewable energy

*Electricity generation

Source: Yinson Holding Berhad (2021)

Table 7: Cenviro Sdn Bhd's Strategy to achieve SPTs

Area(s)	Target	Strategy(ies)
Electricity Efficiency Projects (EEPs)	25% reduction in emissions from the use of electricity through	To install high efficiency motors and move towards use of inverters and LED lights
Transport Efficiency Actions (TEAs)	10% reduction in emissions from fossil fuel used in waste transport	To optimise the journey, freight, and scheduled waste allotment
Material Efficiency Actions (MEAs)	10% reduction in emissions from chemical use through the reduction/replacement of CO_2	To avoid any leakages of substance used for refrigeration

Source: RAM Sustainability (2022)

5.4 Reporting

The fourth core component is on reporting where ICMA's SLBP stipulated that related bond documentation may be disclosed in documents for example in framework, investor presentation, external review or on issuers' website or annual sustainability or annual reports. The published report should display performance of selected KPIs against the SPTs. This core component is important as it provide transparency for its investors. For Yinson's sustainability-linked sukuk documents i.e., the Framework and Second Party Opinion Report are available Yinson's[11] website for investors and public access, while for Cenviro, the Second Party Opinion Report is available at appointed Second Party Opinion's website[12]. Hence both sustainability-linked sukuk issuances met ICMA's SLBP reporting component.

5.5 Verification

Under ICMA, issuer is recommended to appoint independent and external qualified reviewer to review the performance of selected KPIs against the SPTs. In selecting the qualified reviewer, ICMA went further by providing list of external reviewers that voluntary will align with the Guidelines for External Reviews with an objective to encourage best practice (International Capital Market Association, 2022b). The publicly available

[11] https://yinson.irplc.com/investor-relations/pdf/sustainability-linked-financing-framework.pdf (Accessed on 18 Sept 2022)
[12] https://www.ram.com.my/pressrelease/?prviewid=5948 (Accessed on 18 Sept 2022)

report by external reviewers should be published annually until the final SPT is reached. As highlighted in Sub-para 5.1 above, ISS ESG was appointed as Second Party Opinion provider by Yinson while RAM Sustainability acted as independent reviewer for Cenviro's sustainability-linked sukuk issuance.

From the case study above, we observed that prior to the issuance of SRILSF, there is a demand from the industry for the issuance of sustainability-linked sukuk. The issuance of SRILSF is timely as we foresee more sustainable-linked sukuk will be issued in Malaysia under Malaysian's very own SRILSF.

6. Observation and Conclusion

The issuance of SRI-linked sukuk creates investment opportunities for sustainable focused investors as fixed income investments are the main and most significant financial asset against stocks as bonds are capital protected and guarantees fixed payments over time (Siegel, 2021). Bonds is considered as the most suitable investment for long-term investors seeking for stable income (Bonds et al., 1998). Institutional investors depict a main source of long-term investment due to their long-term liabilities nature (OECD, 2014). Additionally, study conducted by Kaminker and Stewart (2012) found that long-term investors are interested in climate change investment that have a long term positive economic development. Hence, with their long-term investment policy, institutional investors will be seeking investments that most suitable to their investment policy. In 2005, Khazanah, Permodalan Nasional Bhd (PNB), EPF, Lembaga Tabung Angkatan Tentera (LTAT) and Lembaga Tabung Haji (TH) and Minister of Finance (Incorporated) (MOF) are categorised as Government-Investment Linked Companies (Putrajaya Committee, 2022). However, with the introduction of PERKUKUH initiative, Khazanah, KWAP, Kumpulan Wang Amanah Negara (KWAN) and MOF are categorised as sovereign wealth funds, while EPF, PNB, TH and LTAT are under institutional investors category (The News Strait Times, 2021). For this paper's purposes, all the mentioned entities earlier will be referred to as institutional investors. As mentioned in Part 2.3 of this paper, EPF, Khazanah and KWAP are signatories to the PRI representing institutional investors from Malaysia (UN PRI, 2022) and since becoming signatories to the PRI, Khazanah (Khazanah Nasional Berhad, 2020), KWAP (KWAP, 2021) and EPF (EPF, 2020) had come up with strategic initiatives and steps moving their investments towards sustainable investments. With the issuance of SRILSF that integrates Shari'ah and SRI, it will not only facilitate product innovation (Securities Commission Malaysia, 2022c), but will also provide more sustainable investments opportunities for sustainable-focused investors, hence expending the overall growth sustainable investment in Malaysia.

Capital market regulator play a vital role to facilitate sustainable financing to address the climate change issues. Introduction of SRILSF marks an important milestone for the capital market landscape in Malaysia as it widens the range SRI products in Malaysian capital market. It will also attract more sustainable-focused investors especially the sustainable-focus institutional investors. From issuer's perspective, it provides flexibility as issuers are able to utilise the sukuk proceeds for general purposes but at the same time entice more company especially the high-emitting industry to set their ESG goal and to transition into low-carbon or net zero economy. From the comparison discussion above, this study took note that ICMA's SLBP is a voluntary adoption of the issuing process while SRILSF is a Framework issued by a capital market regulator where one must comply in order to make issuance and non-compliance will result in breach of such Framework. In addition, we find that SRILSF is stricter from ICMA's SLBP, as SRILSF requires mandatory review by independent external reviewer post issuance while it's only a recommendation under ICMA's SLBP. On the other hand, SRILSF is silent on criteria of appointed external reviewer while issuer under ICMA's SLBP is recommended to follow the Guidelines for External Reviews. Malaysia has yet to witness the first SRI-linked sukuk issuance under the SRILSF and we hope this paper will shred some lights and guidance for issuers to issue SRI-linked sukuk and future study to be conducted on SRI-linked sukuk issued under the SRILSF.

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Exploring the Frontier in Microfinance: Faith-Based and Interfaith Microfinance Collaboration in Conflict-Affected Environments

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Abstract

The impact of microfinance has been heterogeneous where variant microfinance programs have a greater impact in some countries and for some borrowers, but not much in other. In reviewing the industry from this view, stakeholders will find that faith-based microfinance organizations have the potential to be the ideal model to manage the pressures of both strict economic-system microfinance and social-impact targeting microfinance. That is, faith-based microfinance can and have learned to be effective in learning from other variant programs. If there is a frontier, it might be the ability of faith-based microfinance organizations to be a catalyst in providing ethical and egalitarian loans, as well as creating a base of reconciliation in conflict-affected environments. Moreover, in fragile and extreme poverty settings characterized by religious conflicts in North Africa and the Middle East, Christian-based and Islamic microfinance organizations appear to fall short in affecting substantial change. That is, they have not effectively associate development issues with local religious beliefs in which the invited community norm setters would buy into. Overall, the article explores and finds that collaboration between Islamic and Christian-based microfinance organizations might be crucial for not only enlarging funding from public and private sectors, but also improving cross-religious mechanisms to scale impact for their clients of different faiths or no faith.

Keywords: *Microfinance, Poverty, Refugees, Innovation*

1. Mapping the Today's Microfinance Schism to Understand the Next Frontier of Faith-Based Microfinance Innovation

Although this paper does not directly address microfinance in context of the Covid-19 world, a growing number of researchers is starting to see the pandemic as an opportunity for the microfinance industry to resolve its debates and shortcomings (Kumaraswamy, 2021; Bull, 2020; Diaz et al., 2020). To be sure, even before the pandemic, the microfinance industry has had its share of crisis in the past few years and can be said to be at or close to an inflection point (Lascelles and Mendelson, 2012; Lascelles and Mendelson, 2014; Lascelles and Patel, 2016). Specifically, microfinance as a bottom-up development — once considered unequivocally a good thing — has gone mainstream led by commercially-oriented providers of whom have included former NGOs who turned into for-profit lenders. Consequently, this change has brought on mainstream problems such as client over-indebtedness and poverty traps (Lascelles and Mendelson, 2012; Lascelles and Mendelson, 2014; Lascelles and Patel, 2016). For many who see microfinance as a socially valuable undertaking, the mainstream characteristics have caused microfinance to lose its reputation and its moral appeal. From the socially-oriented perspective, when mainstream microfinance tries to attract private, profit-oriented investors through initial public offering listed on a stock exchange, this clearly indicates "mission drift" where "microloan-sharking" is now part of the industry (Epstein and Yuthas, 2011; Casselman and Sama, 2013; Gutiérrez-Nieto et al., 2017). For others who see the commercial approach as a solution to financial viability and wider access to finance, these mainstream problems are being addressed with appropriate regulation and demand-driven products. From

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the commercially-oriented perspective, many of the noted unethical practices can be traced back to excessive commercialization (Schimdt, 2012). Thus, while excessive commercialization is needed to be regulated, modern microfinance must to some degree have a commercialized strategy in order to professionalize and integrate communication technologies that could foster the industry's sustainability (Lascelles and Mendelson 2012; Lascelles and Mendelson, 2014; Lascelles and Patel, 2016).

Notwithstanding, there are others who have long argued for the false choice between commercially-oriented and socially-oriented microfinance, or sometimes referred to as the debate between the institutionalist approach and welfarist approach (Woller et. al., 1999; Morduch, 2000; Addair and Berguiga, 2016). In brief, the institutionalist approach sees the commercialized microfinance as necessity for continued expansion and greater efficiency, whose incentives to innovate could scale financial inclusion as well as integration into the formal provision of financial services. Meanwhile, the welfarist approach — taking advantage of subsidies, grants, and donations– is focused and seen as more vital for social impact in reaching and providing better access to financial services to the poorest customers and the poorest areas. According to the false choice perspective, this dichotomous debate on microfinance has been nonproductive, and that it would be more helpful to "bridge" the two approaches in order to see a common ground (Woller et. al., 1999; Morduch, 2000; Addair and Berguiga, 2016). For example, the underlying principle among the variant microfinance programs — both subsidized and non-subsidized — is bonding social capital. That is, while some microfinance lenders have shifted from their roots in non-profit because they see the benefits of becoming a corporatized microfinance bank, some still utilize social capital channels such as self-help groups or joint liability groups in order to be efficient and effective (Kanak and Iiguni, 2007; Postelnicu and Hermès, 2018). On the other hand, socially-oriented microfinance lenders have explicitly leveraged bonding social capital within the operational environment to decrease operational costs. However, some of these lenders are recognizing that commercialization of the industry has attracted impact investors and fintech investments of which could be an opportunity to create other types of social capital in enhancing financial performance for themselves and their clients (Postelnicu and Hermès, 2018).

The above endeavor to move towards a common ground could potentially open up new thinking and new learning for the stakeholders of microfinance to resolve its debates and shortcomings. From this view, various kinds of microfinance programs — socially-oriented, faith-based, commercially-oriented, corporate-based, and state-run oriented —are essential to meet the world's unbanked adults whose needs are diverse and are directly linked to their locational settings (Rosengard, 2004; Rosengard, 2000). One of the key unresolved debates is that while more than 140 million working poor have received microfinance loans, the impact of financing to unbanked borrowers on average has not meaningfully increased household income, enterprise profits, or fueled an escape from poverty (Kumaraswamy, 2021; Banerjee et al., 2019; Banerjee et al.,2015; Karlan et al., 2016). For some researchers, this "modest" impact possibly reflects the still significant knowledge gaps in understanding the variant microfinance programs that have worked in certain settings and for certain borrowers, and what aspects of such programs can be learned (along with how those aspects can be replicated) by other programs (Kumaraswamy, 2021; Karlan et al., 2016). Specifically, rather than primarily looking at the overall impact of microfinance around the world, more focus should be given to the heterogeneity of the impact results. In so doing, perhaps it would be more productive to know that variant microfinance programs in particular countries could unlock a poverty trap for borrowers who can develop or have entrepreneurship ability; or what variant programs could empower those who are very poor with very little resource (Banerjee et al., 2021, Banerjee et al., 2019; Banerjee et al., 2015). In such context, it would be more fruitful to see the welfarists and institutionalists as representing two broad approaches in which each could learn from and collaborate with each other. In so doing, it could equip the microfinance movement with the know-how in how to effectively and efficiently serve the unbanked adults who live in a world that is more volatile, uncertain, complex, and ambiguous (Kumaraswamy, 2021).

Perhaps what's most interesting is that, if stakeholders were to take stock of the impact and models within the socially-oriented microfinance, they might find that faith-based microfinance represents the path forward. That is, faith-based microfinance has the ability to play a dual role of continuing the core values of and exploring the new frontier for today's microfinance movement. Firstly, faith-based microfinance organizations have shown a greater capability to be more connected and empathetic to the needs of the working poor and micro-entrepreneurs; and inherently more obligated in how to respectfully operate their microfinance programs within the formal and informal rules of a geographical and institutional context (Hoda and Gupta, 2015; Hoda and Gupta, 2014). Furthermore, faith-based microfinance has shown a greater capacity to create and develop social capital for both their clients and for themselves — potentially bridging and linking with key stakeholders to get access to resources and bargaining power (Hoda and Gupta, 2015; Hoda and Gupta, 2014). Notedly, if straightforward but informed tweaks can change microfinance performance, faith-based microfinance programs need not result in efficiency loses from lower interest rates in which being socially efficient can facilitate and result in being more financially viable (Djan and Mersland, 2017; Hoda and Gupta, 2014; Mersland et al., 2013). Yet, there are perspectives that argue socially-oriented or development-focused microfinance programs regardless of religious orientation be equally or more effective; or that faith-based microfinance is not benign and should be viewed as a controversial schema in development policy and discourse (Clarke, 2010; Clarke, 2008).

However, if the diverse developmental needs of the poor throughout the world demand a number of sound models of microfinance, then future research may want to know what operational features of faith-based microfinance have been successful or which ones have the potential to be successfully replicated; and/or under what geographical and institutional contexts have faith-based microfinance has performed well or not done well. While operational comparisons between faith-based microfinance programs and secular development-focused microfinance programs are few, there are key differences due to the former's faith background and perspectives that have both positive and negative externalities. Firstly, faith-based microfinance can have greater access to the availability of funds as well as having strong incentives to seek all forms of capital. The conventional thinking is that socially-oriented microfinance operations should move away from donor financing or at least should reduce their dependence considerably. For faith-based microfinance organizations, the kind of work that they do, as a first mover of low-interest loans along with humanitarian relief, will require philanthropy from both faith-based and non-faith-based institutional donors (Brodsky, 2019; Clouse, 2018). But they also recognize that philanthropy and government-subsidized funds are not enough, they are starting to diversify their funding and exploring appropriate debt-based and equity-based investments from public and private sectors. For example, Catholic Relief Services (CRS) and its microfinance programs rely on funding from USAID, international development banks, and corporate foundations in which such strategy is not to indulge the investors. Instead, CRS has started to catalyze and leverage all appropriate resources in promoting human development and alleviating suffering (Brodsky, 2019; Clouse, 2018).

A second difference between faith-based and secular development focused is that, in the former, faith can have influence in how products and services are designed in which there is an explicit intentionality. That is, faith-based microfinance tends to see their work as mission-driven where its products and services should not only allow the working poor to reach their fulfillment more fully and more easily, but also that the working poor is invited to engage and lead in bringing about such social changes (CRS, 2013; Saad et al., 2020). For example, several Islamic microfinance and Christian-based microfinance organizations are exploring a more pristine environment for partnership and subsidiarity, zero interest lending, profit and loss sharing, and borrower ownership in microfinance services (Saad et al., 2020; Hoda and Gupta, 2015; Saad et. al., 2013; CRS, 2013; Sama, 2009). Thirdly, faith-based microfinance organizations and their objectives to address the root causes of poverty with focus on some of the poorest can have inherent opportunities in a host country. These include being the first-mover in providing ethical loans and humanitarian efforts in countries that are marked by extreme poverty, fragility settings, or post-crisis situations. Lastly, faith-based microfinance brings intangible resources to broader development goals such as universally applicable values and objectives, especially when a social-economic crisis breaks out. However, when the intentionality and objectives of faith-based microfinance are not aligned with the interests of local stakeholders or that local stakeholders do not buy into the "shared" values — due to discriminatory or controversial practices that are based on gender, religion, race, ethnicity, or caste — potential crises can arise in such situations. The concern of deepening religious polarization is warranted and, thus, it is a requisite for faith-based microfinance organizations to adhere and work closely with UN's policies and conflict advisors on peace and security (OECD, 2017).

In general, the paper is not only to explore the premise that faith-based microfinance could be a potential tool for rebuilding post-conflict economies, but also the potential opportunity for Christian and Islamic microfinance organizations to collaborate that would enhance each other know-how in being a catalyst in building social capital and reconciliation. To illustrate, in Egypt's village of Al Dabiyyah where sectarian violence between the area's majority Muslim and minority Christian populations had erupted, CRS implemented peace-building program – TA'ALA or Tolerant Attitudes and Leadership for Action (Gamer, 2015). TA'ALA was in part funded by U.S. State Department Bureau of Democracy to facilitate influential Muslims and Christians to actively collaborate in resolving conflict and promote tolerance. While CRS have programs for job and business training for young adults, they did not have a microfinance program. Perhaps, this is because they did not have enough experience how to make their lending Shari'ah-compliant. Here, CRS could have collaborated with an established Islamic microfinance organization that would mutually benefits for both programs. In the case of Al-Amal, their mark up of *murabahah* ranges between 14.5 percent for purchases more than $5,000 and 24 percent purchases below $5,000. Thus, there has some reports that their Muslim clients had asked whether these "mark-ups" were higher than the interest rates charged by competing non-Islamic microfinance organizations (Alathary, 2013). Here, Al-Amal could have partnered with CRS who have operations in Yemen, particularly on learning on how to access grants from international donors such as USAID; in turn, CRS could leverage their collaboration with Al-Amal in enhancing their peace building and religious tolerance projects in Yemen. In general, in post-conflict communities such as those in Egypt and Yemen, faith is a salient feature of identity where violence and discrimination against religious groups by governments and rival faiths are a growing reality (PEW, 2019). In other words, while there have been efforts for Orthodox, Muslim, Jewish and Christian microfinance institutions to work together, there are few partnerships despite the culturally plural circumstances in which humanitarian crises arise today (Clarke, 2008; Clarke, 2010; Clarke, 2018; Backeus, 2009).

To this end, this paper will explore the utility of Islamic microfinance and interfaith collaboration between Islamic and Christian-based microfinance organizations in the rise of post-conflict environments characterized by religious frictions. Although the following sections are more exploratory and theoretical in their propositions and assertions, the aim is to provide new thinking and highlight knowledge gaps for today's microfinance movement. Thus, practitioners and researchers working in microfinance can better understand how faith-based microfinance programs can serve the different needs of the unbanked adults living in a more volatile and fast-changing world. The paper's optimism is that such endeavor could be a starting point to better isolate and understand the impact of faith-based and interfaith microfinance collaboration.

2. Framing Faith-Based Microfinance Interventions in Fragility and Post-Conflict Environments

According to the UNDP (2019), fragile states and post-crisis situations are expected to increase in frequency, and perhaps also in ferocity. In such settings, restoration is not necessarily 'starting from scratch.' Additionally, destruction through conflict will not necessarily minimize the challenges existed before the crisis, but does require reform-minded officials even where there's no prioritized reform agenda within the government leadership (UNDP, 2019). Notedly, in many conflict-affected situations, poverty is stagnating or getting worse. The World Bank estimates that the majority of the world's extremely poor people will live in fragility and conflict-ridden areas (Corral et al., 2020). Notedly, 43 economies in the world with the highest poverty rates are in fragility and conflict settings and/or in Sub-Saharan Africa (Corral et al. 2020). On the one hand, the above clearly demonstrates why addressing fragility and post-conflict is vital for poverty goals of which need immediate action. But, on the other hand, evidence of the connection between public spending, institutional restoration, reform, and resilience is sparse in these environments (UNDP, 2019). Nevertheless, the concept of post-conflict microfinance as an intervention has emerged to address the extreme poverty in conflict-affected settings. For researchers, the debate has centered on where, when, and how microfinance can work in fragile countries and post-conflict locations.

Although there are those who have argued that microfinance is not a conflict resolution tool, few environmental factors were found that entirely precluded microfinance. However, there are a host of obstacles and challenges in fragility and post-conflict settings on the other. Here, case studies on post-conflict communities — in Guatemala, Kosovo, Sierra Leone, Rwanda, Uganda, Iraq, Bosnia and Herzegovina, and El Salvador — found that post-conflict microfinance institutions will have to restore social capital just to ensure repayment (Nagarajan and McNulty, 2004); and will need to invest in community-building or build relations with trusted actors to gain the trust of the community (Marino, 2005). Consequently, because the current post-conflict settings often cannot provide the "essential" permanent institutions, microfinance by default becomes the key potential development institution to reduce human cost of conflict and to facilitate recovery. However, microfinance organizations must be mindful not to exacerbate tensions or fault lines in the community they operate in. In general, there have been encouraging experiences and positive reports from post-conflict countries — such as Angola, Bosnia and Herzegovina, Guatemala, and Uganda — that increases in various types of social capital and women's decision-making power are possible as a result from microfinance (USAID, 2001; Marino, 2005; Meissner, 2005). Therefore, the above perspective should warrant more field research to understand tangible and intangible resources and capabilities of microfinance in post-conflict which could better the chances for success in other conflict situations (Gunter, 2009; Meissner, 2005; Casselman et al., 2014; Duval, 2015; Kachkar et al., 2016a; Osman, 2020). Overall, there is an emerging phenomenon in which microfinance is being used as a facilitator or a catalyst in post-conflict economic recovery and peace-building.

In this new phenomenon, there is an important recognition that one of the most overlooked aspects of fragile states and post-crisis situations is that religion has not been put into its proper context – its role in conflict dynamics (Kaplan, 2014; Clarke, 2018). That is, religion does not play a large role in the measurement of fragile state and post-crisis indexes – whereas government effectiveness, economic dynamism, demographics, and violence are weighted heavily (Kaplan, 2014). Yet, by many accounts, there has been a dramatic increase in the political influence of religion or "political theology" in the past forty years – the matter of how religious actors think and promulgate their ideas (Clarke, 2018; Toft et al., 2011; Norenzayan, 2013; Moghadam, 2003). According to one study, the portion of the world population adhering to Catholic and Protest Christianity, Islam and Hinduism jumped from 50 percent in 1990 to 64 percent in 2000. In addition, about 80 percent of the world believes in [a] God of which increased from 73 percent in the early 1990s (Toft et al., 2011). One of the key concerns is that the vast majority of today's terrorist acts, especially suicide attacks, have a religious dimension (Toft et al., 2011; Norenzayan, 2013). Therefore, in recent years, some scholars have tracked the trends in conflicts that have religious dimensions or religious civil wars, although conflicts that are called religious have been more accurately defined as multidimensional (Kaplan, 2014).

According to a study by Pew Research Center (2019), social hostilities with ethno-religious dimensions are more prevalent now than they have been in the past decade. In the same report, social hostilities are measured by acts of which include religion-related armed conflict or terrorism, mob or sectarian violence, sexual harassment over attire for religious reasons or other religion-related intimidation or sexual exploitation. Here, the number of countries with "very high" religious hostilities rose from 39% to 54% from 2007 to 2017 (Pew, 2019). In terms of interreligious tensions and violence, 57 countries in 2017 have experienced such hostilities (Pew, 2019). In terms of religious hostilities around the world, in 2017 the highest level is in the Middle East and North Africa, while the biggest increases over the last decade include Europe and sub-sub-Saharan Africa (Pew, 2019). Furthermore, other studies suggest religious war have increased relative to non-religious civil war in which the former is noted to be deadlier and last longer on average. For instance, a study calculated that 44 religious civil wars occurred from 1940 to 2010, accounting for 35 percent of all 135 civil wars (Toft et al., 2011). In terms of region, Asia and Pacific saw twenty (45 percent), the Middle East experienced eight (or 18 percent), Africa underwent eight (a further 18 percent), and Europe sustained eight (Toft et al., 2011). Here, Islam is more likely than other traditions to be involved in religious civil wars in thirty-six cases (82 percent), followed by Christianity in twenty-three cases (52 percent), and Hinduism in seven cases (16 percent). Table 1 shows that Islam dominates religious civil wars that are intra-faith (or fought between members of the same religion) in 11 cases, while it shares the stage with Christianity among interfaith conflicts in 19 cases (Toft et al., 2011). To be sure, religion might not be the sole or primary cause of conflict, given religion is usually intertwined (or become so blurred) with a range of casual factors — such as economic, political, socio-cultural — that define and sustain the conflict.

Table 1: Intra-religious and inter-religious civil wars (1940-2010)

Type of War		No. of Cases
Interfaith		12
	Islam	11
	Christianity	1
Interfaith: State/Opposition		32
	Christianity/Islam	13
	Islam/Christianity	6
	Hinduism/Islam	4
	Hinduism/Christianity	1
	Hinduism/Sikhism	1
	Taoism/Buddhism	2
	Islam/Buddhism	2
	Buddhism/Christianity	1
	Buddhism/Hinduism	1
	Judaism/Islam	1
Total		44

Source: Monica et al. (2011)

Nevertheless, where religious identity is important to the structure of society or function as a primary identity marker, religion then will play a role in the solution as much as it sometimes plays the problem (Haken, 2015). That is, religion can be a mechanism to sow social divisions, undermine the effectiveness of government, systematically disadvantage certain groups, or catalyze extremist agendas (Kaplan, 2014). A case in point is the role of religion on gendered dimensions and characteristics in fragile countries that could explain why ceasing hostilities does not always mean peace for women (Puechguirbal, 2012). In particular intra-faith and interfaith conflict settings, religious beliefs, though often mixed with traditions and cultural norms, can empower conservative patriarchal ideologies or male behaviors (i.e. masculinities) that would further contribute to gender equalities and sexual abuses (OECD, 2017; Harcourt, 2009).

However, at the same time, shared religious values also can be a way to bridge differences, religious affiliation can promote social cohesion, and religious organizations working with community norm setters can address discriminatory gender norms and roles (Kaplan, 2014; OECD, 2017) Therefore, somewhat surprisingly, religion's ability to reduce fragility and facilitate reconciliation in post-conflict environment does not play prominent roles in most international developing programming. Consequently, this can be paramount in terms of what type of microfinance should be used in facilitating the economic, political, and social recovery of the post-conflict environment (Clarke, 2008; Clarke,2010; Casselman et al., 2015; Osman, 2020). That is to say, in regions such as Africa and the Middle East with the highest proportion of extreme poverty and whose conflict-affected settings are characterized religious frictions, microfinance organizations cannot effect substantial change without associating development issues to local religious beliefs, practices, and key actors. Thus, more research attention should be given to better understand faith-based microfinance organizations, since they are usually the first or often the only groups operating in post-conflict environments. Though just as important is whether some of the faith-based operational features should and/or can be replicated by secular development-focused microfinance programs.

Of course, the experiences of organizations working in faith-based microfinance are not similar, homogenous lot. According to some studies, differences among faith-based microfinance organizations can be found in the form of religious principles on moneylending, resource dependency, and perspectives on gender norms and roles (Clarke, 2008; Clarke, 2010; Kustin, 2015). For brevity, this paper will explore key differences as well as why collaboration is needed between Christian faith-based and Islamic microfinance organizations. In regard to religious principles on moneylending, Islamic microfinance generally promotes and works towards its religious belief that loans should be zero-interest. In part, this is because interest rates are "the birth of money from money" that would further disempower the very poor and contribute to greater inequality between people of the same faith (Saad et al., 2013). Meanwhile, Christian-based microfinance generally promotes and works towards lower interest rates as much as possible (for instance, ideally below 10 percent). That is, moneylending is a moral matter in which "high" interest rates would violate the do-unto-others principle, and that money's natural end is to exchange goods and services, where using money to make money should have its limits (Mayyasi, 2017). In fact, it has noted that Christian faith-based microfinance institutions —CRS, CARE, Hope International, and World Vision — operating in Muslim regions have confronted some difficulty in the take up of their microfinance loans because they are inconsistent with Islamic law or Shari'ah (Osman, 2020; Demirguc-Kunt et al., 2014). These include not only restrictions such as interest rates, but also Shari'ah-compliant microfinance lending that promotes profit-and-loss sharing such as *musharakah* and *mudharabah* (Desai, 2007; Gunter, 2009; Saad et al., 2013; Osman, 2020); *musharakah* and *mudharabah* are utilized instead of interest rates, and of which roughly similar to venture capital financing and "shared service" agreement in the West. Although Christian-based microfinance organizations have cross-religious mechanisms that promote non-discriminatory lending, they have yet to develop zero interest loans in their product portfolio, initially use sound administrative fee instead of interest rates, or explore profit-and-loss sharing through agreements or contracts (Saad et al., 2013; Osman, 2020).

By many accounts, Islamic microfinance institutions have particular advantages or legitimacy when operating in majority Muslim areas – introducing financial products that generally comply with Islamic law (Benthall, 2008; Kustin, 2015; Kachkar et al., 2016b). For instance, Islamic microfinance organizations have helped USAID to transition its microfinance programs to adapt Shari'ah compliant loans in Iraq, as well as working with religious leaders to issue fatwas asserting USAID-supported microfinance institutions were religiously acceptable (USAID, 2013). However, on the other hand, Islamic microfinance still plays a limited role in post religious conflict environment or formally aligned with United Nations' SDGs (El-Zoghbi, 2013; Alathary, 2013; Kustin, 2015; Khan, 2019). For example, in context of the ISIS conflict that had stagnated the progress of Iraq's financial system, a 2014 survey reveals only 11 percent of Iraq's adult population has an account at a formal institution, and an overwhelming majority borrowed informally (70 percent) compared to only 4 percent who borrowed formally (Chehade, 2016). By some accounts, religious Muslim clients in post-religious-environment have been given a narrow set of options, ranging from expensive to inconvenient products and services, or both (El-Zoghbi, 2013). In part, because the lack of resource and capability, some Islamic microfinance organizations' Shari'ah-compliant products often mimic and/or are more costly than some conventional microfinance loans. Thus, in some locations, Muslim borrowers did not see a distinguish difference between Islamic and conventional microfinance when it comes to the quality of the products (Efendic and Karamustafic, 2017). This finding may help to explain why, on the one hand, Muslim borrowers in post-conflict environments are likely to prefer taking up loans from Islamic microfinance organizations because of their trust and confidence with their co-religionist compatriots. On the other hand, these borrowers are concerned with the quality of the products and want to get value for their money; and, thus, a number of borrowers have not taken up neither Islamic or conventional microfinance loans in conflict-affected areas (Efendic and Karamustafic, 2017).

In comparison to Islamic microfinance organizations, a greater number of Christian-based microfinance organizations are fully integrated with the international development community. They are signatories to the Red Cross/Red Crescent code of conduct for NGOs, which bans both proselytism and discrimination that favors co-religionists (Benthall, 2008; Clarke, 2008; Clarke, 2010; Clarke, 2018). Although on the ground there have been perceived anti-Christian biases, these Christian-based organizations have recognized that some of this anti-bias has been of 'our own making' because the Christian community over the years has tied itself to colonialism and, thus, some are skeptical of "our intentions and our modes of operation" (Backeus, 2009). Thus, a growing number of Christian-based organizations working on microfinance have explicitly decided to be part of the global cross-cultural realization and development dialogues. In part, such integration has allowed Christian-based organizations to access and benefit from funding sources provided by international development institutions. Therefore, they have made the call to other faith-based organizations to search and embrace structural models such as "NGO/A-church" whose use of faith can be active but non-discriminatory (Backeus, 2009; Clarke, 2018). That is, the conventional faith-based model, often referred to as bounded-orientation, sees outsiders as non-members and whose organizational management is exclusive (See Table 2). By implication, this can significantly limit the impact that faith can have on human development, including not being able to effectively facilitate bridging and linking social capital for their clients. By contrast, through a centered-oriented approach where shared goals defined membership, faith-based microfinance organizations can recruit talented professionals of different religions, leverage financing from the established donors and investors, and create various types of social capital for themselves and their clients. Additionally, faith-based microfinance organizations with a centered-orientation are more likely to engage and be effective in interfaith collaboration. To be certain, there is a potential and significant risk of deepening religious polarization. This can be the case when faith-based microfinance organizations do not have effective boards of directors to assess the external and internal issues that could arise, as well as not having consistent management training and learning to align with centered-orientation objectives.

Table 2: Exploring the continuum of faith-based development models

	Bounded-Orientation (Those Outside Are Not Members)	Centered-Orientation (Shared Goals Defined Membership)
Organizational Religious Allegiance	Christianity or Islam whose religious beliefs are more nationalistic	Faith whose religious beliefs are more secondary to humanitarian principles
Local Collective Identity	Para-church or Para-mosque whose use of faith is persuasive or exclusive in operations	NGO/A-church whose use of faith can be active but non-discriminatory in operations
Funding/Financial Sourcing	Christian Community or Islamic Community	World actors whose identity includes one that is global

Source: Adopted from Backeus (2009) and Clarke (2018)

Currently, many international Islamic microfinance organizations do not yet have the capability to enlarge the source of funding from international development community (Clarke, 2018; Clarke, 2010; Kustin, 2015; Khan, 2019). In part, such shortcoming does not allow the Islamic microfinance movement to address the noted gap between actual usage and preference of Shari'ah-compliant microfinance products. This gap is more pronounced in fragile and post-conflict areas in North African and Middle Eastern countries, where Islamic microfinance is relatively nascent that has contributed to their higher product costs (Demirguc-Kunt et al., 2014). Additionally, Islamic microfinance organizations lack the ability to recruit skill personnel from non-Muslim faith, which is likely needed to scale wide and work in areas where conflicts are marked by interfaith and/or intra-faith divisions (Kustin, 2015; Kachkar et al., 2016b; Khan, 2019). In general, the above limitations can be traced to the collective identity of many Islamic microfinance organizations — the "para-mosque" that uses faith as persuasive in bringing new converts or exclusive in hiring only believers within their operations (Backeus, 2009; Clarke, 2018). Thus, their funding is often within their religious community, although there are a few exceptions such as Islamic Relief and Muslim Aid of whom are headquartered in the UK. Notwithstanding, there are thoughts of how powerful Islamic microfinance organizations can be if they pivot to a centered orientation approach and directly embed themselves in the larger confessional networks and international development community (Benthall, 2008; Kustin, 2015; Khan, 2019).

If Islamic microfinance organizations choose to pivot, this can be done by having an international arm that centered on "faith" activities. That is, their work can authentically aim at the poor as well as to partner with other faiths through shared concerns related to humanitarian principles and human development. In areas that are affected by interfaith conflicts between Islam and Christianity, Islamic microfinance institutions could develop an add-on identity whose "worship" within (or equal to) the structure of the "NGO/A-church." Such identity could fulfill the potential for Islamic microfinance institutions to collaborate and learn from Christian-based microfinance organizations, specifically in enlarging financing from the international aid system and integrating into global institutions working on financial inclusion; and diversifying personnel to excel in interfaith and intra-faith post-conflict environments. In turn, Islamic microfinance institutions would have more financing to develop and scale new Islamic products and services. Moreover, such organizations could also have more clients, including non-Muslims, who would be attracted to products that meet both financial and ethical needs. In fact, such interfaith collaboration could produce products and services that appeal to borrowers that embrace egalitarian values such as profit-and-loss partnership and shared service agreements instead of interest rates, regardless of their faith or no faith. Overall, in post-conflict environments that are marked by intra- and inter-religious disputes, Islamic microfinance institutions can benefit by embracing organizational models that are capable of performing effectively and efficiently, while at the same time can collaborate with Christian-based microfinance organizations (Benthall, 2008; Kustin, 2015; Khan, 2019).

Lastly, in regards to gender norms and roles, Christian-based microfinance organizations tend to approach via an empowerment perspective. That is, through microfinance products and services, women can have access to financial means in order to gain equal access to education, healthcare, and technology. Unequal gender relations are generally considered to the advantage of men, and that without transformative changes will prevent women from decision making or bargaining power. However, in fragile countries, some faith-based microfinance organizations have taken a more "passive" strategy. This especially the case in settings where gender norms are in flux and that there are key local resistors that are against women empowerment; or local political realities that do not support women as active agents in peace building and state-building (OECD, 2017). For Islamic microfinance organizations, they also recognize that Muslim women remain the least empowered part of society and that microfinance is a development project which has improved women's situation in society. However, they also strategically avoid the discourse of gender equality as a fundamental human right or "women only" approach. Instead, Islamic microfinance organizations will often replace gender equality with family empowerment or the economic uplift of families, since conservative patriarchy often dominates or resurfaces after crises (Kustin, 2015). Under the family empowerment related to microfinance, issues of exploitation by male members can be identified and addressed, although any systemic attention to Islamic roles for male (i.e. masculine behaviors) is refrained from (Kustin, 2015). Here, an argument can be made that interfaith collaboration between Christian-based and Islamic microfinance organizations can have mutual beneficial. For the former, they can learn and address issues of gender equality through family empowerment issues without being seen as disrupting local mores or as an interloper with an unwelcome agenda (Kustin, 2015). For the latter, they can learn and address factors that create gender inequality that are based more on traditions, societal standards, and absence of resources, rather than ones related to religion.

3. Exploring Faith-Based Microfinance Institutions and Their Process Mitigation in Post-Religious Conflict Settings

As mentioned earlier, one of the key debates in post-conflict environment is whether there is wisdom of putting secondary goals (i.e. social capital, gender equality, reconciliation and conflict resolution) above economic development goals (i.e. reconstruction efforts of communities, rebuilding basic market enterprises, and reconstructing a functioning economy). However, the dominant view among international NGOs is that microfinance works best for poverty reduction, not conflict resolution (Gunter, 2009). According to this dominant perspective, the construction of lending groups in the name of reconciliation will perhaps suffer in the form of lower repayment rates or less successful businesses (Meissner, 2005). Therefore, other grant programs for training without repayment might be better venues for encouraging people to working together. Furthermore, some microfinance practitioners caution that activities surrounding business, of which can create peace are often about forcing tolerance and may not actually form relationships (Meissner, 2005). In regard to gender equality, while women are at a higher risk of exploitation and abuse and that conservative patriarchy often resurfaces after crises, the link between gender (in)equality and fragility is often deeply complex and not likely resolvable in the short-term. Although women can be seen as actors that can help prevent and mitigate adverse effects, such targeting in microfinance programs must include dedicated gender experts that have specific experience on conflict and fragility (Harcourt, 2009; OECD, 2017). For faith-based microfinance organizations, a key strategy to problem-solve these debates is to identify direct mitigation, indirect mitigation, and process mitigation of post-conflict microfinance (Bernal-Garcia, 2008). In so doing, one can see how social contact in microfinance lending, specifically through the process of mitigation, could facilitate forms of social capital, gender (in)equality, and reconciliation.

First, indirect mitigation takes place when a microfinance organization provides loans to individuals or groups, promoting economic activity. These micro and small-scale businesses then facilitate entrepreneurship, trade, and production that may bring together various groups in business relationships of which could reduce continuing conflict. Direct mitigation takes place when a microfinance organization provides loans to individuals or groups that directly contributes to resolving tensions among groups (Bernal-Garcia, 2008). For example, a field case has been documented in which microfinance loans were employed to build fences around landowners' property in Cameroon. This in turn minimized trespassing by cattle herders that was a primary source of conflict among ethnic groups in the region (Heen, 2004). Last but not least is process mitigation that results from microfinance practices that rehabilitate individual empowerment and generation of coexistence among different groups (See Table 3). That is, microfinance loans provide individuals with positive feedback that they are microfinance clients (not victims) and micro-entrepreneurs (and not aid-dependent), so as to resume the practice of normal economic activity. Equally important is that microfinance through joint repayment groups can facilitate interpersonal relations with members of the "ex-out-group," creating some form of bridging social capital.

Table 3: Typology of mitigation in post-conflict microfinance

	Direct Mitigation	Indirect Mitigation	Process Mitigation
Underlying Idea	Takes place through loan credit in which a funding project directly contributes to resolving tensions among groups	Takes place through loan credit in which economic activity limits the propensity for conflict	Contact between hostile groups during loan credit helps reduce mutual prejudice
Underlying Theory	Conflict escalation can be interrupted	Conflict escalation is more likely in poor societies	Contact through loan credit can reduce conflict escalation independently of the credit's outcome
Illustrative Example	Loan to farmers to build fence for protecting fields	A focus on lifting Cameroon's Tidjiani clients out of poverty	Create client diversity across Muslim factions

Source: Bernal-Garcia (2008)

Especially through process of mitigation, social contact in routine settings could be crucial to overcome the in-group/out-group divisions that had exacerbated during and after conflicts (Bernal-Garcia, 2008). Lending group mechanisms — such as village banking, rotating savings and credit association, and mixed-group lending — provide incentives for people to work together and, in turn, these social interactions could transcend ethnic, religious, or other differences (Meissner, 2005). Case studies in Tajikistan and Rwanda found that peer group processes were important to inter-ethnic cooperation between members, their neighbors and families (Shaw, 2004; Clark, 2004). By some accounts, process mitigation is the most essential of the three noted types of mitigations in post-conflict microfinance. That is, whether a microfinance organization adheres to a strict economic-system perspective or a social impact system perspective, process mitigation takes place regardless of the guiding principles of the post-conflict microfinance organizations (Bernal-Garcia, 2008). Sometimes, but perhaps more often than not, political institutions can directly affect the microfinance's process of mitigation. For example, in the early years of post-conflict Iraq, the Government of Iraq and the U.S.-led coalition emphasized that microfinance institutions loan directly to unemployed young men. This is because unemployed men would be unable to contribute to the care of their families. The implication is that in Arab culture, such men, who feel ashamed in the eyes of the community, are ideal recruits for the insurgency (Gunter, 2009).

It seems that both strict economic-system microfinance and social-impact targeting microfinance would need to have a certain overall balance between goals of economic development and social reconciliation. Because conflict-affected societies are characterized by the breakdown of weak economic and financial institutions along with widespread lack of trust and social capital, microfinance organizations would need to necessitate both peace conditionality with group reintegration and long-term institutional and economic development (Doyle, 1998). Thus, if the post-conflict environment does not provide economic tools and economic development as well as mechanisms to heal wounds and promote common traits among member of previously divided groups, then relapse of conflict and fighting may likely occur (Bernal-Garcia, 2008). In the context that many post-conflict societies usually cannot provide the "essential" external permanent institutions, microfinance by default becomes the key potential coping mechanism to reduce human cost of conflict and to facilitate recovery. The extent that the above is true, at least for particular regions such as the Middle East and Africa, microfinance organizations must give attention to their mitigation process. In so doing, they can restore social capital in order to further ensure repayment via community-building with well-intention actors (Nagarajan and McNulty, 2004); and further increase trust to construct member-owned types of local financial institutions in building basic blocks of civil society (Hudon and Seibel, 2007).

Given that faith-based microfinance organizations are often the first or only non-government groups operating in post-conflict environments, it is important to focus on the vision that these organizations have of their own role in post-conflict settings. From one end of the spectrum, faith-based microfinance organizations with a “bounded-orientation” approach would generally utilize structures intimately attached to the church and its image. This means that identity is marked through institutional membership that enshrines theological allegiance as its primary defining characteristics (Backeus, 2009). Thus, these microfinance organizations would mostly employ and reserve positions of leadership to co-religionists — defined as either a member or not, a worker or not (Backeus, 2009). Though it could be implied that “bounded-orientation” may be limited in creating bonding social capital for their organizations and their clients. At the other end of the spectrum, faith-based microfinance organizations with a “centered-oriented” approach would not have sharp boundaries that separate things inside from those outside it. This means that identity is marked through the call to work with anyone who possesses a desire to strive for the betterment of the marginalized and neglected populations, irrespective of the religious vision or spiritual worldview the person embraces (Backeus, 2009). Therefore, microfinance organizations that are “centered-oriented” would be able to recruit different religious workers that are defined by what they are trying to accomplish and what they are trying to do. That could then be the basis in facilitating some degree of bridging social capital for their organizations and their clients.

Thus, the above assessment of the underlying vision of microfinance organizations would have significant impacts on their process mitigation. These would include the selection of the borrower group that the microfinance organizations would target, as well as the explicit attempt to maximize the form of social capital that can be derived from particular type of lending. In operating in fragile and extreme poverty settings characterized by religious conflicts, whether a microfinance organization is “bounded-oriented” or “centered-oriented” should be examined in terms of its potential implications. Here, some speculations can be drawn from previous studies. For instance, in such locational settings, a microfinance organization with a “bounded-oriented” approach might only target a co-religionist population or a sub-group of the co-religionist population. Additionally, the organization might not explicitly or formally adhere to non-discriminatory policy in selecting beneficiaries and allocating resources not based on needs. In turn, this might exacerbate current tensions and fault lines, or not fostering a culture of transparency, acceptability, and trust. Whereas microfinance organization with a “centered-oriented” approach might explicitly or formally pursue policy decisions that ensure the treatment towards different groups of borrowers are fair and transparent. Specifically, its process mitigation is not to promote specific religion, instead all involved within the organization would see “work as worship” that would entail its engagement and dialogue would integrate different perspectives (Backeus, 2009). Moreover, the benefits of “centered-oriented” approach include its structure that allows for a larger pool of potential workers with development knowledge and skills; access to a wider confessional and development networks; and an internal climate that promotes mutual respect and humble listening (Backeus, 2009).

Presently, while there are no empirical case studies, there have been anecdotal accounts of international faith-based organizations based on the ideas of “centered-orientation” that have operated in post-tsunami reconstruction in Indonesia. Here, a Christian faith-based organization working in microfinance had appeared to explicitly promote a “centered-oriented” style model. This organization via its process mitigation recruited from the two major faiths in Indonesia, Muslims and Christians. Both Muslim and Christian co-workers were invited to be open and expressive of their faith position while, at the same time, were expected to purposely learn and listen to those presenting other beliefs and positions in the community (Backeus, 2009). In addition, there were formal events in which Muslim colleagues would take the lead in breaking and fasting together during Ramadan, explaining why they fast and why they see work as worship. Other formal events were led by Christian colleagues on a discursive training program on “Gender Issues and Development” in which various views and perspectives were explored. Here, gender perspectives that interlaced and even fraught with religious points of view were discussed. While no specific accounts were provided on how such process mitigation affected the organization’s direct and indirect mitigations, the above field case noted that such process mitigation would not have been possible within a conventional Christian faith-based organization or a secular one. However, the organization did note that such process enables small group-style fellowships under its umbrellas – the emergence of small groups “without extraction of persons from their communities and they are engendered in the midst of robust social involvement that campaigns toward justice” (Backeus, 2009). The formation of these small fellowship groups for social justice would seem to imply that some extent of bridging social capital was created and was at work.

Aside from Christian-based organizations, there were also a couple of Islamic organizations — Islamic Relief and Muslim Aid — that also provided microfinance in post-tsunami reconstruction in Indonesia. Here, these two Islamic organizations were based in the UK and were more implicit about their "centered-oriented" approach in which both were fully integrated with the international development community. They both hired non-Muslims and whose staff members were remarkably varied in their ethnic backgrounds. Both organizations acknowledged that among their Muslim personnel, there were cultural differences that were unlikely to dissolve just because they were both Muslims (Benthall, 2008). Meanwhile, Muslim and Christian co-workers were able to communicate and discuss issues, including dishonest and potential corruption issues among their contractors. In one situation, Islamic Relief was able to assist CRS, who offered to help a local community in rebuilding a mosque; but the community leaders objected because for a mosque to be funded by Christians was haram (forbidden). The solution was for Islamic Relief to build the mosque and later be reimbursed by CRS. By contrast, it appeared that Muslim Aid had a different management style, mostly providing autonomy for its country director to use his personal link between the international aid system and the communities in Indonesia. Interestingly, the Muslim Aid's country director noted that while there are local advantages to be derived from the Islamic label, it can actually be a disadvantage in relations with international aid organizations because staff had to 'work doubly hard' (Benthall, 2008). Although no details were given on how such process mitigation affected the two organizations' direct and indirect mitigations on borrowers, it would appear that Islamic Aid and Muslim Aid were able to form and utilize bridging social capital to problem-solve issues that had arisen (Benthall, 2008). From the above, principles of humanitarian action appeared to be needed — neutrality, impartiality, and universality. In general, both the noted Christian and Islamic organizations working in microfinance saw the need to make tentative moves toward interfaith/intra-faith collaboration, and whose process of mitigation was generally effective in post-crisis environments (Benthall, 2008).

4. Conclusion: A Need for Interfaith Microfinance Laboratory in Religious Conflict Environments

In conflict-affected settings, there is an important need for balance in providing strict financial microfinance loans and producing social impact through lending mechanisms, although it is difficult to isolate and rigorously measure such dual roles. Nonetheless, because post-conflict societies and environments are so ridden with complexity, this paper attempts to show that faith-based microfinance organizations are more suited for this endeavor. Additionally, in the last two decades, religious hostilities appear to be increasing in frequency and ferocity and are contributing to the growing fragile states and post-crisis situations — especially in the Middle East, Africa, and Asia (Pew, 2019). Here, Muslims and Christians have the highest proportion of religious groups that are affected by interfaith and intra-faith conflicts. The above realities imply that Christian-based and Islamic microfinance organizations cannot affect substantial change without associating development issues to local religious practices and inviting community norm setters have a buy-into their programs. Not surprisingly, over the last 15 years, faith-based organizations and the international aid system have staked out a strong rationale based on common objectives (Clarke, 2008; Clarke, 2010; Clarke, 2018). In turn, a number of Christian-based microfinance organizations, shifting their structures to a "center-orientation" that is based on shared humanitarian goals which define membership, have had strong linkages to international aid institutions. Meanwhile, many Islamic microfinance organizations are currently behind. In part, this is because their structures are generally based on "bounded-orientation" or bounded social capital in which a specific religion is promoted, constraining an organizational structure to recruit talented co-workers of different religions or no religion.

But while Christian-based microfinance organizations are often the preferred choice by the international development community, they could better serve their Muslim clients via a collaboration with an Islamic organization. In so doing, they could make their microfinance products are more egalitarian and more consistent with Islamic laws, which would be more effective in religious conflict environments. Also noteworthy is that Islamic microfinance organizations could resolve the noted gap between actual usage and preference of Shari'ah-compliant/egalitarian microfinance products. They could do this via a collaboration with a Christian-based microfinance organization. By learning how to create an international arm whose "worship" within (or equal to) the structure of the NGO, Islamic microfinance organizations could further develop their cross-religious mechanisms for greater impact (Benthall, 2008; Kustin, 2015; Khan, 2019). Given the above possibilities, this paper argues for the development of an interfaith microfinance laboratory, a platform that explores organizational structures and various types of social capital needed not only in religious conflict settings but also in rising conservative nationalism or religious nationalism in post-pandemic world. As inferred in this paper, perhaps the initial support for such an interfaith microfinance laboratory is that there already evidence that interfaith microfinance could be the ideal model in effectively managing the pressures of both strict economic-system microfinance and social-impact targeting microfinance. Although there is a potential and significant risk of deepening religious polarization, the interfaith microfinance laboratory can be tasked to develop strategies with higher audits along with diverse and talented board members. Dynamic boards of directors could harness the positive externalities, while minimizing the negative externalities, of interfaith microfinance partnership. Importantly, the noted laboratory could help and require faith-based microfinance organizations to have their own “national action plan activities” that adhere to UN’s standards on peace and conflict resolutions (OECD, 2017).

To be feasible and viable, the call for an interfaith microfinance laboratory could initially be developed by existing research programs that have a focus on religion and development, such as those at the University of Birmingham in the United Kingdom and Georgetown University and Santa Clara University in the United States. These research programs could focus on addressing current limitations in interfaith microfinance collaboration. These include the role of religion on gendered dimensions in interfaith and intra-faith conflict settings, which currently is not well-understood to work with community norm setters in eliminating discriminatory gender norms and roles (OECD, 2017; Harcourt, 2009; Puechguirbal, 2012). These research programs could also facilitate the need for the microfinance industry to diversify their data initiatives, such as the Mixmarket, ensuring that faith-based microfinance organizations are more represented. Moreover, the noted research programs could initially train future leaders that have the mindsets and skillsets in developing innovative initiatives to foster inter-religious collaboration (Clarke, 2008; Clarke, 2010; Clarke, 2018). Fortunately, there is an already growing educational infrastructure in the U.S. that supports interfaith education for services, promoting college graduates to develop interreligious competency and skills toward real-world application (Freedman, 2016). In other countries like Indonesia and Malaysia, there have been considerable education reform efforts to expand interreligious studies. In the case of Indonesia, there are projects by the Indonesian foreign ministry to promote interfaith diplomacy that engages the Middle East peace process, which promotes the idea of Indonesia as a peace broker (Hoesterey, 2014).

All of the above points to the tentative work on interfaith collaboration. That is, faith-based organizations working in microfinance are usually the first on the ground in fragile countries that are often characterized by interfaith or intra-faith conflicts. However, they will need institutional human resources to (re)build bridges through microfinance mechanisms to reconstruct a base for economic recovery and to overcome the pre-existing sources of conflict. Importantly, such rebuilding is even more urgent as Covid-19 pandemic has likely made fragile countries and post-conflict settings even more challenging. Therefore, the paper’s call to explore how interfaith microfinance collaboration can address extreme poverty and the facilitation of social capital along with gender equality is well worth paying attention to.

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Waqf Microtakaful: Practical Implications and Viability Assessment in the Context of Takaful Industry in Malaysia

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Abstract

Waqf has been identified in many literatures to be a sustainable source of funding for microtakaful. The nature of waqf being perpetual, inalienable and irrevocable however has given it the features that could pose either as a catalyst or a hindrance for waqf to be considered as microtakaful contribution for the underserved. This study cautiously reviews the areas of waqf which require deliberation prior to operationalizing it into an actual microtakaful model. A comprehensive review of the literature is conducted to consider all microtakaful models that have been proposed for Malaysia within 2010-2022. An extensive review of literature is subsequently undertaken to identify articles embracing waqf in their microtakaful models. The study finds five microtakaful models which recommended waqf to fund for the underserved's participation in microtakaful protection. These models exemplified the importance of sustenance of microtakaful operation through waqf. However, the practical and implementation issues relating to utilization of waqf were not explained from the perspective of each state's authority over the waqf money, the waqf rules that falls under the Trustee Act, the lack of operational and technical expertise of the State Islamic Religious Council in microtakaful operation, and the use of temporary waqf as microtakaful contribution. The outcome of the study has opened up many areas for further research to be conducted. It serves to guide the academia to bridge the gaps, and it hopes to pave the way for the takaful industry to consider the possibility of including waqf in the microtakaful model.

Keywords: *Microtakaful, Microtakaful models, Islamic microinsurance, Islamic microinsurance models, Malaysia*

1. Introduction

A nationwide survey conducted by Bank Negara Malaysia (BNM) in 2015 on Financial Capability and Inclusion Demand Side (FCI), found that more than half of the Malaysians are not prepared for any major shock impacting their family. A meagre 6% affirmed a comfortable level of financial confidence when financial losses occur. In understanding the population's accessibility to financial system, only 3% indicated that they do not have active bank accounts. This simply translates to the following assumptions:

a) 3% may also not have access to the insurance/takaful industry or any other financial services
b) 94% may not have the means to save nor participate in any insurance/takaful plans

BNM issuance of the microtakaful discussion paper in 2016, followed by the introduction of *Perlindungan Tenang* products saw the earnest encouragement from regulatory viewpoint to help the industry grow further in its financial inclusion initiatives. In the latest Financial Sector Blue Print (FSBP) 2022-2026, BNM reassured its supervisory and regulatory roles in *Perlindungan Tenang* following the growth in the following:

1. Customers with active bank accounts have increased from 87% in 2011 to 96%
2. Sub-districts' access to financial services increased from 46% in 2011 to 95%
3. Total financing from Islamic banks increased from 21% in 2011 to 41%
4. Adult with one insurance or takaful certificate increased from 33% in 2014 to 42%

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Despite the growth-enabling framework of BNM, MTA in its 2021 annual report, reported that the take-up rate for *Perlindungan Tenang* by the underserved remains low at less than 10% from the 3mill B40 household (DOSM, 2019).

Table 1: *Perlindungan Tenang* participation statistics

No	Perlindungan Tenang	Products Sold via Online (5)				Product Sold Over the Counter (OTC) (2)			
		2018	2019	2020	As at Dec 2021	2018	2019	2020	As at Dec 2021
1	Number of certificates issued	71	38	541	290,869	8,443	6,330	8,910	3,077
2	Total Collected Contribution (RM)	7,761	2,839	14,541	17,304,805	8,443	553,965	703,500	268,135
3	Total Annualized Contribution (RM)	8,116	3,811	58,903	17,846,400	545,240	553,965	703,500	314,455
4	Total Sum Covered (RM)	2,995,000	1,245,000	14,265,000	2,598,850,800	129,491,000	131,036,000	184,256,394	140,924,200
5	Percentage of overall certificate issued under perlindungan tenang (Online vs OTC)	1%	1%	6%	99%	99%	99%	94%	1%

Source: (MTA, 2021)

BNM first discussion paper of microtakaful was issued in 2016 (BNM, 2016). This document which spells out BNM expectations for takaful to be made affordable for the underserved was released a year after the international joint-issues paper "*Issues in Regulation and Supervision of Microtakaful (Islamic Microinsurance)"* of the Islamic Financial Services Board (IFSB) and International Association of Insurance Supervisors (IAIS) was published. BNM which was a member of the working group for this joint-issues paper took the recommendations and echoed the suggestions into its own prudential framework (IFSB, 2015). In 2017, the first guideline "*Introduction of Insurance and Takaful Products Targeted at Underserved Segments"* on affordable products which saw the introduction of *Perlindungan Tenang* was issued. In 2021, a refined guideline which replaced the former document named *"Perlindungan Tenang"* (BNM, 2021) saw the emergence of eleven (11) microtakaful products offered by eight (8) takaful operators. All these products met the guideline's requirements for the products to be "affordable, accessible, have good value, easy to understand and easy to purchase, make nomination and make claims".

The regulatory development saw the encouraging advancement of the takaful operators in opening up the industry to include the segment of the community which have been neglected and underserved. However, it should be noted that presently these microtakaful products are priced and distributed independently by the respective takaful operators. *Perlindungan Tenang* products, together with the takaful operators' existing microtakaful products are all being offered to the underserved autonomously from each other. There is to date, no independent entity that collates all microtakaful products under one umbrella to make participation and distribution more efficient and effective for the underserved. The only one-stop platform that merges all the *Perlindungan Tenang* products is done through the *Perlindungan Tenang* webpage (myCoverage, n.d.). This had led to the ineffective distribution of the *Perlindungan Tenang* products, as highlighted by the Malaysian Takaful Association (MTA) in its annual report (MTA, 2021). An attempt is thus made by this study to explore if past literature have recommended microtakaful models for Malaysia specifically. Prior to 2016, it was found that several microtakaful models have been proposed for Malaysia's takaful industry. Of the many models that have been proposed, the key Islamic social finance instrument, Waqf, has been named to be the sustainable source of funding for the microtakaful model. However, as may be further elaborated in the next sections, these models which contain the Waqf element have inadvertently created research gaps which have yet to be answered by any literature. It is henceforth an objective of this study to identify the gaps and trigger subsequent research to be undertaken by academia.

2. Methodology

This research deploys extensive review of literature relating to microtakaful models that have been published specifically for Malaysia. Due to the limited literature on microtakaful models, academic articles encompassing indexed and non-indexed journals from various databases from the period of 2010 – 2022 were screened for titles, abstracts and keywords containing "waqf microtakaful", "waqf microtakaful models", "microtakaful", "microinsurance", "Malaysia", "Islamic microinsurance" and "Islamic microinsurance models". Over 100 journal articles, conference proceedings, review papers, book chapters on the searched words and phrases were found. However, only five (5) matched the search criteria to meet the objective of this study. Only these five (5) articles have included waqf in their models as the justifiable source of funding for a microtakaful model, supported by flow of funds on how the waqf fund may be utilized to provide microtakaful coverage for the underserved. Figure 1 illustrates the literature search process:

Figure 1: Literature search diagram

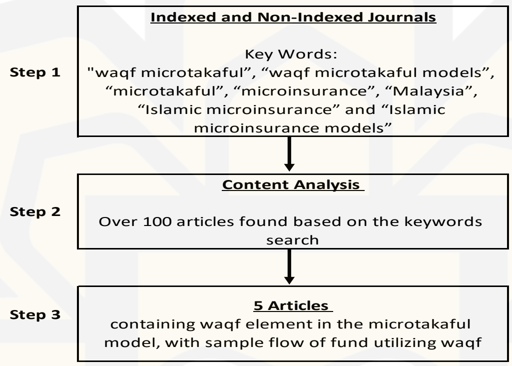


Table 2 lists the five (5) articles:

Table 2: Microtakaful models with waqf as source of funding

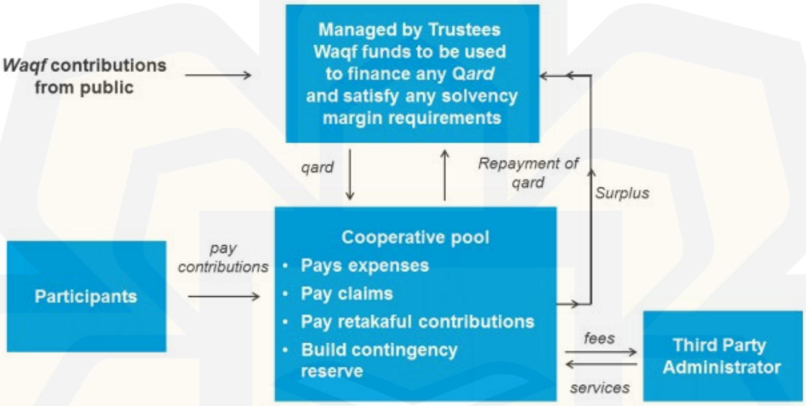
#	Author(s)	Year	Title
1	Zainal Abidin Mohd Kassim	2013	Micro Takaful or Micro Insurance
2	Haslifah Mohamad Hasim	2014	Developing a Conceptual Framework of Microtakaful as a Strategy towards Poverty Alleviation
3	Arwin Idham Mohamad, Norhaslinda Zainal Abidin, Jafri Zulkepli	2019	Causal Loop Diagram of Microtakaful Framework Model with the Integration of Zakat and Waqf
4	Asiah Kamal, Ahmad Azam Sulaiman @ Mohamad & Mohammad Taqiuddin Mohamad	2020	Additional Fund Model for Micro Takaful Offering to Senior Citizens
5	Ashraf Md Hashim & Mohd Bahroddin Badri	2022	Penggunaan Dana Zakat dan Wakaf dalam Takaful Mikro

Source: (Kassim, 2013; Hasim, 2014; Mohamad et al., 2019; Kamal et al., 2020; Md Hashim & Badri, 2022)

3. Literature Review

The first waqf-based microtakaful model was proposed by Kassim (2013). In the model shown in Figure 2, the shareholders' fund which is commonly seen in Malaysian takaful models was omitted to rid the expectations for the microtakaful operator to generate profit for the shareholders. Contributions by the microtakaful participants will be pooled into a cooperative fund for them to participate in microtakaful products. It is from this pool that expenses, claims and retakaful contributions will be paid from. A certain amount of reserve will also be set aside for technical provision. To ensure that the fund will not get into deficit, a trustee-managed waqf fund is created to enable the public to provide *qard* into the cooperative pool in the event of a deficit. Given the possible limitation on the waqf contribution, Kassim (2013) recommended utilizing zakat to be used as microtakaful contribution for the asnaf.

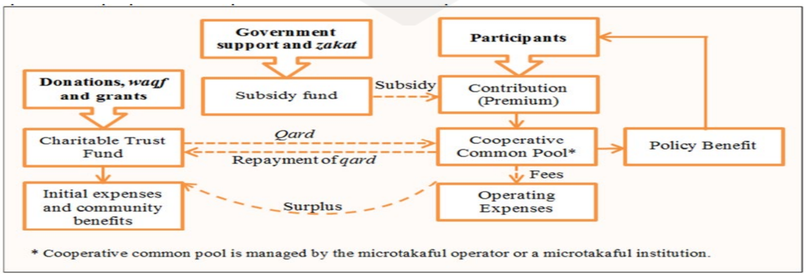
Figure 2: Proposed microtakaful model using waqf contributions



Source: Kassim (2013)

Subsequently, Hasim (2014) proposed a microtakaful model that would be funded by sources from among the takaful operators, donors, zakat, government agencies and non-governmental organisations. As illustrated in Figure 3, to kick start this microtakaful operation, a Charitable Trust Fund is created to pool donations, waqf money and grants to fund the initial expenses of the operation. The main fund in Hasim's model is the Cooperative Common Pool which behaves like the risk fund from which claims for participants will be paid from. Microtakaful participants need to contribute only a small amount into the pool. For participants who have no means to contribute, their contribution will be funded by the Subsidy Fund. Various government agencies' and zakat institutions' contribution for the poor will be channelled into the Subsidy Fund for this purpose. At the end of the year, when surplus is generated from the Cooperative Common Pool, it will be transferred into the Charitable Trust Fund to expand business operation as well as to build resilience of the microtakaful operation. Charitable Trust Fund is managed under the principle of Waqf. In the event of a deficit, Qard will be obtained from the Charitable Trust Fund.

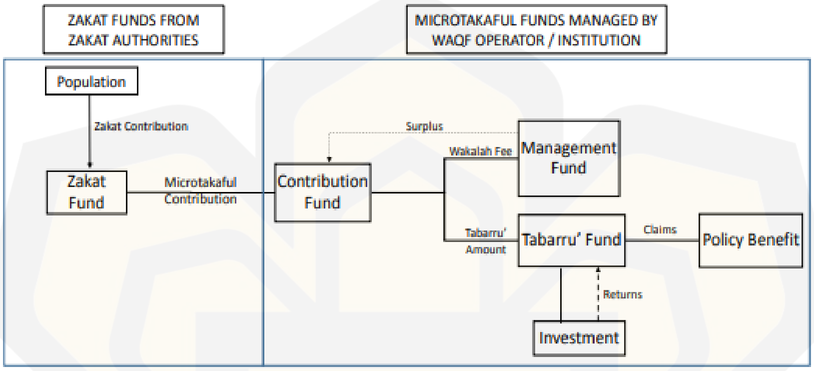
Figure 3: Proposed microtakaful model using zakat, waqf, donations, grants and government support



Source: (Hasim, 2014)

A different perspective was taken by Mohamad et. al (2019) where the proposed microtakaful model was suggested to exclude the involvement of government agencies. The justification behind the non-involvement is the uncertainty of subsidies when there is a change of government policies. Mohamed et al. model in Figure 4 proposed zakat to be the main source of funding for the microtakaful operation. Given their economic constraints, microtakaful participants shall not be required to contribute a single cent to participate in the microtakaful products.

Figure 4: Proposed microtakaful model using zakat

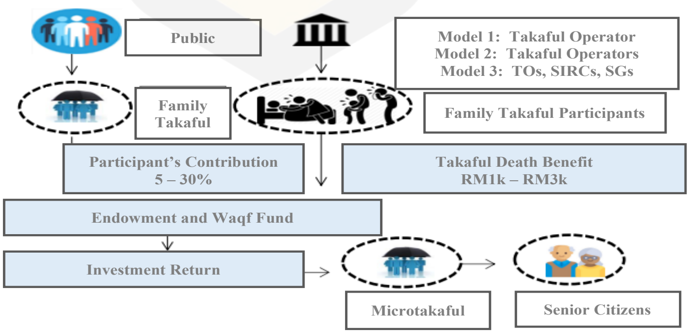


Source: (Mohamad et al., 2019)

The zakat money received from zakat authorities will be pooled into the Contribution Fund, from which further splitting will be done for certain amount to be channelled into the Management Fund and the remaining into the *Tabarru'* Fund. Management Fund covers the operational expenses whilst the *Tabarru'* Fund covers the claims from participants. This model proposed that both the Management Fund and the *Tabarru'* Fund be managed by a Waqf operator.

In 2020, an article written by Kamal et. at (2020) illustrated six (6) variation of microtakaful models which are specific for senior citizens. Of the six (6) models, five (5) embedded the Waqf element into the microtakaful operation. In the first model, investment returns from waqf and endowment funds were proposed to fund for the microtakaful contribution of the senior citizens. It is envisioned that waqf and endowment funds of the takaful operators be established specifically for the senior citizens. However, the concern raised was the possibility of not having sufficient fund if this model is implemented by only one takaful operator. This led to the proposal of the second model, which proposed for takaful operators to provide this coverage as a consortium rather than autonomously. In the circumstance where the consortium is still not able to fund for this initiative, the third model proposed for the takaful industry to join forces with State Islamic Religious Councils (SIRCs) as well as State Governments (SGs). Figure 5 illustrates the flow of funds for the first three models of Kamal et. al (2020).

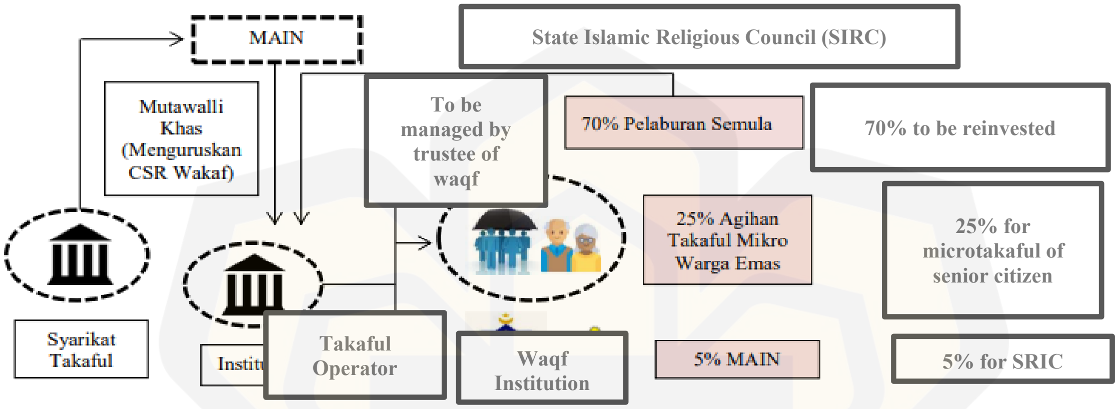
Figure 5: Proposed microtakaful model using zakat, waqf, donations, and contribution from SIRCS and SGs



Source: (Kamal et al., 2020)

Kamal et. al (2020) Model 4 emulates the Corporate Social Responsibility (CSR) model of Johor Corporation. In this model 4 as illustrated in Figure 6, the CSR amount of the takaful operator will be channelled to the SIRC who will then appoint a waqf institution for management of the waqf fund. 70% of the collected waqf will be reinvested, 5% will be allocated for the SIRC and the remaining 25% will be utilized as microtakaful contribution for the senior citizens.

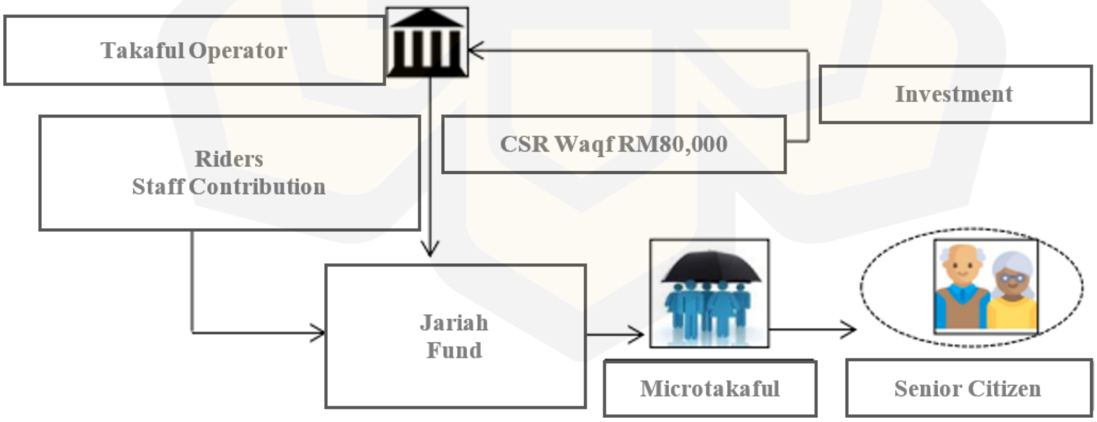
Figure 6: Proposed microtakaful model using waqf (based on CSR Model of CSR Johor Corporation)



Source: (Kamal et al., 2020)

The fifth model of Kamal et. al (2020) is a replica of a currently-practiced model by a takaful operator. This model proposes pooling the contribution from the takaful operator's staff, voluntary contribution from existing participants through riders, contribution from the takaful operator's own CSR waqf as well as corporate zakat to serve as microtakaful contribution. This pooled amount shall provide microtakaful coverage for the senior citizens. It was noted though, that this model in Figure 7 raises certain concerns given that the waqf fund is not managed by a trustee and neither is zakat managed by the zakat authority.

Figure 7: Proposed microtakaful model using staff donation, riders, waqf and zakat



Source: (Kamal et al., 2020)

The most recent model was proposed by Md Hashim and Badri (2022) as shown in Figure 8. Their microtakaful model advocated that the microtakaful contribution be funded purely by zakat and waqf. To address the concerns of *tamlik* (transfer of ownership from zakat authority directly to the asnaf), it was proposed that the zakat amount be paid to the *asnaf* (zakat recipients) who will then participate in the microtakaful product directly. This however may spark a different Shari'ah concern where the *asnaf* may not benefit from zakat at all if no claim occurs. Md Hashim and Badri (2022) further elaborated the need to appoint the takaful operator as an agent of the *asnaf* to solve this matter. Under this appointment, the takaful operator will receive the zakat money on behalf of the *asnaf*, invest them and pay the claims to the *asnaf* accordingly. On the possibility of issues arising from waqf, Md Hashim and Badri (2022) proposed for waqf and endowment to be managed and invested by the takaful operator. Only the investment income generated from the investment activities will be utilized as microtakaful contribution for the *asnaf*.

Figure 8: Proposed microtakaful model using zakat and waqf

Source: (Md Hashim & Badri, 2022)

4. Analysis of Waqf for Microtakaful Models

Waqf is acknowledged for its three main characteristics, i.e. perpetual, inalienable and irrevocable (Abdullah and Yaacob, 2012). The perpetual element of waqf means the moment a property or cash is assigned as waqf, it shall remain as waqf until eternity which shall benefit its intended beneficiaries. Inalienable brings with it the meaning that the moment a property or cash is being assigned as waqf, the ownership is transferred to the Almighty and no individual may alienate it for the benefit of himself. Irrevocable being the third element, simply tightens and strengthen the need for the property or cash to be perpetual and inalienable, where upon the designation of a property or cash as waqf, it is irrevocable given that the property or cash is perpetual and only the Almighty has ownership upon it.

The three elements on their own already indicated various implications if waqf is to be implemented for a microtakaful model. Hence this section shall discuss the issues and implications surrounding the utilization of waqf as contribution for microtakaful.

SIRCs lack takaful expertise

As stated in Schedule Nine, List II of the State List in Malaysian Federal Constitution (Common LII, n.d.; Mat Rani and Abdul Aziz, 2010), every state's State Islamic Religious Council (SIRC) has the authority over the management of waqf-related matters. This means that the administrative rules for the management of waqf may differ since the enactment of Shari'ah rules vary from one state to another. Inconsistencies in the management of waqf in every state lead to the next question as to whether standardization is feasible if waqf is allowed to be used as a microtakaful contribution for the underserved. As clearly advocated by BNM, all takaful operators are required to abide by the Takaful Operational Framework (BNM, 2019) where experts and qualified individuals are to be selected and appointed to manage the takaful operation. Keeping this BNM requirement intact, and linking it back to the need for every state to manage its own waqf properties, it triggers the most fundamental questions: (a) Does the state have the expertise to manage the microtakaful operation if waqf is allowed to be used for microtakaful contribution? (b) For the state to undertake the role of a takaful operator, do they have the right mix of actuarial, underwriting, risk management, claims, investment, etc technical expertise as stipulated in the Islamic Financial Services Act 2013?

Assuming that the SIRCs collectively agree to appoint a takaful operator as their *mutawalli* (trustee) to manage the states' waqf fund purely for the microtakaful initiatives, Abdullah and Yaacob (2012) highlighted the issues that may be invoked when a takaful operator is appointed as the manager of the waqf fund. This appointment raises valid legitimacy issue since waqf in Malaysia falls under the Trustee Act which is conventional and liberal in nature (Abdullah and Yaacob, 2012; Abdul Jalil and Abdul Rahman, 2015) whereas takaful operators are required to strictly follow the Islamic Financial Services Act 2013 where Shari'ah principles are not conventional and liberal in nature and the trustee of waqf needs to abide by strict rules under a waqf-deed (Mat Rani and Abdul Aziz, 2010).

Inalienable, perpetual and irrevocable waqf

The first concern surfaces when cash waqf is received as microtakaful contribution. Given the different state's distinct provision with regards to the management of waqf fund, the takaful operator may face challenge in trying to meet the different waqf requirements imposed by all the states. Similarly, all the takaful operators do not operate on *wakalah*-waqf model (BNM, 2019). Therefore, they may not have the expertise nor knowledge on the inalienable element of the waqf money received from the microtakaful contribution. This may lead to unintentional mingling of funds between the waqf-microtakaful contribution and the existing contribution accumulated in the Participants' Risk Fund (PRF)[1] of the takaful operator, with the former falls under the ownership of the Almighty whilst the latter falls under the ownership of the takaful participants (Abdullah and Yaacob, 2012; Madhubala, 2017). Parallelly, the inalienable element will also be breached if the waqf-microtakaful contribution is managed by the takaful operators with surplus-sharing as its product feature. The current takaful models provide the surplus-sharing feature where any surplus generated from the PRF will be shared between the participants and the shareholders (IFSB-8, 2009). Inalienable waqf means the ownership belongs entirely to Allah, taking the surplus sharing element away from the microtakaful contribution will make the products less attractive for the shareholders given that they will not be compensated for managing the PRF well. These might hamper their motivation to manage the microtakaful contribution for the underserved.

The perpetual element of waqf may also unnecessarily be breached if the waqf-microtakaful contribution is managed and invested by a takaful operator who does not have the waqf expertise to manage the waqf based on waqf deeds. The Malaysia *Mudarabah* and *Wakalah* models are both profit generating models from which the responsibility lies in the takaful operator to generate favourable investment income for the takaful funds to expand and prosper (BNM, 2019). In the event that a loss occurs on the PRF, the takaful operators may need to inject *qard* to provide assistance to the PRF to avoid further deficit (BNM, 2013). The perpetuality of waqf may be violated if *qard* is continuously injected by the shareholders into the PRF to the point of the takaful operator being winded up, and the waqf is no longer available to generate favourable income for its intended beneficiaries (IFSB-11, 2010). Successively, when a takaful operator reaches the eventual stage of winding-up, the payment of obligation to its stakeholders necessitates all assets to be utilized to pay the takaful operators' outstanding obligation and claims. This obligation directly breaches the irrevocable element of waqf if the waqf property is utilized to honour the outstanding claims and obligations of the takaful operator. The ultimate question persists, are takaful operators ready to provide microtakaful contributions utilizing waqf?

Shari'ah implication on application of waqf as microtakaful contribution

There are four main pillars of waqf; the founder, the waqf asset, the beneficiaries and the expression (Mateen, 2018). The beneficiaries may pose as the complicated pillar to be fulfilled and thus requires careful consideration when using waqf as microtakaful contribution. The underserved's information may not be easily obtained nor registered. Their consent for a waqf deed to take place is for this reason difficult to be acquired. However, the issue of consent receives two views from the Shari'ah scholars. The first being that the consent is required for waqf to be valid whereas the second view is a proponent of the consent not being needed for the contract to be valid (Mateen, 2018).

The second view is concurred by majority of the Shari'ah scholars. This is in view that the moment the waqf money is transferred to the intended beneficiary, the money is no longer waqf money. Rather, it already belongs to the beneficiary. The beneficiary therefore has the rights to nominate anyone upon his demise. The contract is henceforth deemed valid even though prior consent is not given (Mikail et al., 2017; Mikail et al., 2020)

[1] Participants' Risk Fund (PRF) is defined by the Islamic Financial Services Board (IFSB) in its *IFSB-8: Guiding Principles on Governance for Takaful (Islamic Insurance) Undertakings* as "A fund to which a portion of contributions paid by Takaful participants is allocated for the purpose of meeting claims by Takaful participants on the basis of mutual assistance or protection.

Temporary waqf – an alternative as microtakaful contribution to encourage public participation

Temporary waqf is a waqf that is still new in Malaysia given that it has not been accepted by Shafie school of thoughts, i.e., Malaysia's official *mazhab*. However, this waqf has been recognised in several states such as Terengganu, Johor and Federal Territories (Ambrose and Peredaryenko, 2022). In Wakaf (Terengganu) Enactment 16, temporary waqf is defined in Section 18 as *"wakaf muaqqat"*. This brings the meaning of provision of waqf for a specified period (Jabatan Hal Ehwal Agama Terengganu, 2016). Johor on the other hand states in Section 17 of Rules of Waqf Johor 1983 that temporary waqf is allowed so long as it is within 60 years and does not exceed two generations (Ab Rahman & Amanullah, 2017). Federal Territories defines temporary waqf as "*"a dedication in perpetuity or for a limited period of the capital of property for religious or charitable purposes recognized by Islamic Law, and the property so dedicated, the income of the property being paid to persons or for purposes prescribed in the wakaf."* (Laws of Malaysia, 2002). The acknowledgment given by only three states, albeit not representing the position of the whole of Malaysia, marks the beginning of temporary waqf being recognized as a sustainable tool for microtakaful contribution.

It is worthy to note that the under-explored potential of waqf is contributed by the lack of knowledge on the mechanics of waqf. The notion that waqf should strictly be inalienable, perpetual and irrevocable (Abdullah and Yaacob, 2012) has narrowed the mindset of majority of the Muslim population to look at waqf only in the form of immovable assets (Islamic Finance News, 2012). However, in recent years the perpetual element has become the focus on many research papers. The objective is to understand if the element of waqf being perpetual is really strictly prohibited by all *mazhabs* (Aldeen et al., 2020), or if it really is just a matter of interpretation of the jurists on the main reference for waqf to be perpetual (Isfandiar, 2008; Ambrose & Peredaryenko, 2022). The outcome of these research is crucial to uncover if there is any possibility of allowing the Muslims to give up their properties or cash only within a specified period. This is to enable them the flexibility to recover their properties or cash when the need arises (Jafria and Mohd Noor, 2019).

All the microtakaful models in this paper visualises the participation of the public through voluntary contribution using donation, zakat and waqf. With donation and waqf being voluntary in nature, the sudden halt of microtakaful contribution is an inevitable circumstance especially when the giver decides to channel it somewhere else which they deem more appropriate. The giver may also wish for a temporary nature of contribution especially when they themselves need the cash for some other dire personal needs. Although cash waqf faces certain practical implementation issues from perspective of microtakaful contribution, this instrument has at least been accepted by majority of the Malaysian Shari'ah scholars (Rahmalan & Abu Hussin, 2021). Temporary waqf on the other hand still needs recognition by the Malaysian Shari'ah scholars apart from ensuring that sustainable source of income may still be generated through proper investment despite the termination in contribution by the givers. The mathematical model of Ambrose and Peredaryenko (2022) proved that temporary waqf funds are able to generate favourable investment income to provide continuous benefit to the microtakaful participants. If investment activities are managed prudently despite the waqf contributions being contributed and withdrawn at differing time period, the giver of waqf may still have certain level of comfort sense that their withdrawal will not bring an abrupt negative impact to the microtakaful participants.

5. Conclusion

Waqf in takaful models is not new. Pakistan has embedded waqf in Pak-Qatar Family Takaful Limited, Dawood Family Takaful and Takaful Pakistan Limited (The Malaysian Institute of Accountants, 2019). The takaful operation of these operators began with the assistance of waqf money provided by the shareholders into the PRF to commence the takaful operation. The fund continuously grows when additional contribution is injected by takaful participants through their own respective waqf contribution. The ownership of the first waqf amount by the shareholders and the subsequent waqf contribution by the participants automatically is transferred to the Almighty (Abdul Jalil and Abdul Rahman, 2015). The contractual relationship of this takaful model is not established between the takaful operator and the takaful participants. Rather, respectively they have contractual relationship with the Almighty (Abdullah and Yaacob, 2012). In this takaful model, the takaful operator being the manager of the operation receives *wakalah* fee in return for their services.

Malaysia however has yet to implement this waqf model in its takaful industry given that waqf falls under the rules of different states and falls under the Trustee Act which brings with it different legal implications (Common LII, n.d.). However, BNM in its Takaful Operational Framework (TOF) (BNM, 2019) provided rooms for adoption of takaful models other than the commonly known *Mudarabah* model and *Wakalah-Mudarabah* model with provision highlighting the need to address issues relating to new models prior to being licensed to operate. The non-exhaustive issues emphasized in this study recommend two main areas to be looked into in future research for waqf to be used as a microtakaful contribution.

First is in addressing the SIRC's lack of technical expertise in offering microtakaful products to the underserved. A mechanism may be proposed to bridge the gap of expertise whereby the current takaful operators who have met all the BNM's TOF requirements may provide the technical or operational support to the SIRC without breaching any act that SIRCs need to abide to when dealing with waqf money. This proposed support needs to give careful consideration on operational effectiveness and efficiency in serving the underserved especially from the perspective of application, distribution, claims payment, and various queries from the underserved.

Second is in understanding the actual Shari'ah and operational implication of waqf being utilized as microtakaful contribution. If waqf for microtakaful contribution is managed by a takaful operator, thorough consideration should be given to ensure separation of waqf money from other takaful contributions. This separation will require the takaful operator to consider utilization of temporary waqf for the waqf fund given that continuous generation of investment income is crucial for sustenance of microtakaful coverage for the underserved. The requirements for temporary waqf should be addressed in obtaining the approval from the Shari'ah committee of the takaful operator as well as obtaining the approval of the Shari'ah Advisory Council (SAC) of BNM since temporary waqf is still at its nascent development stage.

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Challenges for the Issuers to Issue Global Hybrid Sukuk that Complies with AAOIFI Shari'ah Standard No. 59

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Abstract

Hybrid sukuk is a structure preferred by issuers in the global sukuk market. It requires a lower tangibility ratio requirement, i.e., at a minimum of 30% of the total sukuk issuance amount, while receivables from a commodity *Murabahah* transaction can cover the rest. However, this changes with the implementation of Shari'ah Standard no. 59 on the Sale of Debt by the Accounting and Auditing Organisation for Islamic Financial Institutions ("AAOIFI")("S59"). It mandates a higher tangibility ratio requirement of more than 50%, which has to be maintained throughout the sukuk period. When it breaches the 33% tangibility ratio, it must be delisted and traded according to the *Bay' al-Dayn* rules. The initial market reactions were negative, and the number of sukuk issuances decreased, especially in the UAE. Many pointed out that the implementation of S59 led to this situation. There are numerous challenges for the issuers to comply with S59, such as the lack of tangible assets to comply with the higher tangibility ratio, additional complexity in structuring a sukuk, maintaining the tangibility ratio, and incorporating the delisting event clause into the documentation.

Keywords: *Islamic capital market, Sukuk structuring, Hybrid sukuk, AAOIFI Shari'ah standards, Sale of debt*

1. Introduction

Sukuk has gained popularity in both local and international financial markets. It is an attractive funding source for various entities, including governments, companies, and sovereign wealth funds. Investors are drawn to sukuk due to its ability to diversify risks, provide fixed-income assets, and attract both Islamic and non-Islamic investors ("Islamic investors" are referring to both Muslims individuals and Islamic institutional investors). Global sukuk issuances are frequently oversubscribed, especially those that are originated from Malaysia and Indonesia. Institutional investors prefer sukuk because they offer stable returns and positive growth effects, making them ideal for long-term investments. (Bakar, 2017; International Islamic Financial Market, 2022; Wan Mohamed Ali, 2014).

The demand for sukuk has also increased due to Islamic financial institutions (IFIs) using it as a liquidity management tool. Sukuk has been established as a Shari'ah-compliant financial instrument that offers similar features to conventional bonds. The sukuk industry has seen significant growth in recent years, and in 2020, sukuk issuances reached USD 174.60 billion, despite the challenges posed by the Covid-19 pandemic. Leading players in the industry include Malaysia, Saudi Arabia, UAE, Bahrain, Indonesia, Turkey, Pakistan, and Qatar. The global sukuk industry has experienced a compound annual growth rate of 26%, and as of the first half of 2021, the value of global sukuk outstanding was USD 630 billion (Dinar Standard, 2022; International Islamic Financial Market, 2021).

Sukuk structures and features have evolved to meet the demands and development of the financial market. Sukuk started with a single Shari'ah contract only. Then, sukuk has undergone significant Shari'ah dynamism and innovation, with developments and innovations aligned with issuers' requirements and needs. Over time, various concepts and Shari'ah principles were introduced based on issuers' different needs and preferences.

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Common sukuk structures are based on *Mudarabah, Musharakah, Wakalah, Ijarah, Murabahah, Salam, Istisna',* and *Bai' Bithaman Ajil*. The underlying Shari'ah contracts are applied to structure various commercial-based innovations in the market, such as senior unsecured sukuk, perpetual sukuk, convertible sukuk, exchangeable sukuk, and subordinated sukuk. Shari'ah Standard No. 17 on Investment Sukuk provides numerous types of sukuk structures. However, hybrid sukuk remains the most popular structure (Bakar, 2017; Hanefah et al., 2013; ISRA, 2017; Wan Mohamed Ali, 2014; Wilson, 2004).

2. Why is Hybrid Sukuk Preferred over other Sukuk Structures?

It is essential for the issuer to meet the requirement of providing sufficient underlying assets to issue a sukuk. However, this can be challenging for potential issuers due to various factors. These factors include the inability to provide enough unencumbered assets that match the sukuk issuance amount, the complexity or unsuitability of the assets for a sukuk issuance, and constraints in selling the assets to sukuk holders due to standard negative pledge provisions provided to earlier creditors. Among asset-backed sukuk and asset-based sukuk, issuers generally prefer the latter due to the constraints and requirements of the asset-backed sukuk structure discussed earlier. Nonetheless, even with asset-based sukuk such as *Ijarah* sukuk, issuers must provide Shari'ah-compliant assets with a value comparable to the total issuance amount. The assets must exist during the issuance and throughout the sukuk tenure (ISRA, 2017).

Hybrid sukuk has become popular in recent years because it offers flexibility in structuring the sukuk using different Shari'ah contracts based on the issuer's preference. This type of sukuk also addresses the issuer's limitation in providing tangible assets as the underlying assets. The issuer only needs to provide assets with a value equivalent to 51% or 30% of the total sukuk issuance amount, while the rest of the percentage is covered by the receivables from the sale of commodities. It means the issuer doesn't need to provide 100% of the value of tangible assets, unlike other types of sukuk. For example, for a USD1 billion nominal value of hybrid sukuk, the issuer only needs to provide tangible assets worth USD300 million (applying the 30% tangibility ratio). The issuers can choose any type of tangible assets they prefer or what they have at the point of issuance. This flexibility is crucial for issuers as the availability of underlying assets is critical in enabling them to issue a sukuk. Besides that, the issuer must also be willing to set the assets aside during the sukuk tenor (Bakar, 2017; Haneef, 2015; ISRA, 2017).

There have been a lot of innovations in structuring hybrid sukuk in the global sukuk market, especially on the tangible asset portion, as per the following Table 1.

Table 1: Innovations in hybrid sukuk

Sukuk	Issuance Year	1st Sukuk Component	2nd Sukuk Component
Malaysia Sukuk Global Berhad	2016	Vouchers representing travel entitlements	Shari'ah-compliant shares
Dar Al Arkan	2017	*Ijarah* assets	*Murabahah* receivables
Sharjah Sukuk Programme Limited	2017	*Ijarah* assets	*Murabahah* receivables
KSA Sukuk Limited	2017	*Mudarabah* agreement, a form of Islamic investment management partnership	*Murabahah* receivables
Apicorp Sukuk Limited	2017	*Wakalah* Assets that are *Ijarah* Assets and/or tangible *sukuk*	*Murabahah* receivables

Source: Respective sukuk's information memorandum or offering circular

According to the 2021 report on Sukuk by IIFM, 51% of the global sukuk issuances in 2020 were in the form of sukuk *Al Wakalah*, which is a hybrid sukuk that combines *Ijarah* with *Murabahah*. Meanwhile, other forms of hybrid sukuk accounted for 13.17% of the total international sukuk issuances in 2020 (International Islamic Financial Market, 2022). The report also outlines various asset combinations of contracts for hybrid sukuk, which are: 1. *Murabahah* and *Ijarah* 2. *Murabahah* and *Mudarabah* 3. *Murabahah* and *Wakalah*, and 4. *Ijarah* and *Musharakah.*

3. The New Tangibility Ratio Requirements by Standard 59

Among existing AAOIFI Shari'ah standards relevant to sukuk structuring are Shari'ah Standard No. 17 on Investment Sukuk and Shari'ah Standard No. 21 on Financial Paper. Recently, the sukuk industry welcomed another Shari'ah standard by AAOIFI relevant to sukuk structuring in the form of Standard 59 on the sale of debt ("S59"). The compliance deadline was 1st January 2021 for the country that adopts AAOIFI on a mandatory basis, such as the UAE. S59 provides relevant requirements for the sale of debt. It discusses, among others, the definition of debt, types of sale of debt, rules on the sale of debt, and the contemporary application of the sale of debt (AAOIFI, 2018).

Two notable areas where the adoption of S59 will affect the Islamic finance industry's existing practices are the rollover of debt-based financing and the trading of sukuk, which contains the element of debt. The latter would be the focus of this paper. The following Table 2 summarizes the new requirements by S59 relevant to structuring hybrid sukuk and the comparison with the previous practices in the sukuk industry:

Table 2: Comparison between the requirements of S59 and the practice before the implementation of S59

New Requirement by S59	The Practice Before the Implementation of S59
The tangibility asset ratio shall exceed 50%* and has to be maintained throughout the sukuk period ("tangibility ratio"). **For ease of reference, herein will be referred to as 51%. Because 50.00000001% or similar numbers also satisfied the requirement but is very hard to be used as a reference in this paper.*	51% or 30% ratio of tangible assets No provision that requires maintaining any tangibility ratio throughout the sukuk period
If the tangibility ratio falls below 51%, it has to be brought up to the allowable ratio (51%) within the period prescribed by the Shari'ah advisor.	No provision that requires maintaining the tangibility ratio throughout the sukuk period
Suppose the tangible asset ratio falls below 33%. In that case, the issuer has to advertise/inform the sukuk holders that the sukuk cannot be traded, except by following the Shariah rules on debt trading (at par only). If the sukuk is listed on any exchange, it has to be delisted.	No provision that requires maintaining the tangibility ratio throughout the sukuk period No provision that requires the sukuk has to be delisted

Source: Authors' own

This paper will refer to the above requirements as the tangibility ratio requirements by S59 ("S59 TRRs"). According to ISRA (2017), the key Shari'ah requirements in structuring sukuk are:

1. Shariah-compliant contracts
2. Shariah-compliant underlying assets
3. Shariah-compliant utilization of proceeds
4. Redemption and trading of sukuk in line with Shari'ah

Based on the above key Shari'ah requirements, the implication of S59 for structuring hybrid sukuk is related to the underlying assets and tradability of sukuk.

The implication of S59 towards the underlying assets requirements for hybrid sukuk

S59 has increased the asset tangibility ratio requirement for sukuk issuers from 30% to 51%, which significantly impacts the amount of underlying assets needed for a USD1 billion sukuk issuance, for example. Additionally, the 51% asset tangibility ratio must be maintained throughout the whole sukuk period. It could be challenging as the underlying tangible assets are open to various risks affecting their value. Before S59, the issuer only needed to bring the value up to 51% on a best-effort basis, and there was no strict requirement when the value depreciated below 51% i.e., RM510 million. However, S59 requires the issuer to bring the value up to 51% within a specified period as their Shari'ah advisor advises when the value depreciates below RM510 million (Itam et al., 2022).

The implication of S59 towards the tradability of hybrid sukuk

Sukuk and bonds are traded in the secondary market, allowing investors to liquidate their investment before the maturity of the sukuk. This feature is vital for liquidity management, especially for Islamic banks. The tradability of sukuk is guided by the relevant Shari'ah principles or standards, with each sukuk structure subject to applicable rules concerning tradability. For example, *Murabahah* sukuk, which represents 100% commodity *Murabahah* receivables, is among the preferred structure in Malaysia. The Shariah Advisory Council of the Securities Commission Malaysia allows the application of *Bay'al-Dayn* in the Islamic capital market. However, under AAOIFI Shari'ah Standard no. 17 on Investment Sukuk, *Murabahah* certificates are not allowed to be traded after the delivery of the *Murabahah* commodity to the sukuk investors.

By virtue of S59, if the ratio of a hybrid sukuk goes below 33%, the sukuk must be traded according to the sale of debt rules and must be delisted if listed on any exchange. The delisting event provides additional risk for sukuk holders, resulting in a lack of interest in the book-building exercise and ultimately leading to a higher funding cost for the issuer (Itam et al., 2022).

4. Research Methodology

The author conducted semi-structured interviews ("SSI") to understand the challenges faced by the issuers to comply with the requirements under S59 to structure a hybrid sukuk. SSI is a primary data collection method under the case study strategy. SSI is frequently the sole data source and the most widely used interviewing format for a qualitative research project due to its versatility and flexibility (DiCicco-Bloom & Crabtree, 2006; Kallio et al., 2016). It allows the chance to 'probe' answers, where the interviewer wants the interviewees to explain, or build on, their responses (Saunders et al., 2009).

SSI is conducted around a set of predetermined open-ended questions, with other questions pursuant to the conversation between the interviewer and the interviewee(s) (DiCicco-Bloom & Crabtree, 2006). It could also be conducted with a blend of closed and open-ended questions, usually with why or how questions (Adams, 2015). The interviewer can ask follow-up questions based on the interviewees' responses (Kallio et al., 2016). According to Saunders et al. (2009), an interview is also suitable when the questions are complex or open-ended. Since complex questions potentially produce complex answers, this format is also preferable for the interviewees, as they only need to speak rather than write the answer themselves. All these elements were applied in this research.

Therefore, the researcher believes SSI would be the best method for collecting the data to investigate the challenges for the issuers to comply with S59. According to Silverman (2004), what is important is to generate data that provides authentic insight into people's experiences. Thus, SSI is suitable for addressing the niche section this research investigates. The open-ended questions also fit the interviewees' size and allow them to provide an unrestricted opinion and view on the questions asked.

The researcher identified and interviewed various experts in the sukuk industry with relevant working experience and knowledge of structuring global sukuk. The interviews were conducted via physical engagement or online platform. The interviews were conducted from July 2022 until April 2023. Research protocol or interview questions were drafted to guide the researcher to conduct the interviews. The researcher adjusted interview questions based on factors like the interviewee types and the timing/situation of the interviews. Different questions were asked to different interviewees based on their expertise and role. Additionally, the research protocol was summarized to accommodate the busy schedules of interviewees, with specific emphasis given to relevant topics based on their availability.

For clarification, the questions asked to the interviewees also covered other areas related to the implementation of S59 in sukuk structuring. The questions are related to the challenges for the investors to comply with S59, the impacts of S59 on the market, and the proposed solutions. However, these will be covered in other papers to be published by the researcher. This paper will focus solely on the challenges faced by the issuers to issue global senior hybrid sukuk that complies with S59.

The author interviewed 26 experts comprising investment bankers, Shari'ah scholars, and various industry experts involved in the sukuk structuring process. As the research scope concerns sukuk that are subject to or intend to comply with the AAOIFI Shari'ah standards, the interviewees were mainly based in the GCC countries. However, there were also interviewees who were not based in the GCC countries but still had experience with dealing, structuring, and/or advising global sukuk that aim to comply with the AAOIFI Shari'ah standards.

The following are the explanation about the interviewees based on their respective category and their relation to the issue in this research.

a. Investment Bankers

Investment bankers act as an intermediary between issuers and investors. They are involved in the end-to-end sukuk issuance processes. Thus, they understand the mechanics of advising the best structure for a sukuk while meeting the relevant legal, regulatory, and Shari'ah requirements, including S59. They also have to consider issuers' capability to satisfy the proposed structure and ensure that investors have an appetite for such a sukuk structure. Thus, they understand the challenges and implications for both issuers and investors. The interviewees under this category were chosen based on their experience in dealing with global sukuk issuances.

This is because global sukuk typically need to consider the interest of Middle Eastern investors, who predominantly rely on the AAOIFI Shari'ah standards. The researcher interviewed two investment bankers from the UAE and one from Qatar.

b. Rating Agency

A rating agency is a firm that evaluates and provides an assessment of credit risk associated with the parties involved in sukuk transactions, as well as the overall sukuk structure. They provide their opinion during or after the issuance of the sukuk. The rating agency is also responsible for evaluating the impact of the underlying structure on the sukuk ratings, taking into consideration factors such as S59. Both S&P Global Ratings and Fitch Ratings have made several comments regarding the implementation of S59 (Fitch Ratings, 2021; Islamic Finance News, 2021b). Therefore, it is appropriate to request a comprehensive opinion from rating agencies regarding this issue. For this research, representatives from two global rating agencies were interviewed.

c. Shari'ah Advisers and Shari'ah Scholars

Shari'ah advisers and Shari'ah scholars ("Shari'ah advisers") advise on Shari'ah matters for sukuk structuring. Before a sukuk is issued, the issuer (through their principal adviser or investment banker) must obtain Shari'ah approval from the Shari'ah advisers, certifying the sukuk's structure, mechanism, and documentation are Shari'ah-compliant. The Shari'ah advisers must also advise and confirm whether the sukuk complies with the relevant Shari'ah standards and regulations. In the context of AAOIFI Shari'ah standards, the Shari'ah advisers have to ensure that the sukuk complies with the AAOIFI Shari'ah standards if the issuer opts to comply with the standards. Seven Shari'ah advisers and Shari'ah scholars were interviewed for this research, which most of them have experience in advising global sukuk issuances.

d. Shari'ah Department Officers of an Islamic bank

There are two methods through which Shari'ah advisers can provide approval for a sukuk. The first method involves a direct and personal appointment of the Shari'ah adviser by the issuer, as mentioned above. In this arrangement, the Shari'ah adviser engages with the issuer, thoroughly examines the documentation, and provides a Shari'ah pronouncement for the sukuk using their own name.

The second method involves appointing an Islamic bank as the Shari'ah adviser for the sukuk. Islamic banks often have their own Shari'ah advisers who provide guidance on various products and services offered by the bank, including sukuk. In this case, the Islamic bank itself is named as the Shari'ah adviser, rather than an individual Shari'ah adviser.

The officers from the Shari'ah department of the Islamic bank serve as the primary point of contact for any Shari'ah-related matters. They engage directly with the issuer, review the draft documentation, and prepare the Shari'ah pronouncement. The final documents and draft Shari'ah pronouncement are then reviewed and signed by the Shari'ah advisers of the Islamic bank.

It is worth noting that although the interviewees in this category primarily represent the head of the Shari'ah departments, they can also be considered as investment bankers due to their involvement in the end-to-end processes of sukuk structuring. Three Heads of Shari'ah department (from the UAE and Malaysia) were interviewed for this research.

e. Fund Managers or Treasurers
Due to the minimum investment amount required for a sukuk, most sukuk investors are institutional investors. The investment is performed by their fund managers or treasurers (for banks). Thus, interviewing them provides critical insight from the investors' perspective. Four fund managers (one from the UAE and the rest from Malaysia) were interviewed for this research.

f. Other Experts
The researcher also interviewed other relevant experts to obtain their insight on the issue, such as interviewees from the exchange company (for listing purposes), liquidity management institution, and law firm.

5. Challenges for the Issuers to Issue Global Sukuk that Complies with S59

Issuers have to consider various factors before deciding to issue a sukuk, such as the purpose for raising the fund, how much they need, and the required sukuk issuance processes and procedures. During the sukuk issuance journey, it is logical that the issuer expects the processes to be as smooth as possible without encountering any problems and affecting the main objective of issuing a sukuk, i.e., to obtain Shari'ah-compliant funding at a competitive or cheapest cost. Thus, the question is how the implementation of S59 will synergize with the existing sukuk issuance processes and whether it will pose any challenge to the issuers. Based on the interviewees' feedback, the following are the challenges the issuers face with the implementation of S59.

Challenge No. 1: Adopting the new tangibility ratio requirements
Adopting the new tangibility ratio requirements by S59 ("S59 TRRs") is the first challenge the issuers must address. Before the implementation of S59, the higher 51% tangibility ratio was not a requirement but rather a best practice. Additionally, there was no rule regarding a delisting event. The interviewees' feedback reveals a lack of understanding about the new requirements, requiring extensive explanation and awareness efforts. Educating issuers and rating agencies can be challenging and time-consuming, especially when dealing with new regulations or standards. Therefore, the market players require more time to understand the new requirements, and a gradual implementation of S59 has been proposed.

When S59 came into effect, there was no implementation period provided to the industry. S59 was only endorsed in December 2018 and came into force in January 2021 (AAOIFI, 2018). It means the industry had about two years only to familiarise itself and implement S59. Given the gravity of the S59 TRRs, it was way too short for the industry, as mentioned by the interviewees. Some interviewees stressed that the industry should be given around three years to comply with such requirements.

As a comparison, even the Basel Committee gave the industry a lot of time to comply with their requirements. Singh and Gupta (2017) stated that the implementing banks and financial institutions faced issues and challenges with the recommendations and implementation of Basel 3 as they needed to make macro adjustments and reorienting monetary policies. The central banks were required to suitably formulate the monetary policy and plan needed strategies and provisions considering the overall situation of banking systems and the state of the economy.

The nature of sukuk issuance, including the short window to enter the market, further complicates the adoption of S59. Market timing is critical, and delays may result in issuers switching to issuing conventional bonds. If issuers encounter issues like the implementation of S59, the interviewees mentioned that the issuers might easily opt for conventional bond.

Challenge No. 2: Lack of tangible assets to comply with the higher tangibility ratio
Global sukuk involves raising millions or billions of dollars. Sukuk issuance requires underlying assets, including hybrid sukuk. The issuers sometimes could not provide enough assets to match the issuance amount. Governments also hesitated to allocate public assets to foreign investors (when made as the underlying assets) because it could be seen negatively. Therefore, increasing the tangibility ratio to 51% makes it even more challenging for issuers to provide the required assets. For example, for a USD1 billion issuance, providing assets worth USD510 million (to comply with the 51% tangibility ratio) is way more difficult than providing assets worth USD300 million (30% tangibility ratio as per the practice before S59).

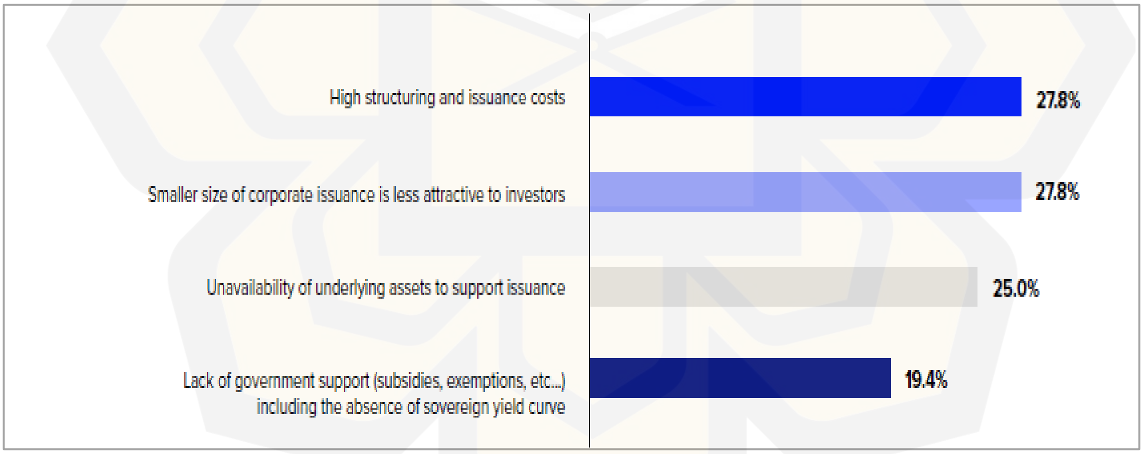
The interviewees experienced deals that were put on hold or cancelled due to the higher tangibility ratio required by S59. It supports S&P Global Ratings' forecast that the sukuk route may become less attractive due to challenges related to the availability of assets on issuers' balance sheets (S&P Global Ratings, 2022). Investment bankers consider the issuer's capability to provide sufficient assets when advising potential issuers who may be interested in issuing sukuk but lack the necessary underlying assets. As mentioned by Itam et al. (2022), the incapability to provide enough underlying assets was the reason why hybrid sukuk was introduced to the sukuk market and why the lower 30% tangibility ratio has been adopted in the market.

According to a survey conducted by ISRA-Deloitte, 41.41% of respondents strongly agreed that the lack of suitable underlying assets and legal restrictions in asset ownership had caused practical difficulties in issuing sukuk, and the other 49.49% of respondents agreed to an extent (Deloitte, 2018). Thus, this is a common challenge that applies globally. The higher tangibility ratio provides different challenges for two types of issuers: corporates and financial institutions.

Corporate Issuers

For corporate issuers (non-financial institutions), when they need funding for their operations, they can obtain financing from banks or issue new shares. Still, both exercises could be expensive and dilute existing shareholders. Sukuk can be a better option for corporates to get funding at a lower cost. However, the interviewees confirmed that the requirement for a higher tangibility ratio could be a problem, especially for asset-light companies that don't have enough suitable assets. It has also been confirmed by Refinitiv's 2021 Sukuk Perceptions and Forecast Study. It is stated in the report that the higher tangibility ratio limits the issuer's ability to leverage up, so they may choose to issue conventional bonds instead, which hurts the sukuk supply (Refinitiv, 2021).

Figure1: Refinitiv sukuk survey on "What is the main hurdle limiting corporate sukuk issuance growth?"



Source: Refinitiv (2021)

The following is the data for the global sukuk market from 2010 until 2021 (International Islamic Financial Market, 2022):

Figure 2: International Sukuk Issuances from 2010 until 2021

Source: International Islamic Financial Market (2022)

Note that the percentage of corporate issuances went from 17.02% (2010-2019) to only 2% in 2021. It is clearly not good for the Islamic finance industry, as the number of global corporate sukuk issuances is near zero percent. An interviewee also mentioned that the impact of S59 has already happened, i.e., the elimination of small corporates' ability to enter the sukuk market. As a comparison, Malaysia has various corporate sukuk issuers, i.e., from asset-light to asset-heavy issuers. According to Securities Commission Malaysia (2022), corporate sukuk forms 82% of the total corporate bond and sukuk outstanding as of May 2022, and corporate sukuk forms 80% of the total corporate bond and sukuk issuance in 2021.

Financial Institution Issuers

Another type of issuer that could be affected by the higher tangibility ratio requirement is the financial institutions ("FIs"). According to Refinitiv (2022), the FIs typically account for most sukuk issuances (FIs and non-FIs), contributing 65% of the USD38.1 billion global sukuk issuances in 2021.

The struggle depends on the financial assets the FIs' have on their balance sheet. To explain this, let's say that a financial institution (such as Islamic bank) has *Ijarah* financial assets only, valued at USD3 billion. Suppose the financial institution wants to issue a sukuk worth USD500 million. In that case, they can easily issue a hybrid sukuk or even a full *Ijarah* structure due to the availability of their *Ijarah* assets. The *Ijarah* assets are considered tangible assets because the assets represent ownership in the underlying *Ijarah* assets, not the rental receivables.

However, the situation gets complicated if their financial assets are based on various Shari'ah contracts such as *Ijarah*, *Mudarabah*, Commodity *Murabahah,* or plain *Murabahah*. It is the case for almost all Islamic FIs. Furthermore, a big chunk of financial assets owned by most Islamic banks, be it from Malaysia or the GCC countries, are based on *Murabahah* or *Tawarruq* (intangible assets). In Bahrain, retail and wholesale Islamic banks utilize *Murabahah* for their financings at 51.0% and 65.3% out of total financings, respectively. While in Saudi Arabia, the main financing instruments of the full-fledged Islamic banks were based on *Murabahah*

(69%), *Tawarruq* (19%), and *Ijarah* (11%). For the Saudi Islamic banking windows, their financings used *Tawarruq* (59%), *Murabahah* (27%), and *Ijarah* (11%) (Islamic Financial Services Board, 2022). In Malaysia, *Tawarruq* forms 57.23% of Malaysia's total Islamic financing assets as of August 2022 (Bank Negara Malaysia, 2022). There is no collective data for the UAE, but *Murabahah* forms 69.66% of First Abu Dhabi Bank's Islamic financing assets (First Abu Dhabi Bank, 2021). Thus, most of them might have problems providing enough underlying financial assets for hybrid sukuk issuance, especially with the higher tangibility ratio required by S59.

Tawarruq or *Murabahah* assets are not considered tangible assets because the assets represent receivables to be received by Islamic banks. Thus, they could not form part of the tangibility ratio under a hybrid sukuk structure. Since the Islamic FIs' financial assets are concentrated in *Tawarruq* or *Murabahah*, they may have limited capability to make their financial assets the underlying asset for a sukuk issuance unless their tangible financial assets, such as *Ijarah* financings are large enough in their balance sheet to cover the whole sukuk issuance.

An interviewee mentioned that IFIs rely on sukuk to fund their business activities in addition to customer deposits. Access to sukuk is crucial to ensure the competitiveness of Islamic FIs. Islamic banks need sukuk to manage their liquidity and comply with regulations, including Basel 3 requirements, which mandate a credit facility. However, many credit facilities are structured using *Tawarruq* or *Murabahah*.

Challenge No. 3: Additional complexity

In sukuk issuance processes, it is required to establish a special purpose vehicle (onshore/offshore), identify eligible assets, obtain regulatory and government clearances, additional structuring, and receive approval from Islamic scholars' rulings (*Fatwas*). As a result, sukuk offerings may take longer to structure and document than ordinary conventional bond offerings (Khnifer, 2023).

ISRA (2017) also stated that sukuk is inherently more complex and challenging. In the early days of sukuk, there was no choice but for the government and government-linked entities to invest in launching a sukuk and kickstart the Islamic capital market. In the Malaysian context, for example, issuers have been incentivized with tax benefits to compensate for their extra work and cost.

An interviewee explained that due to the implementation of S59, new issuers must adapt to the new legal environment, identify assets, become familiar with structures, and prepare additional legal documents. This involves redoing documentation and testing structures (as provided by the documentation), all within a short timeframe before going to the market. As mentioned before, given the limited market timing window, it is crucial for issuers not to waste time on extensive documentation changes before going to the market.

Due to the additional complexities and works, the issuer could also incur more fees for the services and advices by investment bankers and lawyers. According to an interviewee, the issuers do not want to incur the costs and expenses of rewriting their entire sukuk program. The additional complexities and works also mean that investment bankers and lawyers need time and effort to educate the issuers and the related parties (e.g., regulators, rating agencies, and investors) about the change in the sukuk's nature with the adoption of S59 requirements.

According to another interviewee, many issuers have expressed that they are willing to forego two or three onshore accounts in the UAE if it requires a lot of legal work to amend their program and documentation. Foregoing the UAE accounts means the issuers have no problem not adopting S59 due to the additional legal work. It shows that incorporating S59 requirements is very burdensome and that the issuers are willing to face the risk of higher pricing due to the non-participation of the UAE investors in the book-building process.

An interviewee mentioned that the S59 issue makes issuing sukuk more complicated than issuing conventional bonds, which can be a barrier for new market players trying to enter the sukuk market. Some emerging markets have even cancelled their sukuk plans because of this additional complexity.

Challenge No. 4: Maintaining the tangibility ratio

As mentioned above, maintaining the 51% tangibility ratio is a requirement under the S59 TRRs. When the 51% tangibility ratio is breached, the issuer still has to restore the ratio as per the time as advised by their Shari'ah advisor. The worst-case scenario would be breaching the 33% tangibility ratio. If breached, it can only be traded according to *Bay' al-Dayn* rules and must be delisted by the issuer from the exchange. It is also called as a partial loss event. Previously, there was only a total loss event where the sukuk would collapse if the underlying tangible assets lost their total value.

The interviewees noted that the issue with S59 is whether the issuer can comply with the tangibility ratio throughout the sukuk period. The assets' value might fluctuate due to the market conditions. Maintaining and monitoring the tangibility ratio result in extra work for the issuers or additional costs if they outsource the work. Sheikh Dr. Bashir Aliyu, a global Shari'ah scholar, supported this. He said it is a challenge for the issuers to bring the asset pool to the level of tradability to meet the specified standard (Kuala Lumpur Islamic Finance Forum, 2022).

There is no issue with the requirement of maintaining the tangibility ratio. However, we must be more understanding of the issuer, especially when a significant punishment awaits them if the 33% tangibility ratio is breached, i.e., the delisting event (to be discussed in challenge seven why it is a "punishment"). Providing enough underlying assets is already a big challenge for most issuers (as discussed before). Indeed, maintaining the tangibility ratio would be an additional requirement that the issuers must keep in mind. An interviewee also reminded that the tangibility might drop due to external issues beyond the issuers' control, such as the global economic crisis. In this situation, the issuer genuinely requires more time to fix the problem.

Monitoring the tangibility ratio could be translated to additional costs to perform the role. Based on the prospectus of sukuk issued by the Government of Sharjah, it states the following (Sharjah Sukuk Programme Limited, 2021):

> *"The Servicing Agency Agreement provides that the Servicing Agent shall appoint, and maintain the appointment of, the Shari'ah Adviser to monitor the compliance with AAOIFI Shari'ah standards of the Transaction Documents and the Trust Certificates and to advise on any matters requested by the Servicing Agent (acting in any capacity under the Transaction Documents)."*

Indeed, the "monitoring" role will not be for free. The above sukuk complied with the tangibility ratio requirements as required by S59. An interviewee mentioned that, in practice, when a Shari'ah advisor for a sukuk is appointed, the mandate and fee are up to the point of sukuk issuance only. Thus, any post-issuance responsibilities (the monitoring role) may incur additional costs to be paid to the Shari'ah advisor, especially when the sukuk tenure is long.

Challenge No.5: Struggle for the non-UAE issuers

The UAE remains one of the strongest Islamic finance jurisdictions in the Gulf region and globally, particularly in the banking and capital markets (Islamic Finance News, 2021a). The UAE ranked fourth behind Malaysia, Saudi Arabia, and Iran, in the Islamic finance category in the State of the Global Islamic Economy Report 21, with a record of USD251 billion in Islamic finance assets in 2021 (Dinar Standard, 2022). According to Islamic Financial Services Board (2021), its Islamic banking asset shares form 20% of total banking assets domestically and 9.2% globally (behind Iran, Saudi Arabia, and Malaysia). Hence, there is a lot of Islamic liquidity (sukuk investment) in the UAE that issuers cannot overlook when issuing a global sukuk. Global sukuk is usually denominated in USD and targeting investors globally.

According to the interviewees, non-UAE issuers have to comply with S59 if they are chasing the anchor investors from the GCC markets for their USD sukuk issuance, where most of them are from the onshore UAE, such as Dubai Islamic Bank, Abu Dhabi Islamic Bank, and other large Islamic banks. There is no problem if the issuers are from Asia, such as Malaysia or Indonesia. But, if the issuers are from the GCC, it will make a lot of difference. They expect to attract anchor investors from within the region (especially from the UAE) after they price and market their global sukuk. The larger accounts are from the onshore UAE accounts.

The above responses depict the undeniable importance of Islamic liquidity available in the UAE. It is safe to say that there would be a loophole in the issuer's strategy if they were issuing a global sukuk without targeting the UAE investors. The potential investors' size from the jurisdiction will undoubtedly contribute to tightening the sukuk price further during the book-building process. The higher the participation in the book-building exercise, the lower the funding cost for the issuer.

An interviewee confirmed that when issuing a sukuk, the issuers are concerned about how much they can raise and at which price they can raise it. These two factors are affected by the number of book-building participants. Hence, simply omitting the UAE investors is not easy for issuers. The book-building exercise aims to ensure that the issuers get the lowest funding cost for their sukuk. An interviewee stated that he had an experience where the issuer insisted on including the UAE because they want the book-building participation to be as broad as possible.

Another reason why non-UAE issuers could not miss the UAE market is because of the available USD liquidity in the UAE, as mentioned by an interviewee. The top 3 jurisdictions that are rich in USD Islamic liquidity are the UAE, Kuwait, and Qatar. When the liquidity is already in the form of USD, it means the investors do not have to hedge the currency risk. Though there is a lot of Islamic liquidity in other regions, for example, Malaysia, they may not be in USD. Investors (where their liquidity is in RM for instance) must hedge their USD investment (buying a global sukuk) via forex exchange instruments. Buying a global sukuk involves hundreds of millions of USD. There might be a limited size of Islamic forex exchange instruments that the IFIs in Malaysia can offer (due to their risk and reward in offering the instruments). So, this could pose a challenge for the investors, especially the institutional investors, whose liquidity is not in USD. It stresses the importance of investors from the UAE.

Challenge No. 6: Struggle for the UAE issuers

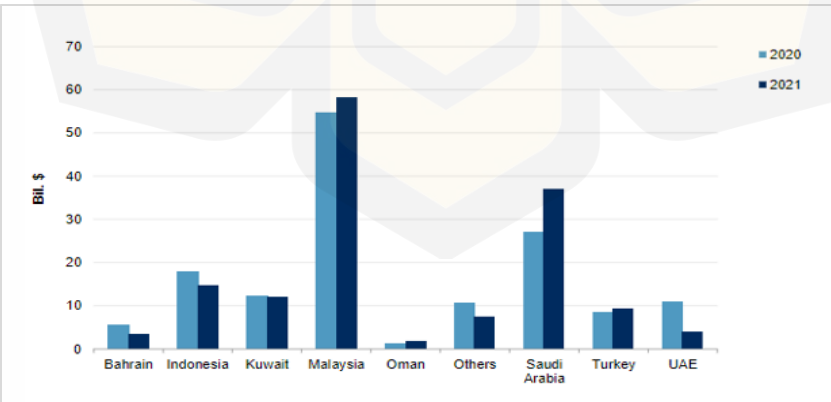
Dubai is the world's largest centre for sukuk listings at USD 51.21 billion and has overtaken other financial centres in listing sukuk on its exchanges. The UAE was the second largest sukuk issuer in 2020 but dropped to fourth in 2021, possibly due to S59 (Islamic Finance News, 2021b). According to the interviewees, with the implementation of S59, the UAE issuers are actually having a very tough situation. The non-UAE issuers still have the choice of whether to comply with S59, though it is highly unfavourable for them to comply with S59, as we have discussed above. The UAE issuers must either adopt S59 or cancel their plan to issue sukuk.

As mentioned before, the HSA of the UAE's CB has made it compulsory for all Islamic financial institutions in the UAE to adopt AAOIFI Shari'ah Standards in 2018 (Saba and Barbuscia, 2021; Deloitte, 2018). The adoption also requires the existing products and services to comply with AAOIFI standards (AAOIFI, 2020).

In the context of S59, all IFIs under the UAE jurisdiction have to adopt S59 if they intend to structure, arrange or issue a sukuk for themselves or on behalf of their clients (for investment banks). It means the potential issuers in the UAE still have to comply with S59 because they have to appoint the UAE Islamic banks to become their advisors to issue a sukuk. An interviewee confirms this.

This situation is undoubtedly a challenge for the UAE issuers, proven by the recent data from S&P Global Ratings. S&P Global Rating reported that sukuk issuance volumes dropped 64% in the United Arab Emirates (UAE) for the year 2021, in part because of the additional complexity introduced by S59. The change has negatively affected the sukuk issuance appetite from issuers and investors (S&P Global Ratings, 2022). Based on the following Figure 3, it is evident that while other leading global sukuk players had positive or minimal negative growth in sukuk issuances in 2021, the UAE experienced significant negative growth in sukuk issuances in 2021.

Figure 3: Sukuk issuance volume in 2020 and 2021



Source: S&P Global Ratings (2022)

Thus, it is a deadlock situation for the UAE issuers, as they have to comply with S59, they may have difficulty marketing their sukuk outside of the UAE because most investors may not have the appetite for sukuk that comply with S59 due to various reasons that will be discussed in a separate paper.

The above also shows that, besides the S59 issue, the UAE market has to face the uncertainty of regulatory implementation. By virtue of the HSA's direction, all newly issued AAOIFI Shari'ah standards will be adopted in the UAE regardless of the market environment or the suitability of the standards with the market condition and practices.

Challenge No. 7: Incorporating the delisting event

Incorporating the delisting event would be the most challenging requirement for the issuers, as reiterated and explained at length by many interviewees. Fitch Ratings observed additional dissolution triggers in new international sukuk documentation, including tangibility, delisting events, and new put options. Such triggers may affect the liquidity, credit profile, and ratings of mainly non-sovereign issuers (Fitch Ratings, 2022).

The delisting event itself is not a Shari'ah requirement, as it is only a measure to ensure that the *Bay' al-Dayn* rules are followed when the sukuk is traded. However, the interviewees explained the reality of listed sukuk. When a sukuk is listed, the sukuk is not actually traded over the exchange. They are listed on the exchange for profiling and transparency purposes only.

The Luxembourg Stock Exchange, a popular exchange for listing sukuk, states the following advantages of listing a bond/sukuk on their exchange (Luxembourg Stock Exchange, 2022):

1. Greater visibility: Issuers benefit from greater visibility and enhanced brand recognition
2. More transparency: Boost investor confidence by generating more transparency for the issuance
3. Broader reach: Enable buyers bound by rules on unlisted securities to access the products

As for Bursa Malaysia, they mentioned that by disclosing information to the Exchange and the general public, the listed sukuk and debt securities would be more visible and transparent. The listing may help establish the issuers' profiles. As a result, a larger group of institutional and high-net-worth investors will be attracted to invest in the securities (Bursa Malaysia, n.d.). Note that the exchanges only talk about transparency and visibility but never about sukuk trading.

The point is, contrary to listed shares, listed sukuk or bonds are not traded at the exchange and are traded over the counter only. Over-the-counter transactions are conducted according to the terms and agreements of the parties involved. There is no control to prevent the parties from trading the sukuk or any securities at any price. Securities trading between two counterparties is performed outside of formal exchanges and without the supervision of an exchange regulator.

Therefore, there is no point in requiring delisting a sukuk. According to the interviewees, the delisting event is harmful and restrictive without achieving the intended objectives. Therefore, S59 does not solve the tradability issue except by preventing investors from holding their instruments and the issuers from keeping their sukuk healthy in the market. This requirement is very restrictive for the sukuk market.

Furthermore, the interviewees mentioned that the impact of the delisting event on the issuers could go beyond the delisting event itself. It causes an adverse effect or bad connotation on the issuers if the delisting event materializes in the future (none has happened so far). If the same issuer wants to reissue a sukuk in the future, it will be much harder for them due to the history of delisting events. An interviewee even compared a delisted sukuk facing the same scepticism towards sukuk default cases such as Dana Gas and Garuda Indonesia.

The above requires more explanation, and there are also other additional negative impacts of incorporating a delisting clause. Therefore, discussing the matter in a separate paper with more detailed analysis would be more appropriate.

8. Conclusion

The discussion above shows that issuers face too many challenges with the implementation of S59. Given all the challenges, it is natural for agnostic issuers to turn their interest away from the sukuk market. The regulators and relevant authoritative bodies must consider the issuers' concerns.

Implementing any standard should consider the interest of the stakeholders, especially those who have to comply with the standard. We are not in a position to be strict with additional strict requirements that could potentially disrupt the sukuk supply. Perhaps the following fact will justify why we must immediately fix this situation.

Global bond market outstanding stands at USD126.6 trillion as of 2021 (Securities Industry and Financial Markets Association, 2022), whereas global sukuk outstanding only stands at USD 732.10 billion as of 2021 (International Islamic Financial Market, 2022). That is a meagre 0.58% of the total global bond market outstanding, not even one percent.

As mentioned, this paper focuses on the challenges faced by the issuers. There are also challenges faced by the investors and the negative impacts of S59 on the market. They will be discussed in separate papers.

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Developing a Conceptual Shari'ah Framework of Green Sukuk for Bangladesh: Its Implications on Social Welfare by Realizing SDGs

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Abstract

As a Shari'ah-compliant Islamic bond, Sukuk has attracted much interest from all over the world, particularly in Muslim countries like Bangladesh. Previous studies have confirmed that compared to interest-based bonds, Sukuk based on profit-sharing contracts is much more beneficial for investors. Specifically, in a Muslim-majority country like Bangladesh, Sukuk can attract much more interest because the existing capital market of this country severely lack Shari'ah-compliant instruments. The goal of this study is to introduce a Shari'ah-based conceptual framework of Green Sukuk that will be specifically applicable in Bangladesh considering the socio-economic conditions of the common people and the existing legal and regulatory framework of the country. In achieving this objective, a systematic literature review approach is adopted in this study. While creating the Shari'ah framework of Sukuk, importance has been given to *Maqasid-al-Shari'ah* and the sustainable development goals (SDGs). Emphasis has also been given on ensuring poverty alleviation and the social and economic welfare of people by highlighting the notion of *hifz-al-maal* (preservation of wealth) and *hifz-al-deen* (preservation of faith). It is expected that the new Green Sukuk model, once implemented in Bangladesh, will contribute towards achieving the SDGs, which require an unprecedented number of resources to be mobilized.

Keywords: *Sukuk, Green Sukuk, Islamic Bond, Bangladesh, SDGs*

1. Introduction

To ensure sustainable growth, the world today must overcome many obstacles, particularly in the areas of the environment, society, and economy. Food and water safety, climate change, poverty, unemployment, and corruption are some of the biggest problems the world is currently confronting. According to a 2017 World Economic Forum survey on the top 10 global concerns, climate change is the most urgent problem facing humanity now (Wahab and Naim, 2019). As found through the survey, 48.8% of respondents listed climate change as their main concern, and 78.1% stated they would be willing to alter their lifestyle in order to protect the environment (Wahab and Naim, 2019).

In line with this, a variety of initiatives are taken by different governments all over the world to tackle the issues related to climate change in line with achieving the Sustainable Development Goals (SDGs), and the implementation of an Islamic financial instrument called 'Green Sukuk' can be a major step towards achieving these goals. In particular, the issuance of Sukuk or Islamic bonds can open opportunities to achieve sustainable development goals by ensuring sustainable financing in different green projects, particularly in Muslim-majority countries like Bangladesh.

To finance environmentally friendly, climate-resilient, and sustainable growth, Green Sukuk are now being issued regularly in different countries. The market's organic growth, investors' growing interest in moral and ethical investing, the stringent capital requirements for infrastructure project financing, and the growing trend toward adopting Green Sukuk have all influenced this development.

Furthermore, Sukuk provide more diversified financing options for both public and private sector organisations. Sukuk, an Islamic financial instrument, is one of the few funding and investing possibilities for those who rigorously adhere to Shari'ah laws. Therefore, creating Sukuk is a technique to mobilise savings and financing

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for a demographic sector that would not otherwise be addressed by traditional financial instruments. But for many, Sukuk offer a way to access new investor pools, such as individuals or institutional investors in the domestically and internationally operating Islamic financial markets. It has also been observed that Muslim and non-Muslim nations, both developed and developing, have shown a strong interest in Sukuk financing. This interest was sparked by the lesson that both Asian and non-Asian nations had learned: that a developed capital market is necessary for an economy to be able to withstand the financial crisis (Aman et al., 2022).

2. Literature Review

As stated in the Qur'an, Islam has prioritised establishing social justice and fairness (2:188). Additionally, as emphasised in numerous verses of the Qur'an, Islamic doctrine unquestionably inculcates ethical, equitable, and sustainable business practices (e.g., 49:9; 6:165). Islamic finance is thought to be exceptionally capable of advancing financial stability, promoting inclusive finance, contributing to environmental and social programmes, reducing the vulnerability of the poor, and supporting infrastructure by upholding this divine concept of sustainability and equity along with the Islamic laws on financial transactions (*fiqh al muamalat*) (Noordin et al., 2018).

Islamic finance ultimate goals include eradicating poverty, achieving social justice, and enhancing the wellbeing of every member of society. Islamic financial theory places a strong emphasis on the idea of '*Adl* (justice) and *Ihsan* (fairness) in the financial system, which refers to caring for the disadvantaged groups in society who lack access to economic resources or are shut out of the market for financial resources (Hai et al., 2021). While *Maqasid al-Shari'ah* emphasises eradicating poverty through the idea of upholding life and *Deen* (faith), the United Nations (UN) has recently stressed this issue in their incredibly well-known Sustainable Development Goals (SDGs) (Hai et al., 2021). SDG:1 - No Poverty, is a goal to end poverty in all its forms by giving the poor access to resources that will help them become more productive, like credit, education, and training. The Islamic concept of social justice will likely be broadly recognised by various international agencies that have a propensity to direct their financial resources toward achieving social and environmental goals. As a result, efforts have been made to incorporate Islamic values into Sukuk (Noordin et al., 2018).

Sukuk has been hailed as the most important innovation in the Islamic capital market since it first appeared in the early 2000s (Umar and Aliu, 2019). Sukuk is frequently referred to as the counterpart of a traditional bond because it made it possible to raise long-term capital for projects that adhere to Shari'ah law (Umar & Aliu, 2019). Sukuk is defined by the Accounting and Auditing Organization Islamic Finance Institutions (AAOIFI) as: "Investment Sukuk are certificates of equal value representing undivided shares in ownership of tangible assets, usufructs and services or (in the ownership of) the assets of particular projects or special investment activity, however, this is true after receipt of the value of the Sukuk, the closing of subscription and the employment of funds received for the purpose for which the Sukuk were issued" (Umar and Aliu, 2019, p. 4). Sukuk is also defined by the Islamic Financial Services Board (IFSB) in its Capital Adequacy Standard (IFSB 2) as "certificates that represent the holder's proportionate ownership in an undivided part of an underlying asset where the holder assumes all rights and obligations to such asset" (Echchabi et al., 2018, p. 61).

Sukuk returns are frequently correlated with the profits and cash flow generated by the assets acquired or developed using Sukuk proceeds. According to Shari'ah principles, the majority of Sukuk issued to date have been asset-backed (e.g., infrastructure projects) and have been rated and analysed by investors based on the credit of the originator (Abubakar and Handayani, 2020). Furthermore, as argued by Bhuiyan et al. (2020), Sukuk differs substantially from the conventional bonds regarding the risks associated with investment. The right to claim debt for borrowed money is represented by the return to bondholders or investors in the case of conventional bonds, whereas the right to receive payments from a trade transaction and to claim ownership of a business venture or a specific asset is represented by the return to Sukuk holders. Additionally, unlike bonds, which are based on the antiquated form of a loan enforced with interest, Sukuk is a novel financial instrument with a flexible structure based on Islamic financial contracts (Bhuiyan et al., 2020).

Green Sukuk are bonds that adhere to Shari'ah rules since 100% of the exclusive proceeds are used to finance or refinance environmentally friendly initiatives that support biodiversity preservation, climate change adaptation, and mitigation. Thus, there are two requirements for the issuance of Green Sukuk: (1) It must be issued in accordance with Shari'ah and sustainable financial principles; and (2) the projects related to infrastructure that are funded must adhere to the principles of sustainable development and integrate the social, environmental, and governance aspects (green infrastructure) (Abubakar and Handayani, 2020).

Investors, financial institutions, and regulators are interested in different legitimacy (authenticity or legality) determinants of Sukuk, such as rating, pricing, Shari'ah documentation, Shari'ah auditing, and Shari'ah risk (Ahmed et al., 2019). Even if there are other variables that might affect the validity of Sukuk, these determinants are of a general character and can be discovered in Sukuk reports that IFIs, investors, and regulators can examine. However, the Chairman of AAOIFI highlighted that the majority of Sukuk products on the market were not entirely Shari'ah compliant, necessitating an immediate assessment in 2007 (Ahmed et al., 2019). In response, the Muslim Council of Britain established the Islamic Finance Transparency Standard in 2008 in collaboration with the Utrujj Foundation and the Islamic Finance Council (Ahmed et al., 2019). It was a consultative document with three goals: to increase consumer protection, to improve consumer awareness of Islamic retail products, and to lessen customer scepticism about products that don't adhere to Shari'ah. The IFSB published a document in December 2009 called "Guiding Principles on Shari'ah Governance Systems for Institutions delivering Islamic Financial Services" in an effort to allay consumer concerns regarding the non-compliance of Shari'ah-compliant products like Sukuk (Ahmed et al., 2019). Additionally, shortly after that in 2010, the Bank Negara Malaysia (BNM) released its own document on the matter, known as the Shari'ah Governance Framework (Ahmed et al., 2019).

As soon as the Islamic Development Bank (IsDB) started to issue Green Sukuk, its strength became apparent. IsDB was the first multilateral development bank and the first euro-dominant bank to issue Green Sukuk (Keshminder et al., 2022). The package offered by Green Sukuk is praised for being suited for a range of investors, including both Green and conventional investors as well as those who adhere to Shari'ah. The year 2020 was anticipated to mark a new milestone for Green Sukuk in Malaysia thanks to growing awareness and different incentives. The Covid-19 epidemic, however, hindered the development of Green Sukuk. In comparison to the same period in 2019, Green Sukuk issuance fell by 44.4 percent in the first seven months of 2020. Globally, the Sukuk market shrank by 9.1 percent during the first half of 2020 compared to the same period in 2019 (Keshminder et al., 2022). Global Sukuk issuers are anticipated to increase their funding base as the market stabilises. Additional innovation is anticipated for green, sustainable, and hybrid Sukuk (Keshminder et al., 2022).

3. Methodology

To accomplish the research goals, this study employs a systematic review methodology, following Nomran and Haron (2020). The pertinent qualitative data are gathered, processed, and interpreted using content analysis and library research techniques. The publications required for this study are chosen using a variety of research databases, including Mendeley, Scopus, Emerald Insight, and Google Scholar. All the source publications were peer-reviewed, published in a variety of indexed journals, or included in conference proceedings in the last five years (2018-2022). "Sukuk", "Green Sukuk", "Sukuk in Bangladesh", "Sukuk and SDGs", "Maqasid al-Shari'ah and Sukuk", and "Opportunities and Challenges in Green Sukuk" are among the keywords used to search the articles. A review of the titles and abstracts of the 111 potentially relevant papers that the initial search turned up led to the exclusion of 59 works from this investigation. After carefully reviewing the remaining 52 publications, 34 were found to be inadequately relevant and comprehensive. Ultimately, 21 publications that met all requirements were included in this study.

The following Table 1 presents a list of the 21papers used as the source of information for this article.

Table 1: List of source papers

No.	Name of the Authors (Years of Publication)	Title of the Paper	Publication	Type of Study
1.	Abubakar & Handayani (2020)	Green Sukuk: sustainable financing instruments for infrastructure development in Indonesia.	Proceedings of 1st Borobudur International Symposium on Humanities, Economics and Social Sciences	Qualitative Analysis
2.	Ahmed et al. (2019)	A qualitative analysis on the determinants of legitimacy of Sukuk.	Journal of Islamic Accounting and Business Research	Qualitative Study
3.	Ahmed et al. (2018)	Sukuk documentation and legitimacy: the role of shariah supervisory board as a moderator.	Management	Mixed-Method Approach
4.	Al Madani et al. (2020)	The role of Sukuk in achieving sustainable development: evidence from the Islamic Development Bank.	Banks and Bank Systems	Quantitative Study
5.	Aman et al. (2022)	Factors affecting Sukuk market development: empirical evidence from Sukuk issuing economies.	International Journal of Islamic and Middle Eastern Finance and Management	Quantitative Study
6.	Bhuiyan et al. (2020)	Comparative analysis between global Sukuk and bond indices: value-at-risk approach.	Journal of Islamic Accounting and Business Research	Quantitative Study
7.	Echchabi et al. (2018)	The impact of Sukuk financing on economic growth: the case of GCC countries.	International Journal of Financial Services Management	Qualitative Study
8.	Fitrah & Soemitra, (2022)	Green Sukuk For Sustainable Development Goals in Indonesia: A Literature Study.	Jurnal Ilmiah Ekonomi Islam	Qualitative Study
9.	Hai et al. (2021)	An Innovative Sukuk-Waqf for Islamic Microfinance Institutions: Integrating Maqasid Al-Shariah, SDGs and Waqf.	Tazkia Islamic Finance and Business Review	Qualitative Study
10.	Hasan et al. (2019)	Sukuk risks–a structured review of theoretical research.	Journal of Islamic Accounting and Business Research	Qualitative Study
11.	Hassan et al. (2020)	Bond Market Development in Bangladesh: Capacity Building, Challenges and Policy Initiatives.	Academy of Strategic Management Journal	Qualitative Study
12.	Keshminder et al. (2022)	Green Sukuk–Malaysia surviving the bumpy road: performance, challenges and reconciled issuance framework.	Qualitative Research in Financial Markets	Qualitative Study
13.	Khan and Siddiqui (2018)	Islamic (Sukuk) vs. Conventional Financing: Analysis of Profitability.	International Journal of Experiential Learning & Case Studies	Quantitative Study

No.	Name of the Authors (Years of Publication)	Title of the Paper	Publication	Type of Study
14.	Noordin et al. (2018)	Complying with the requirements for issuance of SRI Sukuk: the case of Khazanah's Sukuk Ihsan.	Journal of Islamic Accounting and Business Research	Qualitative Study
15.	Rahim & Mohamad (2018)	Green Sukuk for financing renewable project.	Turkish Journal of Islamic Economics	Qualitative Study
16.	Rahman (2021)	The Inevitability and Relevancy of Sukuk in Developing Country: A Case of Bangladesh.	Saudi Journal of Humanities and Social Science	Qualitative Study
17.	Umar & Aliyu (2019)	Sukuk: A veritable tool for effective waqf fund management in Nigeria.	Iqtishadia	Qualitative Study
18.	Wahab & Naim, (2019)	Malaysian initiatives to support sustainable and responsible investment (SRI) especially through Sukuk approach.	Journal of Emerging Economies & Islamic Research	Qualitative Study
19.	Rahman (2021)	The Inevitability and Relevancy of Sukuk in Developing Country: A Case of Bangladesh.	Saudi Journal of Humanities and Social Science	Qualitative Study
20.	Umar & Aliyu (2019)	Sukuk: A veritable tool for effective waqf fund management in Nigeria.	Iqtishadia	Qualitative Study
21.	Wahab & Naim (2019)	Malaysian initiatives to support sustainable and responsible investment (SRI) especially through Sukuk approach.	Journal of Emerging Economies & Islamic Research	Qualitative Study

4. Results and Discussion

Importance of Sukuk for social welfare

Regarding the Islamic capital market, Sukuk, sometimes referred to as fixed-income Islamic bonds, is a useful tool for meeting the demands of potential social institutions to raise the necessary cash to finance their social development projects in ways that are allowed under Shari'ah. Additionally, by giving people the chance to join in larger investment markets, retail Sukuk can be seen as one of the most effective tools for promoting financial inclusion. Noordin et al. (2018) also made the argument that it is obviously necessary to raise money by issuing Islamic bonds in order to finance microfinance activities in the community. This would support the expansion of financial inclusion by Islamic microfinance organisations, who today face funding limitations, regulatory limits, and operational limitations (Noordin et al., 2018).

Again, in the short term, liquidity management is a crucial component of the Islamic Capital Market (ICM) because it is one of the criteria for guaranteeing the long-term survival of Islamic financial institutions (IFIs) in the financial market environment. Therefore, it is critically necessary to produce novel Shari'ah-compliant ICM products to recognise the existence of a dynamic and effective ICM. Sukuk, which are the ICM's Islamic debt instruments, are crucial for raising resources and regulating liquidity as well (Ahmed et al., 2019).

Sukuk in different Muslim countries

The Sukuk market exists in both developing and developed nations; however, developing nations like Malaysia, Indonesia, Saudi Arabia, etc., account for the largest portion of the worldwide market. These developing economies have been in a state of transition as they work to achieve modern economic growth; as a result, some of them, like Malaysia and Pakistan, have already joined the club of emerging economies, and others have been making efforts to do so. As a result, the financial climate and macroeconomic policies of these nations take on a lot more significance considering the potential impact they may have on the growth of the Sukuk market (Aman et al., 2022, Haron and Ibrahim, 2012).

In Malaysia, the government has taken various initiatives to support SRI (Sustainable and Responsible Investment), which is characterised as an investment approach that places an emphasis on combining financial return with additional social and environmental advantages (Wahab and Naim, 2019). The Securities Commission Malaysia (SCM) published an announcement on August 28, 2014, revising its Sukuk guideline to include the new criteria for the issuance of SRI Sukuk (Wahab and Naim, 2019). As explained in this guideline, SRI Sukuk can be used for initiatives that aim to improve societal quality of life, reduce greenhouse gas emissions, conserve energy, encourage using renewable energy sources, and/or maintain and safeguard the environment and natural resources. The goals of introducing SRI Sukuk included facilitating increased participation in the Sukuk market and addressing the desire of retail and investor customers for access to a wider variety of investment products. The policy also serves as a sign of the growing awareness of the negative effects that business has on the environment and society, as well as the increased pressure on companies to uphold higher standards of ethics and governance (Wahab and Naim, 2019). The first SRI Sukuk issued in ringgits was also launched by Malaysia's Khazanah Nasional Berhad to collect money for its trust school's initiative (Noordin et al., 2018).

Application of Green Sukuk is also common in Malaysia, specifically for financing renewable energy. Tadau Energy Sdn. Bhd., for instance, uses the "Hybrid Sukuk" structure to finance solar photovoltaic (PV) projects. Additionally, BEWG (M) Sdn. Bhd. has released "Sukuk Wakalah" as the best option for water treatment projects. Sarawak Hydro Sdn. Bhd. also uses "Sukuk Murabahah" to finance the hydroelectric facility (BAKUN hydroelectric project) (Rahim and Mohamad, 2018).

Sukuk issuance can make a significant contribution to the growth of waqf assets. For instance, *Sukuk al Intifa* was created to develop Saudi Arabia's King Abdul Aziz Waqf property in Makkah. The Zam Zam Tower Complex was built on waqf property with the use of the Sukuk profits (Noordin et al., 2018). Additionally, the Singapore Islamic Religious Council's Musharakah Sukuk issued to develop its waqf properties was able to boost revenue from SGD 19,000 per year in 1995 to SGD 5.3 million per year in 2006 (Noordin et al., 2018).

Use of Sukuk and Green Sukuk in Bangladesh

According to Hassan et al. (2020), the Bangladeshi market for Sukuk is seen as a stable source of alternative funding for businesses, projects, banks, and financial organisations. The Islamic money market uses Sukuk as a method for providing banks and other financial institutions with liquidity management services. Sukuk are issued in Bangladesh for shorter periods of time to support local Islamic financial institutions. The Bangladesh Bank's 2004 Islamic Investment Bond Guidelines state that Islamic bonds mature after three and six months, respectively (Hassan et al., 2020). Through an open auction, Islamic bonds are issued based on a profit-sharing ratio. Bangladesh Bank (BB) introduced a weekly Sukuk programme in 2015 to further advance Islamic finance and give local lenders a new short-term liquidity management tool (Hassan et al., 2020).

With a set rental yield of 4.69 percent per year for a five-year tenor, Bangladesh Bank issued its first sukuk bond in 2020 (Rahman, 2021). In this Sukuk, there are three parties: the borrower, investors, and a middleman who will link the investors and the borrower. When it comes to communication, the borrower, and investors in a Sukuk will both use a third party, whereas in a conventional bond, the investors will speak with the borrower directly (Rahman, 2021).

The biggest obstacles to the development of corporate bonds in Bangladesh are the high interest rates, a lack of consumer awareness, the existence of limited companies, and shifting market conditions. On the other hand, the market for government bonds is experiencing some difficulties due to the interest rate, the inflation outlook, and a poor turnover. Although Islamic banking is well-known in Bangladesh, Sukuk is not widely recognised and popular in this country due to a lack of knowledge, shorter tenures, and the existence of limited businesses (Hassan et al., 2020).

The investor philosophies, infrastructure, and economic circumstances of the nation have a considerably greater impact on the acceptance of Sukuk. Bangladesh's capital market, which lacks Shari'ah-compliant instruments and has many investors with Islamic backgrounds, is desperately in need of Sukuk to address and satisfy the comfortability of investments. Unfortunately, from the standpoint of law, regulation, and human capital, the system is not entirely prepared to tolerate such an inception (Rahman, 2021).

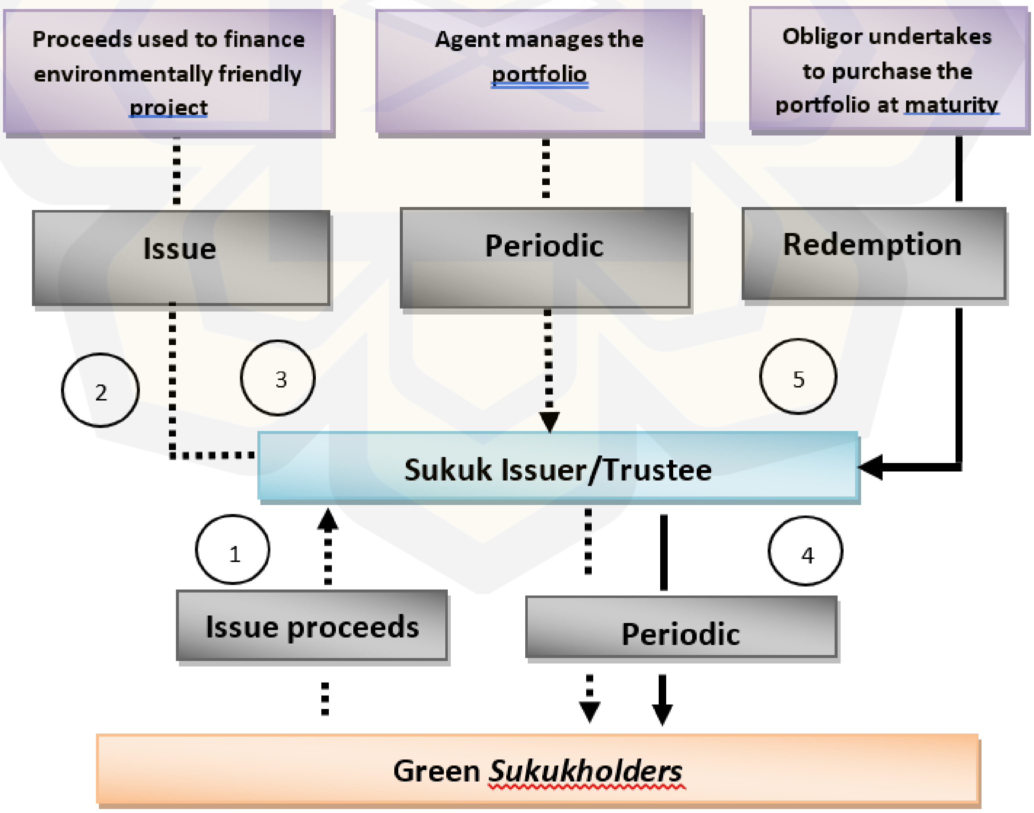
The Green Sukuk is created to satisfy the requirements for Shari'ah-compliant financial products while also being capable of aiding in the funding of important initiatives like those involving renewable energy and climate change. The implementation of a green economy, green technologies, and green energy is evidence that Bangladesh is committed to protecting the environment. It has been noted that Bangladesh is able to produce a variety of renewable energy sources, including biomass, hydropower, biogas, and bioenergy. In a nutshell, Green Sukuk provides a financing option for environmentally friendly and sustainable endeavours in Bangladesh.

A conceptual framework for Green Sukuk suitable in Bangladesh

The issuing of Green Sukuk as an alternative funding tool for green projects can be made possible by the Sustainable Development Goals, supporting the Bangladeshi government's commitment to tackling climate change. A new investor market is emerging in tandem with the general public's growing understanding of the notion of sustainable development. Investors will only put their money into "green" securities. To comply with the issuance of generally accepted principles, Bangladesh can create Green Sukuk to assist the development of green infrastructure using the World Bank's Green Bond model. Energy and waste management, climate change adaptation for disaster-prone areas, renewable energy, sustainable transportation, green buildings, green tourism, sustainable agriculture, sustainable natural resource management, and the use of clean technology for power generation are the nine green sectors that are eligible for funding or refinancing through Green Sukuk.

The conceptual framework for the implementation of Green Sukuk in Bangladesh is shown in Figure 1. Any project that aims to protect the environment should be funded, so Sukuk issuers must raise the necessary money. In this instance, it is the Sukuk issuer's duty to provide the Green Sukuk holder with returns. While the obligation holders must make a purchase commitment for the asset by the maturity date (Rahim and Mohamad, 2018).

Figure 1: Conceptual framework of Green Sukuk



Source: Rahim and Mohamad (2018)

Opportunities and challenges in implementing Green Sukuk in Bangladesh

A Green Sukuk issuance confronts several difficulties because it is a relatively new form of financing. First, the Task Force in ministries and institutions has little awareness of Green Sukuk and is unaware that the Ministry of Finance is a Sovereign Sukuk issuer. In the project planning phase, this turns into the difficulty that will be employed as underlying assets. The success of the Green Sukuk from the stage of planning, issuance, and reporting activities will be strongly supported by the Task Force members' grasp of the Green Sukuk business process. To address this issue, the goal of the issuance must be made explicit, and regulations must be put in place regarding qualifying green projects, revenues management, funds use, and reporting.

Second, to agree on the metrics used in reporting and evaluating the impact of project development, the Task Force and the Ministry of Finance must thus coordinate more closely. To satisfy the required standards, the government might take into account the function of impartial reviewers in the monitoring and reporting process. Accurate information can be provided through reporting, allowing for the making of wise investment decisions.

Bangladesh's Green Sukuk is still having trouble since the stakeholders don't know what a Green Sukuk is or how to go about making sure the project complies with the standards for green infrastructure. To strengthen the issue of Green Sukuk and the implementation of green infrastructure projects, clear regulations are still required. Furthermore, as argued by Rahman (2021), an important barrier to the development of the Islamic capital market in Bangladesh is the lack of suitable short- and long-term financing and investment tools. In addition, there is a lack of clarity in the institutional and legal framework. The market lacks qualified human capital, which brings us to our final point. As a result, using Islamic finance tools like Sukuk could be the best option for Bangladesh to handle its liquidity problem while simultaneously enhancing the effectiveness and efficiency of its capital market.

According to Keshminder et al. (2022), poor green taxonomy, a lack of compelling financial benefits, the difficulty of finding green assets, and exposure to higher-risk profiles are some of the difficulties faced in the market for Green Sukuk. Furthermore, the Green Sukuk market is still developing and still has many obstacles to overcome. Due to a lack of data, it is challenging to evaluate the functioning of the Green Sukuk market and pinpoint the problems hindering its expansion. As a result, there is not enough data in the market to say that green bonds, including Green Sukuk, provide the issuer with a higher financial return.

Green Sukuk issuance is different from issuing regular Sukuk since it carries a higher standard of governance and disclosure. The issuer is required to use a second opinion provider to conduct a "greenness" assessment. To qualify the project as green, the issuer must provide all information, including its broad aims, policies, strategies, and procedures. Before granting the green certification, difficult tasks such as environmental research, social effect research, reporting, and inquiries must be completed. The issuers claim that this procedure is expensive, time-consuming, and interferes with their project planning (Keshminder et al., 2022). Due to the varying definitions and criteria, investors find it difficult to invest in certain home markets as the demand for Green bonds and Sukuk grows on a worldwide scale, specifically in Bangladesh. As the portfolio must go through the re-labelling and re-certification procedure to be labelled green in another market, the challenge might potentially increase transaction costs.

In contrast to Sukuk and Green Sukuk, conventional bonds are structured as loans. These would be considered by the devoted Muslim investors, together with the profitability and the lowest possible risk. The genuine risk connected with the Sukuk must be addressed to make it a viable alternative to traditional bonds. Doing so will encourage more investors to invest in this Islamic financing option and help Sukuk to expand (Hasan et al., 2019). Another influential factor can be the expected rate of profitability. As found by Khan and Siddiqui (2018), due to a few factors, including religious precepts, Shari'ah-compliant instruments, and interest-free financing *(riba),* Islamic financials or Sukuk can be a very profitable source for a business.

Maqasid al-Shari'ah, SDGs, and Green Sukuk

As highlighted by Hai et al. (2021), the underlying paradigm of *Maqasid al-Shari'ah* is strongly matched with the SDGs' concept and organizational structure. The SDGs and *Maqasid al-Shari'ah* share the goal of eradicating all forms of starving, whether it be through a healthy lifestyle, nutrition, equality, decent education, social standing, or the chance to thrive. In a similar vein, both *Maqasid* and the SDGs place a high priority on preserving the sustainability of resources through the preservation of the energy, environment, water, marine, ocean, and as well as promoting economic growth, urban protection, the industrial revolution, and cooperation between all parties (Hai et al., 2021).

The preservation and protection of wealth, the movement of wealth, transparency in finance and wealth, the development and investment of wealth, the prevention of harm in wealth management and distribution, and ensuring justice in the movement of wealth are some of the goals of *Maqasid Al-Shari'ah* regarding financial transactions. The results of Al Madani et al. (2020) reveal a direct correlation between the distribution of wealth among parties and adherence to *Maqasid Al-Shari'ah*, indicating that the Sukuk or Green Sukuk instrument favourably supports the elements of *hifz al-mal* (safeguarding wealth). This suggests that everyone would profit from the investments made in Sukuk, including people, organisations, society, and the entire nation, to promote sustainable development and human well-being. Furthermore, Sukuk is a crucial method of large-scale Islamic financing for issuers, including governments, corporations, small-medium businesses (SMEs), and international organisations. It can also contribute to wealth circulation, development, and fair distribution (Al Madani et al., 2020).

Investors in Sukuk have an inherent entitlement to details about how their investments are used, the make-up of the underlying assets, and other information that would be unnecessary in traditional investments (Ahmed et al., 2019). It is predicted that there won't be any differences in the disclosure standards regarding the legitimacy of Islamic financial instruments like Sukuk because Islamic-based financial institutions have completed their operations in accordance with Shari'ah principles and regulations. Transparency in disclosures is crucial to ensuring the legitimacy and degree of Sukuk compliance with Shari'ah principle, allowing investors to make an informed investment decision (Ahmed et al., 2018).

Again, as explained by Fitrah and Soemitra (2022), the green economy must get significant support, particularly for projects involving renewable energy. This issue therefore motivates stakeholders to develop financial tools that concentrate on funding initiatives that adhere to the SDGs. Green Sukuk, an avant-garde method of eco-friendly financing, is one of the financial instruments created. Investors' growing understanding of the value of environmental preservation points to the potential for Green Sukuk issuance. The promise of the Green Sukuk is evidenced by the involvement of powerful organisations like the government and the UN in its creation. Green Sukuk can be used to save energy, protect the environment and natural resources, encourage the use of renewable energy sources, and lessen the influence of greenhouse gas emissions to fulfil the SDGs (Fitrah and Soemitra, 2022).

Conclusion

Green Sukuk is an instrument that has gained a lot of attention recently for financing climate change and promoting sustainable development. But since it is so new, this tool faces a unique set of problems that must be identified right away for the government to step in and accelerate its development. In addition, the government's and policymakers' roles are crucial in promoting Green Sukuk. Sound monetary and fiscal policy are also necessary for the development of the Green Sukuk market in Bangladesh.

The regulators, government, central bank, and institutions in Bangladesh will gain from applying the study's results to put the best solutions into practise to address the problems affecting the Green Sukuk market and quicken market growth. The results will aid in raising industry participants' awareness of the Sukuk issuing process and aid in the discovery of green resources in this nation that are not restricted to renewable energy sources. Finally, this research can significantly contribute to the literature on Islamic finance, especially in the relatively unexplored area of Green Sukuk.

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An Appraisal of Shari'ah-Compliant Commodity Options for Islamic Banks

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Abstract

This paper aims to explore the potential structures of Shari'ah-compliant commodity options that would provide better alternatives for market participants in mitigating the risks associated with economic and commercial transactions. It appraises the current commodity options practiced in the conventional market and puts forward five conceptual alternatives in structuring Shari'ah-compliant commodity options while still retaining the main purpose and benefit of commodity options. Several nominated contracts in classical Islamic literature may be used to replicate certain features of conventional commodity options. The existence of these contracts is also similar to the main purpose of the options where the risk of volatility of the future commodity price is being shared with, reduced or transferred to the third party. Among the concepts are *'urbun*, *hāmish jiddiyyah, wa'ad* and sale contract such as *istijrār, bai' al-ikhtiyār, salam* and *murabahah*. Hence, this paper offers novelty in its approach to evaluating the commodity options from Shari'ah perspective, and subsequently, put forward five alternatives that can be practiced by Islamic banks all over the world.

Keywords: *Islamic derivatives***,** *commodity, options, urbun, istijrār*

1. Introduction

One of the main goals for having commercial transactions called *muamalat* in Islam is to add value, create wealth and increase the economic well-being of Muslims in general. In attaining this goal, one must not ignore the existence of risks and uncertainties embedded in these commercial transactions. While uncertainty is random and cannot be predicted, the measurable unknown; called risk, can be controlled with appropriate measures.

In consideration that risk in economics represents a possible loss of wealth, the quantification and tools to control risk are also in line with the principle of *maqasid*; where one is required to take all precautions to safeguard present and future wealth. As such, in the financial market, the risk is mitigated through hedging. Hedging refers to a "transaction that offsets an exposure to fluctuations in financial prices of some other contracts or business risk" (Gupta, 2006, p.99) where one takes the necessary actions to reduce his exposure to possible loss of income and asset value in the future. ISRA (2011) on the other hand, defines hedging as taking an offsetting position in a derivative[1] to balance any gains or losses to the underlying assets.

In conventional finance, there are four basic types of derivatives namely, forward, futures, option and swap contracts. It is observed that most of the Islamic financial institutions (IFIs) are still operating on traditional instruments and claimed to be unable to satisfy the need of the market in terms of liquidity as well as risk and portfolio management, from the Shari'ah perspective. Several researchers have previously explored the permissibility of the use of options in Islamic finance (see, for examples; Dali, et al., 2005; Obiyatullah, 2023

[1] A derivative is a financial instrument whose value depends on the value of other, more basic variables such as grains, crude oil, palm oil, currencies or indices in the market.

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and Smolarski et al., 2006). On evaluating the challenges and prospects of Islamic derivatives, Sakti et al. (2016) provide renewed discussions on the subject matter by obtaining feedback from Shari'ah scholars from Malaysia and Singapore. Much interestingly, Chen et al. (2022) provided a new perspective on the study of volatility in the commodity market from an options view during the pandemic in China while El Hajaji et al. (2023) presented mathematical modelling of *ʿurbūn* which regarded as mirroring a call option against different asset types. However, there is still lacking in terms of discussions on the alternative structures to match the use and benefit of options that are particularly linked with commodities, particularly from the Shari'ah perspective.

Hence, this research focuses on the options derivative, particularly the commodity option, by proposing some conceptual and potential structures of commodity options which would provide better alternatives for market participants in mitigating risks associated with economic and commercial transactions, in line with the Shari'ah principles.

The next section highlights the mechanism of commodity options currently practised in the conventional market, followed by the details on the potential structures proposed for Shari'ah-compliant commodity options. The mechanism of each of the potential structures is deliberated in detail and supported with appropriate diagrams and illustrations for ease of understanding.

2. The Commodity Option Market

The commodity options market is simply a market in which producers may purchase the opportunity to sell or buy a commodity at a certain price. In the conventional market, commodity options are used to provide assurance against price declines, protect purchased products from price increases, and allow for speculation to generate profits.

Just as a farmer may purchase the right from an insurance firm to collect on a policy in case his buildings burn down, he can purchase the right to sell his commodities at a specific price if the market prices fall below the specified price. A separate market exists to purchase the right to buy commodities at a specified price if the market prices are higher than the specified price (McKissick and Shumaker, 1990).

Purchasers in this options market have the 'opportunity' but not the 'obligation' to exercise their agreement. As it is an option and not an obligation, this market is called the 'options market' with two basic types of commodity options, namely the 'call option' and the 'put option'. The 'call option' provides the holder with the right, but not the obligation, to buy the underlying commodity from the option seller at a specified price on or before the option's expiration date. The 'put option' on the other hand gives the holder the right, but not the obligation, to sell the underlying commodity to the option seller at a specified price on or before the option's expiration date. It is important to highlight that the call option and the put option are two different contracts and not the opposite of each other. A payment of premium is required to acquire this right under this option.

Let us look at an example of call options trading in wheat. If the strike price is MYR70 for a bushel of wheat, the buyer of this contract profits if the actual market price of wheat is greater than MYR70 per bushel, say MYR74. It is profitable as the call option allows this person to buy the wheat at MYR70 so he may enjoy the profit of MYR4 per bushel, aside from the ability to purchase the commodity at a lower price. However, if the market price is lower than MYR70 per bushel, then the option holder will not exercise the option but will face a minor loss for the option price, the premium that was paid upfront. On the contrary, the call seller or option seller would gain as he is attaining either the premium or the ability to sell the commodity higher than the market price. The same trade principles apply to the put option but only in the opposite direction where the buyer of the put option would profit from the downward price movement and the seller of the put option profits from the upward price movement.

3. The Potential Structures

Unlike the financial option, structuring the Shari'ah-compliant commodity option is more straightforward. Rightfully, gold, silver and currencies cannot be listed as acceptable commodities for this instrument due to their usurious (*ribawi*) nature. Suitable commodities or assets can be in other forms, such as:

a. Real estate
b. Shari'ah-approved shares
c. Crude palm oil, natural gas, plastic, copper, coal, aluminium, etc.
d. Shari'ah-compliant indexes
e. Ṣukuk (Islamic bonds)

In accordance with the previous explanation of the conventional option, a relatively similar instrument could also be structured and executed for IFIs. As an alternative, several contracts have been identified to suit the option's features which may be beneficial for Islamic financial industries.

3.1. Hybrid of either ʿurbūn or iqālah and parallel salam

Urbūn is a contract in which a deposit is paid by the prospective buyer on an item that he may purchase at a later time. Should the buyer decide not to complete the purchase, the deposit will be retained by the seller. Imam Mālik gave a general definition of *ʿurbūn*, which from his view can be used in a sale and a lease contract. It occurs when a person buys or rents an animal and says to the seller, "I will give you one dinar or one dirham or more or less and if I ratify the sale or the rent contract, the amount that I gave will be part of the total price. And if I cancel the deal, then what I gave will be for you without any exchange" (Al-Baji, n.d.). AAOIFI (2017) in its standard defined *ʿurbūn* as;

> "Earnest money is paid by the buyer to the seller at the time of at the time of contract on the basis that the buyer has the option to revoke the contract on the basis that the buyer has the option to revoke the contract during an agreed period of time. If he confirms the contract, contract during an agreed period of time. If he confirms the contract, the earnest money is credited towards the price. If he does not confirm the earnest money is credited towards the price. If he does not confirm the contract or fails to pay the remaining price during the stipulated time, the seller is entitled to forfeit the earnest money" (p 1236)

Various discussions have been held about the legality of the *ʿurbūn* concept, but the majority of contemporary scholars have accepted the concept; therefore, *ʿurbūn* may be used in the Shari'ah-compliant call and put options. However, there is general agreement among Shari'ah scholars that the *ʿurbūn* cannot be used in currency exchange or *sarf* because the delay of full payment on any of the usurious items would lead to *ribā al-nasiah* (Al-Darir, 1992; Al-Masri, 1992*)* and it is also important to highlight that from a practical perspective, *ʿurbūn* is not tradable according to Standard 53 of AAOIFI (2017).

Iqālah's terminology in Islamic law is derived from its original literal Arabic, which means a 'removal' or 'reversal'. Hence, Shari'ah scholars define *iqālah* as a means of revoking an exchange contract for both sale and *ijārah* by agreement from both parties (Hammad, 2008). The annulment of the contract must also be mutually agreed by the transacting parties. This concept theoretically may fit in the Shari'ah-compliant option in the situation where the holder of the options decided on non-exercise, he may apply the *Iqālah* concept; consequently, both parties who initially agreed with the forward sale contract agrees to withdraw and the paid deposit will be forfeited.

Salam or *salaf* literally means forward payment, but according to its Islamic lexical and juristic meaning, it is the sale of a deferred item in exchange for an immediate price, which means that it is the sale of a liability of which its characteristic is described in exchange for a price or capital sum paid in advance (Al-Zuhayli, 2003).

A simple illustration of the commodity option using these hybrid concepts is as below:

Transaction date:	28 September 2023
Buyer (option writer):	Client
Seller:	XYZ
Commodity:	Wheat
Option type:	Call option (to buy)
Expiration:	23 January 2024
Strike price:	MYR70 per bushel
Total bushel:	10,000 bushels
Urbūn payment:	MYR0.5 per bushel
Total *ʿurbūn*:	MYR5,000

For the client to hedge its position from a price increase in the next two months, he executes a so-called call option with XYZ. For that, the client needs to enter a sale and purchase a contract where he must pay an *ʿurbūn* payment totalling MYR5,000. In return, he will be able to gain an option of whether to conclude the purchase at the expiration date. In the event that the wheat market price is lower than MYR70 per bushel, the client will abandon the purchase but will lose the premium, which in this case is the MYR5,000 *urbūn* money.

Even though the above illustration seems straightforward and easy to transact, it is only perfectly suited when the transaction is direct between the buyer and the seller. Our question now is how IFIs can play their role in providing financing and hedging at the same time. To provide both functions to the client, IFIs have to act as a middleman between the two clients. The transaction is shown in Diagram I below:

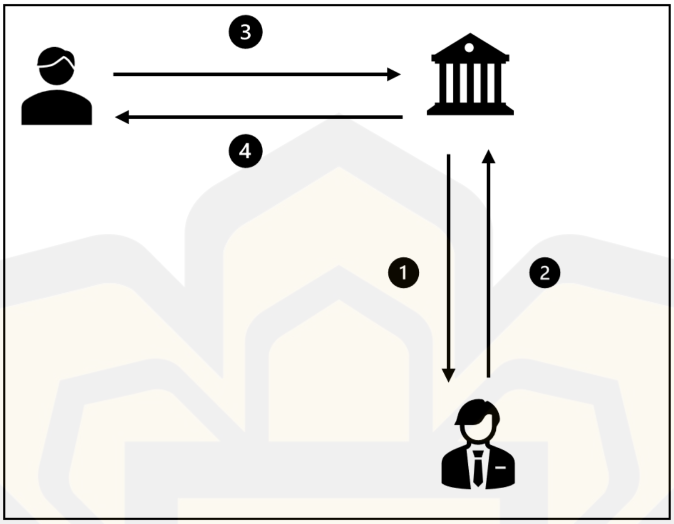

Diagram I: Hybrid of either *ʿurbūn* or *iqālah* and parallel *salam*

Explanation

1. On 28 September 2023, the client executes a *salam* contract to purchase wheat from the bank at an agreed price (MYR70 per bushel), quantity (10,000 bushels) and delivery date (23 January 2024). By the *salam* requirement, the price must be paid in full hence the client will pay MYR700,000 for a total *salam* payment to the bank. However, there will be a clause in the agreement that includes the buyer's right to call off (called *iqālah*) the purchase on the delivery date, leaving the amount of the *ʿurbūn* to the bank. The *ʿurbūn* in this regard is considered compensation to the seller (Rahman, 2014).
2. On 29 September 2023, the bank executes another *salam* purchase contract with the seller at a similar price and quantity (by way of either appointing the client to deal with the seller or by a direct deal), and the delivery date will be slightly earlier than in the first contract. As the contract is based on *salam* sale, the bank will have to channel the total payment of MYR700,000 to the seller.
3. At the expiry date, if the market price of a bushel is below MYR70, the buyer (client) will give a cancellation notice to the bank. Similar action will also be carried out by the bank to the seller. As such, both the client and the bank will receive their money except for a portion that can be regarded as compensation for the termination.
4. In the event of the client deciding to revoke the contract as the price is not in his favour, the bank will reimburse the payment less than the amount of compensation.

This structure would enable the client to hedge his position from the commodity price increase at a future date. It will also give him a choice to withdraw from the sale if the opposite price scenario occurs. The structure should also facilitate the bank to play its role as a financial intermediary in the transaction. However, it is prohibited for the bank to enable the transaction by using its own money because that would resemble a loan with interest transaction.

Despite the above description, the application of the *ʿurbūn* principle in this transaction may still trigger specific practicality issues, as well as the Shari'ah law. The practicality of the transaction might be questioned regarding how the bank will utilize the commodity before the expiry date of the client's call option. This is because transactions of commodity *murābahah* are typically executed with conventional sellers who do not possess any knowledge of Islamic law. They are just ordinary sellers listed in the London Metal Exchange

(LME); as such, if any Islamic bank requires the seller to follow the *salam*, *iqālah* and *ʿurbūn* conditions and all of their requirements, it would be a great challenge to be observed.

Moreover, most of the commodity sellers, even if the buyer is from the Bursa *Suq al-Sila'* in Malaysia, certainly would not want to expose themselves to any additional risks from the transaction. Thus, should the bank as a buyer of the commodity be required to accept the ownership of the commodity, what would the bank do with it? The bank would avoid any storage of any commodity as in practice, the commodity is hardly ever delivered to any buyer in this transaction. Hence, in an ordinary application, the bank would immediately sell the purchased commodity to another buyer for a certain price. Assuming that the client would like to conclude the purchase, the bank would liaise with the original seller to execute a completely new and immediate purchase contract for the equivalent sale price. If that happens, the whole structure will fall under the legal ruses (*ḥīlah*) category.

3.2. Hybrid of 'urbun, iqālah or faskh compensation and murābahah

In the previous structure, the parallel *salam* sale is used to purchase a specific kind of commodity, which usually is an agricultural-related product. Muslim jurists have detailed that the *salam* commodity must not be of a constructed and manufactured type, as that is the distinctive characteristic of an *istiṣnaʿ* sale. Hence, if there is an application from the buyer to purchase a completed or ready asset in the future, knowing that the price could escalate or plunge due to various external factors, *murābahah* or a regular sale could serve the purpose.

The commodity or asset in this contract could be in the form of real estates, shares, indexes, sukuk, etc. If the buyer is seeking to protect his purchase from the price risk volatility, by amalgamating any of the three principles above with the regular sale contract or *murābahah*, similar features of options could be created.

A simple illustration of the commodity option using these hybrid concepts is shown below:

Transaction date:	28 September 2023
Buyer (option writer):	Client
Seller:	XYZ
Commodity:	Land with a specific size
Option type:	Call option (to buy)
Expiration:	23 January 2024
Strike price:	MYR10 million
Compensation cost:	MYR25,000

The client is planning to purchase a piece of land at a specific venue, and it is anticipated that the land will be used for a new university campus. As such, there is a strong possibility that the price of the land will increase due to the nature of the project. However, the announcement and the project itself will only be confirmed in the next two months, by 22 November 2023. In order to preserve the land and concurrently impede other buyers from offering similar bids, the client enters into a normal purchase contract with either one of the two arrangements below:

a. First arrangement

   The full price is paid upfront, but the land ownership will be processed only after the sale confirmation on the expiration date. The transaction will consist of a particular feature, where both parties agree that the buyer has the right to terminate the contract on or before the expiration date. If by the expiration date, the buyer is not completely satisfied with the situation, he can cancel the purchase and obtain a refund of the purchase price, less a set amount. This amount will be subject to the compensation of either *iqālah* or *fasakh* (termination) law.

   Accordingly, the buyer would enjoy the benefit of assurance in price; meanwhile, XYZ can find another buyer for the land and at the same time could receive a compensation fee for the cancellation. It is believed that this structure will replicate some features of the conventional call option, but with the distinction that the buyer has already made the payment in full with the condition of reimbursement. In the conventional call option, the buyer is only required to pay the option premium at the time of the contract.

b. Second arrangement
The buyer pays part of the purchase price, which is the *ʿurbūn*, and in return, the seller acknowledges the purchase and immediately begins the ownership transfer process.

In summary, by using *ʿurbūn* and normal sale, or the *murābahah* concept, the following features would emerge:

- The price does not have to be paid in full at the beginning of the transaction.
- Only a portion of the price is paid to the seller, which is considered as the *ʿurbūn*. However, the seller is obliged to complete the transaction as and when the buyer decides, at least within a specific period of time.
- The transaction should not be considered as *bai' al-kāli' bil al-kāli'* (a sale in which both the delivery of the object of sale and the payment of its price are delayed) as the buyer is not obliged to complete the purchase. In essence, it is relatively similar to the non-binding bilateral promise.
- By the *ʿurbūn* principle, if the buyer opts not to complete the transaction, the *ʿurbūn* payment will be forfeited to the seller (Rahman, 2014).

Based on the above principle and application, the transaction should not require any financial intermediaries. This is because the buyer typically is not looking for financing from the bank as he already has the cash in place. As such, it is quite difficult to see the rationale for how Islamic banks could play their role in such cases, except as receiving and transmitting banks, comparable with the role they play in the issuance of letters of credit. The bank would obtain profit from the *wakālah* fee because its involvement in the transaction could increase the formality of the transaction and offer more security for the parties, especially when they happen to be in two different countries, for example, Kingdom of Saudi Arabia and Malaysia.

One practical issue that is worth exploring is that the above option could cause a problem as the total price will already be paid upfront, together with the *ʿurbūn*. However, in the original feature of *ʿurbūn*, there will be no total price paid at the beginning. This could mean specific practical issues, especially from the buyer's perspective because the requirement for full payment would lead to additional risks, such as difficulties of preparing the cash and obtaining the refund if the decision is made to revoke the contract.

If any financial intermediaries are interested in offering such a structure to their clients, we could also say that they will find it unrealistic because the actual purchase contract would not be suitable at the time of undertaking as the bank does not yet possess the asset; hence, it is impossible to conclude the *murābahah* sale. This will create a question: on what grounds is the *ʿurbūn* payment carried out? As a matter of fact, to apply the *ʿurbūn* principle in such a situation is unlawful. Thus, the structure may be appropriate for a direct transaction between the seller and the buyer, without the financial intermediaries, unless the original buyer or seller is the bank itself.

3.3. Hybrid of waʿad, hāmish jiddiyyah and murābahah

This concept uses the *hāmish jiddiyyah* principle. *Hāmish jiddiyyah* is a concept of a security deposit, which is paid before the conclusion of the sale contract (Rahman, 2014). Following the various resolution and juristic verdicts given by Shari'ah scholars, it is different from the *ʿurbūn* concept for two reasons:

a. *ʿUrbūn* is made at the time when the purchase contract is executed, whereas *hāmish jiddiyyah* is just like a booking fee, which is paid before the execution of the purchase contract (AAOIFI, 2007).
b. *ʿUrbūn* is regarded as part of the purchase price, whereas *hāmish jiddiyyah* is not.
c. Should the buyer decide to not proceed with the purchase, the *ʿurbūn* payment will be retained by the seller. While scholars differ in their opinions concerning *hāmish jiddiyyah*, the majority are of the view that the seller must refund the whole amount. However, several scholars discuss the issue of whether or not the seller could retain some of the amounts against an actual loss arising from the cancellation. In the light of those who allowed the actual loss, it cannot emulate the option premium as it could be more than the actual loss (Rahman, 2014).
d. Unlike the *ʿurbūn*, the price of the subject matter excludes the *hāmish jiddiyyah* amount.

Based on a similar illustration to that given above, the terms below are suggested:

Transaction date:	28 September 2023
Buyer (option writer):	Client
Seller:	XYZ
Commodity:	Land with a specific size

Option type:	Call option (to buy)
Expiration:	23 January 2024
Strike price:	MYR10 million
Compensation cost:	MYR25,000

To apply the structure, the client could pay a security deposit (*hāmish jiddiyyah*) to the seller (XYZ). Assuming that on the expiry date, 23 January 2024, the buyer withdraws its purchasing intention, the seller must refund the security deposit but retains a small portion of it as compensation for an actual loss.

There are differences in opinion concerning the repayment of *hāmish jiddiyyah*, which have already been pointed out. In summary, the majority of Shari'ah scholars seem to agree that the principle could be employed to replicate the conventional option premium.

Again, for the actual loss computation, assuming that the agreed price is $10 million if, at the time of revocation, the market price indicates $10.25 million, $250,000 would be the actual loss on the seller's part. However, if the *hāmish jiddiyyah* payment is more than $250,000, all of the surplus money needs to be refunded to the payer. With the actual loss of the seller, the Central Bank of Malaysia Shari'ah resolution states that the seller is allowed to retain the entire amount, but it is silent on whether the seller has the right to demand the remainder. The resolution also stresses that the entire treatment must be initially agreed upon by the transacting parties at the beginning of the contract (BNM, 2010).

3.4. Hybrid of baiʿ al-ikhtiyār (specification sale) and a standard sale

Previously, several writers (Al Amine, 2000; Kamali, 1997; Kunhibava and Shanmugam, 2010) have proposed *khiyār sharṭ* to be the structure in an Islamic option; but it raises debates on whether the concept could be employed for more than three days. Instead of using the contentious principle, the Mālikis School of Law has a unique type of sale, namely *bayʿ al-ikhtiyār* (Hammad, 2008), defined as:

بيع أحد شيئين أو أكثر بثمن معلوم, على أن للمشتري حق اختيار واحد منها خلال مدة محددة

Meaning: *Selling one of the two or many goods with each price of which is mutually agreed upon, but the buyer will have the right to choose the goods within a specific period.*

This type of sale is acceptable by the Ḥanafi, Maliki and certain Ḥanbali scholars (Abu Ghuddah, n.d). The Shāfi'i scholars reject the sale as the subject matter is unknown (*jahālah*) and indefinite at the time of the sale, hence they deem the sale to be void and null (Al-Nawawi, n.d; 1997). The proponents of the *ikhtiyār* sale rely on the legal reasoning evidence (*qiyās*) for it has the essence of *Khiyār al-Sharṭ*. Moreover, there are needs for such an arrangement to ease the sale transactions. Hence, Ḥanafi jurists argue that it is allowable, which is evidenced by the *istihsān*. While they admit the elements of ignorance and the unknown (*jahālah*) in the sale, they believe that the elements are trivial (*yasīr*) and tolerable, as they typically do not lead to arguments from both parties (Humam, 1898).

Illustrating an option-like structure, similar sample terms would be used:

Transaction date:	28 September 2023
Buyer (option writer):	Client
Seller:	XYZ
Commodity:	Land with a specific size
Option type:	Call option (to buy)
Expiration:	23 January 2024
Strike price:	MYR10 million
Compensation cost	MYR25,000

Firstly, two separate assets need to be identified, one is the land and the other (say a computer or any other item which is suitable to match the premium amount) will be used for the choice.

Secondly, when the client decided to purchase the abovementioned land, with the special option features, he can approach the seller (XYZ) and purchase both assets. Based on the *Bayʿ al-Khiyār* or *Khiyār al-Ta'yīn* prescriptions, the buyer will have the right to decide which asset he would like to conclude at an agreed date, which will be 23 January 2024.

Thirdly, should the anticipation occur (that is the land will be developed for a housing project for example) instead of the computer, the buyer would decide to choose the land. If the opposite occurs, the buyer concludes the purchase of the computer.

Hence, the seller will either receive full payment for the land, of which the premium cost is already priced into the purchase amount, or he will gain a minor profit from the selling of the computer, which equals the option premium payment. In this structure, replicating the effect of premium, that is by way of embedding the price of the computer as the *Khiyār al-Ta'yīn* arrangement (but the price will not be paid upfront as per the nature of premium). Instead, the price will only take effect when the client decides not to exercise the purchase of land. Consequently, he is choosing to purchase the computer. That is to replicate the effect of the premium in the conventional structure.

From a practical perspective, the only minor obstacle about the structure is that there must be an alternative asset, having the same value as the desired premium payment. However, for the structure to be suitable for the financial intermediaries' derivatives product, several practical difficulties and Shari'ah issues are anticipated. This is because the bank needs to have both assets in its possession at the time the *bayʿ al-Khiyār* takes place and this could be difficult as it would expose the bank to a new risk of ownership of both assets and having no prior knowledge as to which of the assets will be sold. Notwithstanding this fact, it is also anticipated that the bank can manage such a risk by hedging or performing a similar and parallel structure with another financial institution. As such, if the buyer decides not to choose the primary asset, it will be sold immediately to the other party.

3.5. Hybrid of 'urbūn, istijrār and murābahah

An *istijrār* sale has been defined as:

أخذُ المرءِ الحوائجَ من البيّاع شيئاً فشيئاً، ودفع ثمنها بعد ذلك

Meaning: *Taking (purchasing) necessities from a seller on an ongoing basis, and making the payment later on* (Hammad, 2008).

Al-Maṣri (2006), who summarised the definitions of *istijrār* from various scholars, concludes:

أن يأخذ المشتري ما يحتاج إليه من سلع من البائع، ويطلب منه قيدها عليه بثمن السوق، وهو لا يعلم هذا الثمن، بل يأتمن البائع عليه

Meaning: *A buyer is purchasing goods from a seller, and at the same time, asking for the price to be based on the reasonable market price even if he does not know the actual price, as he has put his trust in the seller.*

Bank Islam Malaysia Berhad (n.d.) defines *istijrār* as a contract between a supplier and a client whereby the supplier supplies a particular item on an ongoing basis for an agreed mode of payment until they terminate the contract. It is equally applicable to a contract between a wholesaler and a retailer for the supply of some agreed assets.

Scrutinising the discussion of classical Shari'ah scholars, it can be understood that the key features of the *istijrār* sale are:

a. Price and payment

- Could be made upfront or deferred to a later date.
- The price will only be known in its exact amount at the time of payment.
- The price on the purchase date will be known by the seller but not the buyer.
- The price will be tied to the reasonable market price (*Thaman al-Mithl*), but it may also be known by the buyer if the price is already stamped on the goods' package.
- The method of payment is also determined at the purchase date. The payment could be made weekly, monthly, quarterly, etc. based on the agreement.
- To secure the seller's benefit, the client will have to pay a deposit based on the '*urbun* principle. This payment plays a role in the option's premium. However, this part requires Shari'ah deliberation.

b. The rulings

The Shari'ah scholars are divided into two groups concerning the ruling on an *istijrār* sale as shown below:

- Permissible: An *istijrār* sale has been allowed by the Ḥanafi jurists based on the juristic preference (*istihsān*). A similar verdict is reached by Ibn Taymiyyah and Ibn Qayyim (Ibnu Abidin, p. 37).
- Prohibited: The majority of the Islamic Schools of Law prohibit the *istijrār* sale for containing extreme ignorance of the sale price, payment date and payment method (An-Nawawi, 1997; Al-Baji, n.d.).

Before moving forward with the practical illustration of these hybrid concepts, previously the usage of the *istijrār* principle was suggested by some scholars, among others Obiyathulla (2023). To comprehend his proposal, it is worth simplifying his example with the scenario below:

Client: Seeking short-term capital to finance the purchase of a commodity
Commodity: Raw material for construction
Islamic Bank A: Financier
Transaction date: 20 January 2023
Expiry date: 20 April 2023 (3 months from the initiation date)
Resale price: Will be determined by the bank based on the *istijrār* concept
Client's target price: MYR200,000
Option's type: Call option (right to buy) and put option

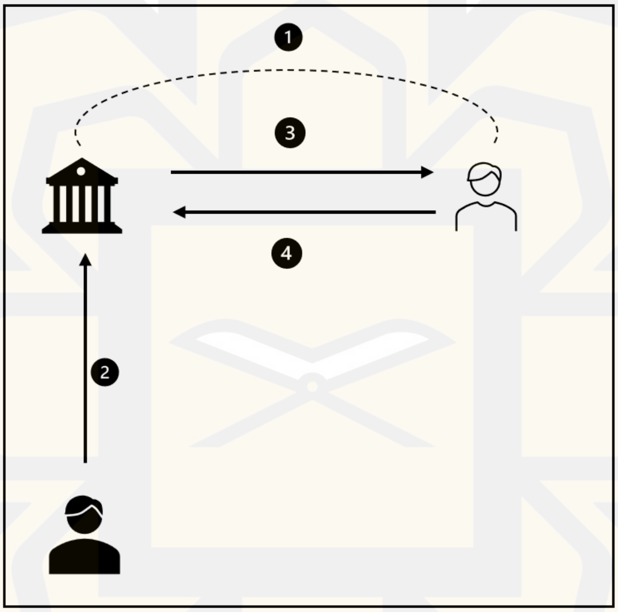

Diagram II: Hybrid of *'urbūn*, *istijrār* and *murābahah*

Explanation
1. To manage the risk, the bank only purchases the material after obtaining an undertaking to purchase from the client.
2. An Islamic bank buys an asset in the form of raw material from a third party at X price.
3. The Islamic bank supplies the material on an ongoing basis to the client at a price to be paid at a specific date in the future. The actual price will depend on the underlying price's movement from the day of the contract initiation to the day of maturity. Islamic Bank A has the option to fix the price if it falls such that it breaks the lower bound before the date of maturity (put option).
4. The client has the option to fix the price of the commodity before the maturity date if the price of the commodity moves upward to a pre-determined level (call option).

Obiyathulla (2023) later explains:

> "If the spot price at any time breaks through the upper bound, the buyer will get worried, but whether he will exercise or not depends on his expectations of the spot price over the remaining period of the contract. Should spot prices be falling such that they break the lower bound, the seller, in this case, the bank, would have the option to fix the settlement price at the market price".

Comments on the proposal and suggested improvements

By scrutinizing Obiyathulla (2023) suggestion, it is easy to find several contentious issues:

a. In the light of the *fiqhi* view, it is evident that there is an element of an *al-ʿInah* sale, which is prohibited by the majority of classical and contemporary scholars, including the AAOIFI, the OIC International *Fiqh* Academy, etc. Obiyathulla (2023) proposes that the bank should purchase the raw material from the client and resell it at either a higher price or a lower one based on the market value on the maturity date. In this paper, the authors are of the opinion that the prohibiting view is stronger, thus rejecting Obiyathulla's original proposal. As an alternative, the structure should be changed, where the bank has to purchase from the original seller directly or through the agency of the client, which would emulate the *Murābahah Li al-Āmir bi al-Shira*[2] structure, which is unanimously agreed upon the contemporary Shari'ah scholars.

b. In the light of the practical banking issue, it is not possible to resemble the option's feature as the proposal granting both parties the right to exercise, whereas it is known in the option concept that one party will have the right and the other will bear the obligation to deliver for the premium taken. However, Obiyathulla (2023) proposal is silent on the premium feature. At the end of his proposal, he also admits that the *istijrār* contract in its entirety from an option's viewpoint is complicated since it has two different exercise styles rolled into one. Such an instrument would be unusual in conventional finance.

c. It is understood that this is because the original principle of *istijrār* allows the seller to trade the asset at a market price with the client. Therefore, he suggests that both parties have the right to exercise whenever they desire, which deviates from the original concept of *istijrār*, where the buyer should already purchase the commodity without knowing the price as the past and current market price will be taken as a benchmark in the future. However, according to Obiyathulla's suggestion, the buyer's purchase is still not concluded, leaving both parties without certainty. Any inability of the buyers to settle the payment, an arrangement to postpone it or settle it with another debt can be made. It could, therefore, be regarded as *baiʿ al-kāliʾ bi al-kāliʾ*.

d. Thus, for the *istijrār* to fit the key feature of the conventional option, it may be suggested that the *ʿurbūn* is paid by the client, and in return, the bank would agree to deliver the asset as and when the client decides to exercise at an agreed price by way of analyzing the previous price and the current market price. However, the *ʿurbūn* feature cannot fit into this structure as the original concept of *ʿurbūn* is to recognize it as a part of the sale price paid by the potential buyer to the seller, who already possesses the commodity. In the given structure, the asset is not yet in the bank's or the seller's possession, thus leaving the issue of selling something before its ownership. However, such limitations are still open to *fiqhi ijtihad* and discussion.

e. One may ask that as *ʿurbūn* could not be included, what if *hāmish jiddiyyah* is used for the purpose. However, that is also not a solution as *hāmish jiddiyyah* is only a security deposit and not a sale contract.

f. Notwithstanding the above fact, the amalgamation of *ʿurbūn* and *istijrar* principles is appropriate to replicate an option only if the seller is the original seller, who possessed the commodity at the time both contracts were being transacted. Hence, for the structure to apply to Islamic financial institutions, they need to venture into additional risk and quite a drastic change regarding the commodity. As such, it is believed that some bankers would apply Obiyathulla (2023) original structure, which is based on *al-ʿInah* sale, where the bank would purchase and resell the commodity to the buyer.

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[2] A transaction where a prior promise is made *(wa'd)* from the buyer to purchase the asset from the seller, when the seller has acquired the asset from the supplier.

g. Obiyathulla's *istijrār* structure also seems to be a hybrid of financing and hedging at the same time, while the option, in general, is constructed to provide a hedging purpose only.

However, we do not see any significant problem at this point. If only the seller's issue can be resolved, for example, it is a direct transaction between the seller and the buyer of a commodity, then they could replicate the option feature by using *ʿurbūn* and *istijrār*. Diagram III presents the possibilities for both the buyer and the seller.

Following the usual possibility of the option contract, the strike price would be the target price given by the buyer, based on its anticipation. In our example, the client's target price for the material in the next three months is MYR200,000. If the market price at the option expiry date is MYR202,000, that means the price is at the higher bound for the buyer but at, the lower bound for the seller. In such a case, the client is likely to exercise, as it would be able to buy the material at a lower price; however, the client still has to take into account the premium amount. While the upper bound could save a few thousand, the premium must always be calculated.

If the market price indicates MYR199,000, the seller will be at the upper bound but has no right to proceed before any agreement from the client. As for the client, he needs to strike a balance between the lower market prices and the premium paid. If it is not worth it, the client would terminate the purchase, lose the *ʿurbūn* (as the premium) and opt for the market.

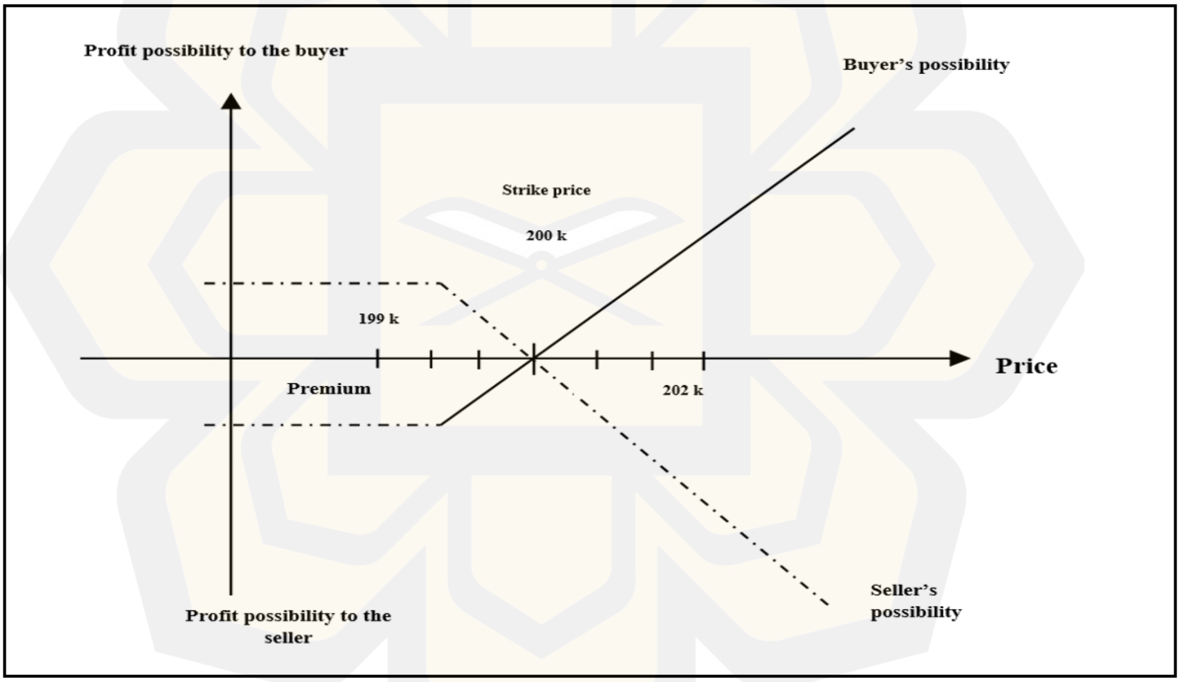

Diagram III: Proposed possibilities for both buyer and seller

In summary, it can be considered that the hybrid of *ʿurbūn*, *istijrār* and *murābahah* can be one of the alternative structures for IFIs in creating a hedging mechanism for their clients, albeit with a few additional risks. That is from the aspect of Shari'ah compliance, on the contrary, the practice of those structures from the systemic and industrial players' perspective is not discussed in this paper.

Pursuant to the above structure (Diagram III), the client or buyer would enjoy the ability to keep the future price of the desired raw material price at an agreed level, despite knowing that the market price could fall lower than anticipated (strike price), but at least it will be secured from any increase in price. Furthermore, they still can decide whether to purchase from the market at the current lower price or to exercise the purchase via the bank.

4. Conclusion

This paper explores the potential structures of commodity option that is in line with the Shari'ah principles. Based on the appraisal, several nominated contracts in classical Islamic literature may be used to replicate certain features of the conventional commodity options. The existence of these contracts is also similar to the primary purpose of the options where the risk of volatility of the future commodity price is being shared with, reduced or transferred to the third party.

In conclusion, this paper highlights and discusses five alternatives to conventional commodity options. The workflow of each of these Shari'ah-compliant commodity options are meticulously discussed about its processes, implementations, contract flows and effects but at the same time ensuring the benefits and purposes of commodity option are retained for the benefit of the market participants.

This paper offers novelty in its approach to evaluating the commodity options from the Shari'ah perspective, which would provide better alternatives for market participants in mitigating the risks associated with economic and commercial transactions.

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Shari'ah Heterogeneity of Indian Islamic Waqf Law (IIWL) and Accounting and Auditing Organization for Islamic Financial Institution (AAOIFI) Standard: A Comparative Study in Light of Classical Rulings

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Abstract

The establishment of the institution of Waqf, or Islamic endowment, was evident from the early days of Islam. Hence, the Prophet's companions (ﷺ) had established Waqf for their family members or needy people. Over some time, Waqf played a vital role in Islamic history by serving sectors like health, education, and social welfare. With the introduction of Islam in India, the institution of Waqf spread in Delhi and then to other parts. Governance of these Waqf bodies was directly managed by the royal court of the Muslim emperor. After the fall of the Mughal Empire, some acts were enacted by the British empire. Post-independence of India, new laws and acts related to Waqf were enacted, but Shari'ah observation was not the core theme of these acts. In 1972, the All-India Muslim Personal Law Board (AIMPLB) was formed, and it planned to codify *fiqh* rulings related to family matters and Waqf. This study compares the rulings of Indian Islamic Waqf Law (IIWL) with AAOIFI's Shari'ah Standard on Waqf (AAOIFI refers to: no 60, issued in 2019). To achieve this objective, the qualitative method is adopted. The study is divided into a) Introduction, b) Literature Review, c) Analysis, and d) Conclusion and Recommendation. The study highlighted 67 rulings of AAOIFI and IIWL and found five instances of Shari'ah heterogeneity where IIWL has less favourable implications, besides 22 rulings where IIWL has no stand. The study recommends revising IIWL to ensure the growth of Waqf and longer sustainability.

Keywords: *Waqf, Islamic endowment, Social welfare, Shari'ah, IIWL, AAOIFI*

1. Introduction

1.1 Waqf in Islam

Waqf is an act by the owner to refrain from any sort of disposition of what he owns by retaining the asset itself so its return for welfare to seek Allah's nearness (Al Bahūtī, 1993). There is some evidence of the practice of establishing Waqf in the pre-Islamic era. Egyptians experienced family Waqf, where an elder son of the family was not allowed to dispose of the subject land rather than disburse the revenues on his siblings. This was stated in Dahshur declaration as well (Abū Zahra, 2004). In Islamic history, among the earlier instances of family Waqf was the Waqf created by the companion Abū-Talḥa (RA) wherein he endowed his land in Bīrḥā for his family. Similarly, the companion Umar (RA) endowed his land in Khaybar to benefit poor and needy people (Al Bukhārī, 2017).

Throughout history, Waqf played an essential role in Islamic civilization by achieving social cooperation, providing healthcare, looking after schools and libraries (Majīr, 2014). Overall, Waqf can be classified as a

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charitable Waqf, family, or progeny Waqf or a combined Waqf, where it combines the beneficiaries from the family and a righteous purpose (Al Nadwī, 2014).

1.2 History of Waqf in India

Upon reaching Islam to the Indian subcontinent, Waqf bodies were established by the Sultans of Delhi. The first Waqf in Delhi was *Quwwat-ul-Isalm Masjid*, which was built by Sultan Quṭb al-Dīn Aybak in 1193 (Nadwī, 2014). It is reported that Firoz Shah Tughlaq (d. 1388) created a charitable Waqf to arrange the marriage expenses of poor girls. More than one thousand girls used to avail funds from this Waqf. Also, a Waqf was created to distribute more than three million rupees to the poor and the needy people (Barnī, 2015).

Similarly, Waqf bodies were made to contribute to the running and construction of religious schools and spending on students studying there (Al Ḥasnī, 2001). Even Waqf was made for mosques in India. Sultan Firoz Shah ordered the construction of 8 mosques in Firozabad, near Delhi, which accommodated more than ten thousand persons (Ṣalwat, 2009). India had huge Waqf to serve the need of public and private libraries (Rafīq, 1982). Also, Waqf bodies were made to serve the medical needs of hospitals, which were known as *bimāristān*. Firoz Shāh built 50 hospitals, and one of them was in Delhi, known as *Dār al-Shifā* (Barnī, 2015). Further, there was Waqf for serving the *Khānqāh* and auberge hostel (Ṣalwat, 2009). As per the current figures, there are around 1964 Waqf properties in Delhi, including mosques, graveyards, *Ṣufī* shrines, commercial places, and lands specified for Waqf (Al Nadwī, 2014).

1.3 Governance of Waqf in India

It was observed that the Muslim Sultans of Delhi aimed to achieve prosperity and development of the public by abiding with norms of social justice. The Waqf bodies were generally governed by a system which ensured that a) Waqf bodies were registered, b) the overseer used to be a person who abides by the teachings and values of Islam, c) Waqf bodies were managed in compliance with Islamic rulings, d) Waqf revenues were distributed in line with Shari'ah, e) Waqf assets were duly repaired on time, and f) to ensure running a fair and open trial for those who misuse funds intended for the Waqf funds (Al Nadwī, 2014).

During the Muslim era, Waqf bodies were managed by overseers appointed formally for the post, and they were supervised by Shari'ah-judges. A robust system of governance ensured generating good revenues. After independence from the British, the responsibility of Waqf in India was given to the government authorities instead of handing it over to Muslim organizations. The government has created the Central Waqf Council, which has various Waqf Boards in different states (Al Nadwī, 2014).

The British Government has enacted Waqf law under the Musalman Waqf Validating Act (1913). Various Waqf laws were followed either as a new law or an amendment to the previous ones. The last full-fledged act was enacted under the name of the Waqf Act (1995). It was observed that the Act deals with establishing the Waqf Board at the centre and the state level.

1.4 Islamic codification of Waqf

At a community level, the All-India Muslim Personal Law Board (MPLB) has proposed a law, or a standard, for matters related to Muslim personal law and matters of inheritance, will, and Waqf (IFA, 2002). These laws relied on the books and opinions of Ḥanafī jurists. These laws are not enacted by any government but are applied in the parallel legal system of Muslims who aim to follow the law of Shari'ah in their day-to-day life. On the other hand, AAOIFI (Bahrain), being a world-renowned and reputed Shari'ah standard body, has issued its Standard No. (60) on Waqf in 2019. Considering the diversity of AAOIFI's Shari'ah Board members, the rulings represent various schools of Fiqh. Currently, there are no studies that focus on AAOIFI's Waqf standard or conduct a comparative study with MPLB's Islamic law of Waqf. The findings will facilitate identifying the gaps in improving the Islamic law of Waqf in India.

2. Problem Statement

AAOIFI is considered the world's leading standard-setting body, which issues standards on Shari'ah, governance, and accounting. The Shari'ah Board of AAOIFI consists of renowned Shari'ah scholars from all over the world. The recent Shari'ah Standard No. (59): Waqf is a re-issuance of an earlier standard which was a result of a long debate and consideration. On the other hand, Waqf Law issued by MPLB (India) has wide-acceptance within the Muslim community. There is no research conducted a study on Shari'ah heterogeneity of AAOIFI's standard against MPLB's law. It is believed such a study will help with scope of Waqf practices among Indian Muslims.

3. Literature Review

Indian scholars have addressed Waqf's matters through various writings on *fatwā* (Al Nadwī, 2014). Among the earliest writings is *Fatāwā Ālam Gīrī*, which is also known as *Fatāwā Hindiya*, that was written on the order of the Moughal Emperor Aurang Zayb (d. 1707). The book is a compendium of pronouncements of the Ḥanafī jurisprudence, where the scholars have presented rulings from the prior references. The work was done under the supervision of Nizām al-Dīn Burhānpūrī. The book on Waqf included 14 chapters that addressed matters related to the definition of Waqf, its causes, rulings, and conditions.

Further, it has references on things which are acceptable to be subject of Waqf and things which are not. Also, it discussed Waqf with a proviso, usurpation of Waqf and Waqf declaration. The book is considered one of the earliest efforts of the semi-codification of Islamic legal rulings as Ḥanafī (Al Zarqā, 2004). Before that, Farīd al-Dīn Andarpatī (d. 786) had authored a large collection of *fatwās* on various aspects of Islamic jurisprudence with the title *Fatāwā Tatārkhāniya*. The book consisted of 20 volumes, and the 8th volume was dedicated to sale and Waqf. The book of Waqf covered all the aspects related to Waqf rulings and, overall, the book is considered one of the biggest references on Ḥanafī jurisprudence.

In recent times, Indian scholars addressed the topic of Waqf at a collective level. In 1997, the Islamic Fiqh Academy (New Delhi) conducted a three-day session on the topic of Waqf. Scholars, researchers, government officers, and legal professionals were invited to contribute to the conference. Upon the conclusion of the conference, all the presented papers were published by the Academy. The scholarly works, edited by Mujāhid al-Islam Qāsmī, included papers and articles on Waqf in the modern era, important types of Waqf in the present times, problems, and issues of managing Waqf, and assessment of the Waqf Act 1995. Towards the end, there were resolutions on Waqf with reference to India (IFA, 2016). This could be considered as the first Arabic work in modern Indian, which was the product and reflection of collective stand by religious scholars. This was followed by another session of discussion conducted by the academy in 2004. The proceedings were published in Urdu in 160 pages under the title *Mawjūda Aham Samājī Masā'il Kay Ḥal Kay Liya Waqf kī Ahamīt Aur Ṭarīqakār* (Importance of Waqf in solving current issues of Waqf and its methodology). The proceedings addressed matters related to the necessity of exercising *ijtihād* in the modern issues of Waqf, rulings on establishing new types of Waqf, and, most importantly, usage of Waqf in serving the social goals when it comes to poverty upliftment.

Contemporary Indian scholars have addressed Waqf either by writing inclusive books on Waqf or by addressing queries raised by the public. As far as dedicated books on Waqf are concerned, so there are few important works in this regard. For instance, Maḥmūd al-Ḥasan Ārif has written a 282 pages book in Urdu with the title "*Islām kā Qānūn Waqf mia Tārīkh Muslim Awqāf*." The author presented the legal framework of Waqf in Islam with detail while addressing the special or general issues which may arise in establishing and managing Waqf. Also, the book presented the history of Waqf in the Indian subcontinent. Also, Khālid Sayf Allah Raḥmānī has covered the topic of Waqf in his encyclopaedic work in Urdu titled *Qāmūs al-Fiqh*. The chapter discussed the definition and conditions of establishing a Waqf besides conditions related to appointing an overseer and his responsibilities. What makes this work on Waqf different among the works done by Indian scholars are referring to the rulings of other jurisprudence besides the Ḥanafī rulings. Considering the scenario of India, the section emphasized Waqf related to the mosques and the places of performing prayers (e.g., Eid grounds) (Raḥmānī, 2012).

Further, the author Khālid Sayf Allah Raḥmānī has addressed the rulings on Waqf via another book in Urdu called *Jadīd Fiqhī Masā'il*, wherein he particular to unprecedented matters of Waqf establishment and management. In more recent works is the Urdu book by Ẓafar Ālam Nadwī with the title *Islām kā Niẓame Waqf*. The book aimed to re-present the rulings on Waqf mentioned in the classical references to address new matters and issues. The book followed contemporary approach in presenting the rulings and making it easy for the readers to reach the required information.

On the other hand, Indian scholars responded to general queries raised by the public from time to time. For instance, Ashraf Alī Thanwī (d. 1943) complied a *fatwā* compendium titled *Imdād al-Fatāwā*, which addressed matters related to the management of Waqf like selling assets of the Waqf property to serve other purposes of Waqf (Thānwī, 1428H). Similarly, Kifāyat Allah Dehlawī (d. 1952) addressed in his *fatwā* compendium, titled

Kifāt Al-Muftī, various matters related to Islamic law. In the 7th volume, more than 250 pages were dedicated to various *fatwās* related to Waqf with focus on Waqf of mosques, Eid-grounds, graveyards, and Waqf on children. The author relied on the directives of the Qurān and Sunnah, besides referring to juristic consensus (Dihlawī, 2001). Further, Abd Raḥīm Lājpūrī presented a compendium titled *Fatāwā Raḥīmiya* which addressed matters related to Waqf of graveyards, mosques, and religious institutions of a Madrasa. The book also contains *fatwās* on the management of Waqf by non-Muslims (Lājpūrī, 2003).

In the 1970s, when Muslims of India was the target of a common civil code which aims to eliminate their juristic identity as advised by Islam, so Muslim scholars called for a convention to establish the Muslim Personal Law Board on 27th December 1972, and Muḥammad Ṭayb Qāsimī was chosen as its head (Nadwī, 1430H). In due course of time, the board has worked on a draft of Islamic law in Urdu related to marriage, divorce, gift, inheritance, and Waqf. The purpose of these laws, which were not enacted by a government, was to enable *Qāḍī* or Shari'ah-judge, i.e., Muslim judges in parallel courts, to judge various matters in line with Islamic teachings. The rulings were divided into 13 books of law, which were known individually as *qānūn*. Each law contained sections that were referred to as *dufa*, i.e., the legal section. The Waqf law presented rulings on Waqf establishment besides its management and governance. In the footnote, references were given from the classical books of *fiqh* like *Fatāwā Hindiya*, *Rudd al-Muḥtār*, and *Baḥar al-Rā'iq*. Undoubtedly, the effort is the first of its kind in India, which deserves to be classified as codification. However, it remained mostly confined to the Ḥanafī view without referring to other schools of jurisprudence. Also, the law on Waqf was confined to the physical property and gave no reference to different kinds of possible Waqf.

Considering the scholarly efforts of Indian scholars on matters and issues of Waqf, it is evident that mostly the Waqf are related to mosques, graveyards, or religious institutions. Further, the reliance is mostly made on the Ḥanafī school of jurisprudence. This kind of approach and scholarly works mark a research gap against the modern development in the thought and rulings of Waqf, which can be better understood via AAOIFI's Shari'ah Standard on Waqf.

4. Analysis

The Waqf is created by a party referred into Arabic as *wāqif* (MAIA, 2006). In this paper, the party is referred endower because endowment, also refer to "*any property belonging permanently to charity*" (Oxford, 2015). Further, the Waqf has *mustaḥiq fī al-waqf* who is a party entitled to a share in the proceeds or revenue of the Waqf (Abū Zahra, 2004). This party is referred in the present study as Waqf beneficiary. The Waqf is managed by the overseer (*nāẓir*) who leases property, collects the rental, and disburses the accumulated amount in Shari'ah-wise acceptable ways, and is also referred to as *mutawalī* (Ḥammād, 2008). The same position is also referred to as trustee (*amīn*) as well which was defined in the Indian Trusts Act as "*one to whom property is entrusted to be administered for the benefit of others*" (Aiyar, 1997).

The Waqf Law proposed by the Muslim Personal Law Board (India) (IFA, 2002) is referred in this paper as Islamic Indian Waqf Law or IIWL. On the other hand, reference to AAOIFI's Shari'ah Standard No. (60) on Waqf (AAOIFI, 2019) is referred as AAOIFI.

This section of the paper deals with the following aspects of Waqf rulings: a) creation of Waqf, b) Waqf beneficiaries, c) Waqf assets, d) governance of Waqf, and e) management of Waqf.

4.1 Creation of Waqf

4.1.1 The Endower's qualification

As per IIWL, the person who is instituting the Waqf should be believing in seeking the religious reward for the act of Waqf.

As per IIWL, the endower should be of full mental capacity and adult. AAOIFI had no reference on the age and the mental status of the endower. There seems to a juristic consensus that the endower cannot be a child. This was adopted by Ḥanafīs (Al Kāsānī, 1986), Mālikīs (Al Dardīr, 2010), Shaf'īs (Al Ramlī, 2003), and Ḥanbalīs (Al Bahūtī, 1983).

As per AAOIFI (no 60, issued in 2019), Waqf can be instituted by a non-Muslim. There was no reference by IIWL on this point because as per Ḥanafīs, a Waqf by a non-Muslim will be acceptable if two conditions are fulfilled: a) the purpose of Waqf was in itself permissible as per Shari'ah, and b) the purpose of Waqf is deemed as a religious subservience as per the religion of the endower. Hence, a non-Muslim cannot endow upon a mosque because this is not an act of subservience in his religion.

As per AAOIFI, the Waqf can be done by a legal entity or juristic person when the decision to institute the Waqf is made by its owners or those who have the right to take the decision. IIWL has no reference to this matter.

4.1.2 Enforceability of Waqf

In general, the Waqf can take effect immediately, which is referred to in *fiqh* as *nājiz*. However, if the endower wanted to put a contingent condition of affecting the Waqf, then there is a difference of opinion. IIWL does not permit stipulating such a condition. However, AAOIFI allows contingent Waqf wherein Waqf is affected on approval from a supervisory authority or effective from a future date. The view of AAOIFI is based on Mālikīs (Al Dasūqī, 2010) and Ḥanbalīs (Al Mardāwī, 1956).

As per AAOIFI, the Waqf asset can be what is subjected to the rescission option. In case the part, which has the option, affirm the contract, then Waqf will be enforceable from its inception. Otherwise, the Waqf will stand nullified. However, IIWL does not provide any reference on same subject.

As per AAOIFI, Waqf asset can be of something subject of pledge provided its enforceability is dependent on any of the following: a) the pledgee waives his rights in the pledge, b) the debt is settled, c) the pledge applies on the part over and above the debt amount, and in any of the given cases, the Waqf shall be enforceable from the time of inception. There is no reference in IILW on instituting Waqf which is subjected to pledge.

As per IIWL, the Waqf should be absolute and not a promise to institute a Waqf. Once Waqf is created, it becomes binding, which cannot be rescinded. This view is taken as per by the majority of the scholars, including Shāfi'īs (Al Nawawī, 1991), Mālikīs (Al Dasūqī, 2010), Ḥanbalīs (Al Bahūtī, 1983). However, Abū-Ḥanīfah (Ibn Ābidīn, 2003) sees that Waqf is not binding, and it can be dismissed by the endower. Although as per Ibn Ḥanbal, the merely verbal statement does not make the Waqf binding, rather its possession is necessary as the case with gift contract (Ibn Qudāma, 1997).

The endower could be on the death bed while making the Waqf. AAOIFI and IIWL, the Waqf, cannot be more than one-third of the left-over properties of the deceased. However, AAOIFI gives the endower the right to revoke it, but the same right is not possible under IIWL.

4.1.3 Duration of Waqf

As a principle, the Waqf should be perpetual as viewed by AAOIFI and IIWL. This view was in line with Ḥanafīs (Ibn Ābidīn, 2003), Shāfi'īs (Al Sharbīnī, 2000) and Ḥanbalīs (Ibn Qudāma, 1997). However, AAOIFI also permits a temporary Waqf provided it a) the period is specified or b) bound by a condition. In case the period has elapsed, or the condition is met, then the Waqf asset is returned to its owner or his heir. This view was in line with by Mālikīs (Al Dasūqī, 2010) and an opinion by Ḥanbalīs (Al Mardāwī, 1956).

4.1.4 Purpose of Waqf

As per IIWL, the Waqf can be done on a thing that can be used, as per the customs, by rich and poor people. This includes mosques, hospitals, or auberge hostels. On the other hand, there is no reference by AAOIFI for such a generalization. Mālikīs (Al Dasūqī, 2010) and Shāfiīs (Al Sharbīnī, 2000) opined that the Waqf could be dedicated specifically for the rich. However, Ḥanafīs do not allow Waqf, where the beneficiaries are exclusively the rich. Rather it can be stipulated that it's for the rich followed by the poor people (Ibn Ābidīn, 2003). Even Ḥanbalīs (Al Bahūtī, 1983) does not permit the exclusive beneficiary to be a group of rich people.

As per AAOIFI, the cause of Waqf could be absolute (*muṭlaq*), so it will be disbursed in the charitable causes as found suitable by the overseer or the judge. IIWL did not refer to a case of absolute Waqf where a particular beneficiary is not mentioned. As per the majority of the jurists, such a Waqf is valid (MAIA, 2006). As per Abū Yūsuf, the poor shall be the beneficiary of such a Waqf (Al Burhānpūrī, 2000). Whereas Mālikīs advised considering the local customs at the time of instituting a Waqf. Hence, if generally, people disburse the Waqf for a group of students, then the same will be followed. Otherwise, it will be disbursed to the poor (Al Dasūqī, 2010). Ḥanbalīs advised considering the sequence and percentage of inheritance distribution (Al Bahūtī, 1993).

As per AAOIFI, it is prohibited if the purpose of Waqf was non-permissible, and it shall be substituted by a permissible cause. IIWL has no reference to the same. Ḥanafīs advised that the purpose of Waqf which is not an offering, pursuant to the religion of the endower, then it shall not be validated as Waqf. Hence, Waqf on the mosque by a non-Muslim will not acceptable (Ibn Ābidīn, 2003). Ibn Rushd opined that Waqf by non-Muslims on the worshipers of the church would be void because it's disobedience, as per Islam, but Waqf can be instituted by a non-Muslim for repairing the church and providing treatment to the injured and patients of the church (Ibn Rushd, 2012).

4.2 The Waqf beneficiary

As per AAOIFI, the Waqf beneficiary should be a permissible entity. For example, Waqf to exclusively benefit a bar is prohibited. It is found that Mālikīs does not recognize a Waqf by a non-Muslim for a church because the purpose is not a recognized offering as per Islamic teachings (Al Dasūqī, 2010). Shāfiīs (Al Sharbīnī, 2000) and Ḥanbalīs (Al Bahūtī, 1993) permit Waqf to a utility of a church which is used by Muslims as well as non-Muslims like the public passage.

As per AAOIFI, the endower could name himself as the first beneficiary of the Waqf and then other charitable causes (AAOIFI, 2019). IIWL did not refer to making the endower a beneficiary, but it allowed the endower to make use of the Waqf asset either partially or fully during his lifetime if the same was stipulated. As per Mālikīs (Al Dasūqī, 2010), Shāfiīs (Al Sharbīnī, 2000), and Ḥanbalīs (Al Bahūtī, 1993), the person who owns something cannot make himself as an endower for the same. However, as per Ḥanafīs (Ibn Ābidīn, 2003), such a stipulation is permissible.

IIWL recognizes the Waqf for the benefit of the family or the relatives of the endower. Further, AAOIFI permits the stipulation of preferential entitlement among the Waqf beneficiaries based on the marriage, financial or physical status. Ḥanafīs permitted selecting a group of poor as the Waqf beneficiaries (Ibn Ābidīn, 2003), and it is permitted to prefer a particular person in the distribution or in the entitlement (Al Ṭarābulsī, 1981).

4.2.1 Discontinuation of Waqf beneficiary

As per AAOIFI, it is valid if the Waqf beneficiary was an entity that is intermittent, and upon discontinuation, the Waqf money can be disbursed on charitable causes which have similar nature. For example, the endower may stipulate that Waqf income is spent on pilgrims coming from a particular place or country. In case pilgrims did not come from that country, then Waqf funds can be spent on other country pilgrims or same country pilgrims performing *Umrah*. Although, the opinion of Ḥanafīs (Ibn Ābidīn, 2003), Mālikīs (Al Dasūqī, 2010), and Ḥanbalīs (Al Bahūtī, 1993) was to disburse the amount on the poor if the first beneficiary is no longer available. There is no reference in IIWL about such a case.

As per AAOIFI, if Waqf beneficiary is no longer available, then the overseer may disburse the Waqf proceeds into the following sequence: a) to disburse in the relevant channels as specified by the endower, b) to disburse in similar kind of channels, and if nothing is available, then it shall be disbursed in general welfare purposes. IIWL did not make the reference to such a scenario. As per Ḥanafīs, it is required to mention a final beneficiary that has a perpetual nature. Although, Abū Yūsuf has two views if the beneficiary is no longer existing: a) the endower will resume ownership of the Waqf asset, or b) after non-existence of the nominated beneficiary, Waqf will be for the poor due to the perpetuality nature of the Waqf (Ibn Ābidīn, 2003). Mālikī differentiates between perpetual and timed Waqfs. Hence, for perpetual Waqf, if the beneficiary is no longer existing, then the close relatives of the endower shall be declared as the beneficiary of the Waqf with entitlement in line with the share in the inheritance distribution. However, for timed Waqf, the ownership of the Waqf will return to the endower or his heirs (Al Dasūqī, 2010). Ḥanbalīs have the same view as the view of Mālikīs in the perpetual Waqf (Al Bahūtī, 1993). The treatment Shāfiīs have two opinions that a) the Waqf continues, and the beneficiaries shall be the close relatives of the endower based on their needs and not based on the inheritance, and if no relatives are there, then the ruler may disburse the proceeds of Waqf for the general welfare, or b) the Waqf will discontinue by disbursing the proceeds to the poor and needy (Al Sharbīnī, 2000).

4.3 The Waqf asset

4.3.1 Ascertainment of Waqf asset

IIWL and AAOIFI require that the Waqf asset should be known. However, AAOIFI permits Waqf over an asset that will devolve into its knowledge (*ya'uwul ilā ilm*). As per Ḥanafīs, the Waqf asset should be known (Ibn Ābidīn, 2003). Similarly, Shāfiīs (Al Sharbīnī, 2000) and Ḥanbalīs (Al Bahūtī, 1993) required the Waqf asset to be specific. However, Mālikīs permitted to stipulate contingency in ascertaining the Waqf asset wherein the endower stipulates that if a particular house was owned by him, then it shall be Waqf, but contingency cannot be open-ended (e.g., owning any house) (Al Dasūqī, 2010).

As per AAOIFI, it is not necessary that Waqf asset is existing at the time of creation of Waqf. For example, fruits of coming seasons can be subject of Waqf. IIWL did not refer to this scenario.

4.3.2 Types of Waqf asset

As per AAOIFI, the Waqf asset should be an appraisable property (*māl mutaqawim*). As per Ḥanbalīs, it is not valid to institute Waqf on anything which does not qualify to be subject of sale like a dog, pig or other predators which are not meant for hunting (Ibn Qudāma, 1997). One opinion of Shāfiīs permitted Waqf over trained dog but not otherwise (Al Sharbīnī, 2000). However, Mālikī permitted Waqf of something owned by the endower even if it cannot be sold like skin of slaughtered animal, hunting dog or a ran away slave (*abd ābiq*) (Al Dasūqī, 2010). IIWL did not refer to this point because Ḥanafīs (Al Zaylaī, 2002) do not permit Waqf of movable assets on a standalone basis.

As per AAOIFI, the real estate can be a Waqf asset, and this includes even movable items which are placed at the real estate for permanent fixing (*itiṣāl qarār*). The same view was taken by IIWL. There is a juristic agreement to accept Waqf of immovable properties (MAIA, 2006).

As per AAOIFI, any movable item, whether it was a physical property (vehicle, machinery, tools, production equipment) or intangible property (websites and digital websites), can be subject to Waqf. This view is in line with the view of Mālikīs (Al Dasūqī, 2010), Shāfiīs (Al Sharbīnī, 2000), and Ḥanbalīs (Al Bahūtī, 1993) where Waqf of any kind of movable thing was permitted. However, as per IIWL, Waqf of a movable property will be valid only for those things which have a custom of doing a Waqf on them. Hence, if a movable thing is rarely subjected to Waqf, then its Waqf will not be valid. As per Ḥanafīs, movable property cannot be purposefully a subject of Waqf. However, as per Muḥammad b. Ḥasan (a prominent Ḥanafī scholar), it was permitted to accept Waqf of movable if its Waqf was a custom among the people (Ibn Ābidīn, 2003).

As per AAOIFI, the Waqf asset can be over usufruct by its owner, so a lessee can do Waqf of the lease usufruct provided the period of Waqf is no longer than the lease period. Also, Waqf can be done on permissible moral rights (e.g., publication and patent rights) wherein the endower does Waqf over the proceeds or usage of the same. This is in line with Mālikīs view (Al Dasūqī, 2010). IIWL did not address this point. As per Ḥanafīs (Ibn Ābidīn, 2003), Shāfiīs (Al Sharbīnī, 2000) and Ḥanbalīs (Al Bahūtī, 1993), Waqf has to be of a physical property (*ayn*) and not of usufruct.

As per AAOIFI, the Waqf asset could be cash where it can be used in any of the ways like a) investment in a permissible way and disbursing the proceeds for the purpose of Waqf, or b) extending permissible loans. As per Ḥanafīs (Ibn Ābidīn, 2003) and Mālikīs (Al Dasūqī, 2010), Waqf over cash for extending a loan and returning its substitute (*badal*) is permitted. IIWL has no reference of cash Waqf. As per the view adopted by Shāfiīs (Al Sharbīnī, 2000) and Ḥanbalīs (Ibn Qudāma, 1997), such a Waqf is invalid.

4.3.3 Ownership of Waqf asset

As per AAOIFI and IIWL, the endower should be the owner of the Waqf asset. The ownership could be final (*bāt*) or ancillary (*tābi*) like instituting Waqf over dividends of the shares which are owned by the endower.

As per AAOIFI, the owner, who took the ownership in a prohibited way, cannot institute Waqf over the same. The owner is supposed to do charity of the same. Further, if the property was a seized asset, then the restitution (*radd al-ḍamān*) should take place by returning the seized asset to its legitimate and original owner. As per Ḥanafīs (Al Burhānpūrī, 2000), if the usurper purchased the seized land from the seized party after instituting a Waqf, then the prior Waqf stands invalid.

4.4 Governance of Waqf

4.4.1 Stipulation by the endower in Waqf

As per IIWL, any stipulation made by the endower in the Waqf is considered as valid as undisputed text (*naṣṣ*). Hence, the Waqf shall be governed according to the stipulation, but a Shari'ah-judge may institute a change in the Waqf which does not miss out the purpose of the Waqf. As per AAOIFI, the endower may stipulate any condition and it should be abided by provided a) the condition is not against Shari'ah, b) it does not prevent any rulings of Waqf. The prevailing customs may be observed while understanding the conditions stipulated by the endower. These types of conditions are referred as valid conditions (*shurūṭ ṣaḥīḥa*) and are accepted by

Ḥanafīs (Ibn Ābidīn, 2003), Mālikīs (Al Dasūqī, 2010), Shāfiīs (Al Nawawī, 1991), and Ḥanbalīs (Ibn Qudāma, 1997).

As per AAOIFI, it is voided to stipulate in the Waqf a) a condition which is prohibited (e.g., depositing the Waqf proceeds in an interest-bearing account or extending conventional financing to invest cash Waqf accounts), b) a condition which adversely interferes with the Waqf (e.g., non-removal of the overseer despite any reason), c) a condition which poses as an obstacle to the interest of the Waqf (e.g., paying the beneficiary at the cost of necessary repairs). As per Ḥanafīs, a condition of no dismissal of the overseer in any case would be void, but the Waqf is valid (Ibn Ābidīn, 2003). Similarly, as per Mālikīs (Al Dasūqī, 2010), a condition of paying the beneficiaries at the cost of repairing the Waqf asset would be void.

4.4.2 Qualification of the Waqf overseer

As per IIWL, the overseer should be Muslim. As per Ḥanbalī, if the Waqf beneficiary is a Muslim or it's a mosque, then it's required that the Waqf overseer is Muslim (Al Bahūtī, 1983). This condition was not referred to by AAOIFI. As per Ḥanafīs, Islam is not a condition for the overseer (Ibn Ābidīn, 2003). As per IIWL and AAOIFI, the overseer should have mental capacity (*aqil*) and attained the age of adulthood (*bulūgh*). The jurists have agreement on both conditions (MAIA, 2006).

As per IIWL and AAOIFI, the overseer should have moral probity (*adālah*). As per one view of Ḥanafīs, this condition is a preferential condition (*sharṭ awaliya*) and not for the validity of the Waqf (Ibn Ābidīn, 2003). As per IIWL and AAOIFI, the overseer should have the administrative skills and capabilities to manage the trust (*kifāya*). As per AAOIFI, the overseer could be anyone, either a juristic entity or a natural person.

4.4.3 Selection of Waqf overseer

As per IIWL, the right of selecting the Waqf overseer is given, consequently, to the endower, the administrator, the beneficiaries of the Waqf, religious and aware residents of the area, and then to Shari'ah-judge. Hence, the primary right of appointing an overseer remains with the endower, but if the endower did not select one party, then he shall be considered as an overseer. On the other hand, based on AAOIFI, if the overseer was not selected, then the relevant authorities may select one. As per Mālikīs (Al Dasūqī, 2010) and Ḥanbalīs (Ibn Qudāma, 1997), if no overseer was selected, then the ruler shall appoint an overseer for non-specific beneficiaries. In case the beneficiary was specific and adult, then the beneficiary shall be appointed as an overseer. In case the beneficiary was a minor, then his guardian will be appointed as an overseer. As per Ḥanafīs, the overseership is given to the endower, then to the administrator, and then to the ruler (Ibn Ābidīn, 2003). As Shāfiīs, the judge has the right to appoint someone as an overseer in this case (Al Sharbīnī, 2000).

As per IIWL, the endower can appoint one or more overseers for the period he finds suitable. The endower may stipulate the consecutive turns for overseers' periods. When a Waqf has more than one overseer, requires joining decision by both of them. This view is in line with Shāfiīs (Al Sharbīnī, 2000), Ḥanbalī (Al Bahūtī, 1993), and Abū Ḥanīfah (MAIA, 2006). This view was not mentioned in AAOIFI. As per Abū Yūsuf, both the overseer has the right of disposition individually (Al Ṭarābulsī, 1981).

4.4.4 Fee for the Waqf overseer

As per IIWL, the endower, his representative, or Shari'ah-judge may fix a fee for the overseer. As per AAOIFI, the fee for the overseer can be fixed or a percentage of the Waqf proceeds. As per Ḥanafīs (Ibn Ābidīn, 2003), Shāfiīs (Al Sharbīnī, 2000), and Ḥanbalīs (Al Bahūtī, 1993), if the endower fixed the fee for the overseer, then it can be more than the market rate (*ujrat al-mithal*). However, as per Mālikīs, the fee for the overseer is left for the estimate of the judge and the endower and not necessarily to be linked to market rate (Al Dasūqī, 2010).

As per AAOIFI, if the relevant authorities found it suitable, then they may revise the fee. As per IIWL, if the overseer was not allotted a fee by the endower or relevant authorities, then the overseer shall be entitled to the market rate. As per Ḥanafīs (Ibn Nujaym, 1997), if the judge fixes the fee for the overseer, then it cannot be more than the market rate. As per AAOIFI, the fee of the overseer shall be deducted from the proceeds of the Waqf asset. The same view is adopted by the majority of jurists (MAIA, 2006). As per Ibn Attāb, it was opined that the overseer's fee would be deducted from *Bayt al-māl* (Al Ḥaṭṭāb, 2010). The source of deducting the overseer's fee was not stated in IIWL.

4.4.5 Revocation by endower's death

As per IIWL, if no specification was made for the period of the service to be provided by the overseer, then upon the endower's death, the position of overseer is dismissed. In other cases, upon the death of the endower, the administrator has the right to nominate an overseer or manage the Waqf asset on his own. In case the administrator did not keep the period of appointing the overseer open-ended, then, upon the death of the administrator, the overseer is dismissed. If the endower appointed someone as administrator and another party as overseer, then upon endower's death, both the parties will be jointly performing the job of overseer.

4.4.6 Dismissal of the overseer by the endower

As per AAOIFI, the endower may dismiss the overseer in the following cases: a) the right of revocation was stipulated in the Waqf deed, b) revocation was in the interest of the Waqf, or c) misconduct or negligence from the overseer. As IIWL, the endower can dismiss the overseer from his position provided Shari'ah-judge has not given a judgment in maintaining his position. As per Ḥanafīs, if the endower has stipulated that he and his children will have the authority to dismiss the overseer, then it would be permitted for the endower to dismiss the overseer anytime. However, if no authority was taken, then the overseer represents the beneficiaries of Waqf (Ibn Nujaym, 1997). As per Shāfiīs (Al Sharbīnī, 2000) and Ḥanbalīs (Al Bahūtī, 1993), if the initial overseership was given to the endower, then the overseer can be dismissed by the endower, otherwise it will not be possible. As per Mālikīs (Al Ḥaṭṭāb, 2010), self-appointment by the endower is not permitted. Hence, revocation of the overseer should be by Shari'ah-judge.

4.4.7 Appointment by Shari'ah-judge

As per IIWL, Shari'ah-judge may appoint an overseer in cases like a) the endower is alive, but neither shows interest in the Waqf asset nor appoints someone as an overseer or b) the endower died but did not name as Waqf overseer or administrator of the inheritance.

4.4.8 Dismissal of the overseer by the judge

As per IIWL, a Shari'ah-judge may appoint a protector above the overseer based on the overseer's breach of trust. By this appointment, the overseer has no liberty in his decisions. Otherwise, he may make decisions as he finds them suitable.

As per AAOIFI and IIWL, if the overseer commits negligence and misconduct, then the judge/Shari'ah-judge or relevant authorities may dismiss the overseer who was appointed by the endower, another Shari'ah-judge, or another relevant authority. This view is in line with Ḥanafīs (Ibn Ābidīn, 2003), Mālikīs (Al Ḥaṭṭāb, 2010), and Shāfiīs (Al Sharbīnī, 2000). However, as per Ḥanbalīs (Al Bahūtī, 1983), the judge may dismiss the overseer even without misconduct by the overseer. As per IIWL, an overseer, who was appointed by the endower of the administrator, cannot be dismissed by the judge with no valid Shari'ah grounds. However, an overseer, who is appointed by a Shari'ah-judge, can be dismissed by another Shari'ah-judge.

4.4.9 Resignation of the overseer

As per AAOIFI, the overseer may resign by himself provided informing the endower and relevant authorities by a sufficient period. There is no reference in IIWL about the same.

4.4.10 Responsibilities of the overseer

As per IIWL, the overseer has the responsibility of presenting the accounts of the Waqf to a) the endower, b) the parties who are benefiting from it, c) residents of the area who have an understanding of things and are religious, or d) Shari'ah-judge. Further, as per AAOIFI, the overseer is supposed to make independent accounts of the Waqf asset.

4.4.11 Dissolution of Waqf

As per AAOIFI, the timed Waqf stands dissolved by the end of the period. However, if the Waqf was subjected to total loss, then it stands dissolved whether it was timed, bound by the condition, or perpetual. As per Ḥanafīs, if the place of worship is no longer usable, then either it shall return to the original owner or sold off and proceeds given to other mosques. However, for investment Waqf, it will remain a Waqf, and its revenue, even if it was less, will be disbursed to the beneficiaries (Ibn Ābidīn, 2003). Similarly, as per a view of Shāfiīs, if the Waqf asset was lost with no human cause, then Waqf will return to the endower (Al Sharbīnī, 2000). As per Ḥanbalīs, Waqf continues in its nature and does not return to the endower (Al Bahūtī, 1983).

4.5 Management of Waqf

The overseer is supposed to manage, repair, develop, and invest the Waqf asset. As per IIWL, the Waqf beneficiaries can make use of the Waqf asset through its income or usufruct by retaining the Waqf asset. However, if the Waqf asset cannot be of use by simply retaining it, then it should be deployed in business, and the revenue generated will be used.

4.5.1 Loan facilities

As per IIWL, the overseer cannot take a loan on behalf of the Waqf even if it was in the interest of the Waqf. In case the loan was availed, then the overseer is individually liable for the settlement of the loan amount. As per AAOIFI, for a Waqf of physical properties, the debt can be availed by the Waqf either in the form of a permissible loan, credit sale, or obtaining Shari'ah compliant financing provided this debt was taken for: a) something which is needed for the base of the Waqf and its sustainability (like debt to maintain or construct the Waqf), b) settlement of financial obligations due on the Waqf (e.g., payment of electricity bills or salaries of the staff). However, if the debt was taken for a purpose that serves an additional interest but not the main one, then taking such a debt is not permissible for the Waqf unless the endower stipulated availing such kind of debts provided the proceeds of the Waqf can service the financing and settle them. In the case of the investment funds, it is permissible to enter into debt facilities provided it was as per the commercial norms and observing the interest.

As per AAOIFI, the Waqf property cannot be given on loan, and the Waqf cannot be the guarantor of other's debts unless a) it was stipulated to do so by the endower, b) it was among the purposes of the Waqf (e.g., cash waqf), or c) it achieves the interest of the Waqf with the permission from the relevant authorities.

4.5.2 Pledge of the Waqf asset

As per AAOIFI and IIWL, for physical property Waqf, it is not permissible to pledge the Waqf asset even if it was permissible to enter into debt by the Waqf. Further, as per AAOIFI, in the investment Waqf, it is permissible to pledge the Waqf assets for the purpose of issuing the bank guarantee or letters of credit.

4.5.3 Sale of the Waqf asset

As per IIWL, the Waqf property cannot be subject to the sale, bailment, or substituting it with another pledge. This comes in line with the principle that the Waqf asset is no longer owned by the endower.

4.5.4 Lease of the Waqf asset

As per AAOIFI and IIWL, when the Waqf property is leased so it should be, at least, against the market rent of it, unless there was an evident. In case the rent was considerably lower than the market rate, then the overseer remains liable for the shortfall. Further, as per AAOIFI, the overseer may ask the lessee to terminate the lease unless agreed for the increase also, if the market rate has increased, so the overseer should have the right to terminate the lease.

As per IIWL, if the lessee made use of the Waqf asset or retained its possession, despite the lease turning void, so he is obliged to pay the market rent for the period he retained the property. The same treatment applies if the Waqf property was retained by a usurper for a period of time.

As per IIWL, the overseer has to abide by a period of lease as specified by the endower while leasing the property or the land. In case no period of lease was specified, then the Waqf asset cannot be leased for a period longer than a year. As per AAOIFI, the lease cannot be for a period that is considered long as per the customs of the people.

Despite the restriction on a long period of lease. However, both the laws were permitted to lease for a long period. As per IIWL, if the lessee cannot benefit from the Waqf asset within a year, then based on the ruling of Shari'ah-judge, the lease could be for a period of up to three years. The overseer may extend the lease of the land by a time when the crops can be harvested, provided the rent paid to the Waqf is equal to market rate. Further, it can be extended provided the ownership of the Waqf is not compromised due to the longevity of the lease period. This also includes not giving permission to the lessee to construct. Similarly, AAOIFI permitted a long lease period if there was an evident, provided a) the lease is linked to a known and ascertained benchmark, b) the rent is not less than the market rate.

4.5.5 Substitution of Waqf asset

Substitution (*istibdāl*) of the Waqf asset, which is in the form of real estate, was permitted by AAOIFI and IIWL. As per IIWL, the subject asset must have become redundant of no use for the beneficiary provided it was done after seeking permission of a Shari'ah-judge so as proceeds of the existing Waqf asset will be used in buying a similar real estate. Similarly, if the Waqf asset was the income generated from the real estate so the redundant real estate could be sold off. On the other hand, AAOIFI specified certain conditions for substitution which are a) substitution was permitted as per the stipulation made by the endower, b) if the utilities of Waqf are no longer functional or the usufruct cannot be used, c) if the grouping of the redundant Waqf assets will result in revitalizing them, d) if there is an evident Shari'ah interest which cannot be attained without substitution, e) the substitution is done pursuant to the approval from the relevant authorities or *Fatwa*, and f) if the Waqf asset is investment Waqf which is substituted as per the norms and customs.

As per AAOIFI, the Waqf asset should be substituted if the subject matter became non-Shari'ah compliant like permissible shares become non-Shari'ah compliant. In case the overseer demanded the Waqf asset, which is a common share of an indivisible asset, then the refusing party shall be forced to sell, and the proceeds of the sale will be deployed in a similar kind of Waqf assets.

As a result of selling off the Waqf asset, a substituting asset must be purchased out of the proceeds of the substituted asset. As per IIWL, substituting should be less costly with more returns. As per AAOIFI, the substituting asset should not be less valued than the substituted asset or generates less income. The action of purchasing the substituting asset should be immediate with no delay.

4.5.6 Income and expenses of Waqf asset

As per IIWL, the income generated from a property bought out of Waqf income should be spent on Waqf expenses. As per IIWL and AAOIFI, the income of Waqf should be spent on what protects and preserves the foundation of the Waqf asset. As per IIWL, the Waqf custodian or the Shari'ah-judge have the choice to decide whether repair of the Waqf asset is preferred over the expenses. AAOIFI further mentioned the sequence of spending as follows: a) honouring obligation of Waqf (i.e., expenses to the workers and relevant parties dealing with Waqf), and b) disbursement channel as per the endower's stipulation.

4.5.7 Investment and sale of Waqf income proceeds

As per AAOIFI and IIWL, Waqf income can be invested so it may not be part of income distribution to its beneficiaries provided a) it was allowed as per the stipulation by the endower, or b) it was made during the waiting period for income distribution. It should be ensured that efficient measures were taken into consideration while investing the income of Waqf. This was not referred to in IIWL but was permitted to sell a property that was bought out of the Waqf income provided the purposes of Waqf are taken into consideration.

4.5.8 Disbursement of Waqf income

As per AAOIFI and IIWL, the income generated should be as per the manner specified by the endower. As per IIWL, if the purpose is not existing from the inception of Waqf or ceased to exist, then the income shall be disbursed in the charity on the poor. Further, as per AAOIFI, if a surplus remained after distributing the Waqf income to its beneficiaries, then it will be subjected to the following: a) investment as given in 4.5.7, b) disbursed in welfare channels similar to the original ones, or c) disbursed in general welfare channels.

4.5.9 Use by the Waqf beneficiary

As per AAOIFI, the beneficiary may use the usufruct of the Waqf asset as he finds it suitable either by using it by himself, giving to others, or leasing it. However, if the endower restricted a particular usage, then the beneficiary cannot make such use.

5. Conclusion and Recommendation

Over several decades, Indian scholars made various scholarly contributions, in Urdu and Arabic, concerning the rulings on Waqf. Waqf Law by All India Muslim Personal Law Board was an effort to codify Waqf's rulings in accordance with Islamic jurisprudence. The study compared the rulings of IIWL with AAOIFI's Shari'ah Standard of Waqf on the five major areas: a) creation of Waqf, b) Waqf beneficiary, c) Waqf asset, d) governance of Waqf, and e) management of Waqf. The study highlighted 67 rulings of both AAOIFI and IIWL and found 21 instances of Shari'ah homogeneity. The areas which had the most instances of Shari'ah homogeneity were i) overseer's qualification, and ii) fee for the overseer and iii) lease of the Waqf asset. The study found 11 instances where AAOIFI had no rulings against IIWL's stand. Most of these rulings were found in the dismissal of the overseer. The study found there are 22 instances where IIWL had no stand against the revealed position of AAOIFI. Most of these rulings were in the area of i) Waqf beneficiaries and ii) Waqf assets.

Further, the study found five instances of Shari'ah heterogeneity, which were mostly related to the duration of Waqf, knowledge of the asset, type of Waqf asset, religion on the endower, and availing loan by the Waqf. Only in one case, IIWL stands more favourable for the Waqf institution wherein the endower may dismiss the overseer. By looking at the classical rulings, it is evident that IIWL restricts, up to a large extent, in applying rulings of Ḥanafī jurisprudence. However, AAOIFI takes into consideration various rulings which contribute positively to higher growth, better governance, and longer sustainability of the Waqf institution.

The study recommends that AIMPLB may reconsider the rulings which are not addressed in the Waqf Law. Further, it can consider the opinions of other jurists when it comes to temporary Waqf, Waqf of movable items, Waqf of cash, and Waqf by a non-Muslim.

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A Reflection of Divine-based Islamic Economics (D-BIE)

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Abstract

The troubling issue leading to undertaking this research is the increasing frequency of economic crises with widespread and severe effects. Despite introducing and implementing several measures, the problem continues. Among the steps, Divine-based Islamic economics is promising but challenging. The main challenge is that the current economic system has yet to command the trust and confidence of political masters, policymakers, and people. Previous studies have presented convincing theoretical arguments supporting introducing and implementing a Divine-based Islamic economic system. However, the current Islamic economic model is not scientifically valid; no empirical evidence shows that it is superior to the existing secular economic systems. However, acceptability could have been better. This study argues that constructing a user-friendly prototype conceptual model is critical for gaining and enhancing trust and confidence in the system.

Keywords: *Divine-Based Islamic economics (D-BIE), Trust, Confidence*

1. Introduction

Before and during the colonisation, Islam was used to unite all Sudanese tribes and groups. This situation continued (particularly under the leadership of Mahdi, Muhammad Ahmad's times – 1844 to 1885), and Mahdi's army defeated the foreign rules (British-Egyptian). In the Mahdi's times, the Shari'ah laws were the sole laws to run the state and the economic system. Shari'ah was relegated only to individual personal affairs during the British colonial period. The ordinary laws were introduced in all other civil and criminal matters (Fluehr-Lobban, 1990; Holt & Bossler, 2014).

Islam has been a dominant religion in thirteen states of the Northern part of Nigeria. All these states were administrated according to Divine rulings. A similar situation has also existed in Asia and Southeast Asia; for example, India under the last few Mughal rulers or *Negeri Majapahit*, and a few nearby states, including Malacca in the Malay Peninsula, was run according to Islamic rulings (Sunarso, 2018). Some Central, Eastern, and South-Eastern European countries occupied by the Ottoman Empire were also ruled according to Divine rules (Grosjean, 2011). However, the operation of this economic doctrine, beginning from the 17th century, began to crumble gradually and became almost non-existent and irrelevant to the life of humankind for about five centuries, roughly from the 16th to the 20th century (some historians say for nearly seven hundred years).

However, Divine-based Islamic economics (D-BIE) re-emerged in the early 20th century, specifically when some colonised countries in many parts of the world had gained independence. They began to question their colonial master about the failure to improve indigenous people's living standards and create economic growth and welfare (Hussain et al., 2009; Stark, 2004; Sunarso, 2018). Meanwhile, some political leaders and intellectuals of the newly independent states began to put forward their Divine-based economic system plans. Still, only Iran has successfully introduced the D-BIE system. Many scholars embarked on extensive studies and debates on adopting the system for their country. In the Middle East, particularly Egypt, Iran, Sudan, Iraq,

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and Libya, pressures on their governments or the colonial master (for the countries still under colonial control) to adopt a Divine-based economic system began to emerge. For example, the pressure that came from the Muslim Brotherhood (Ikhwan Muslimin) to adopt fundamentalists' views of the Islamic economic system, as opposed to the liberal policy adopted by Jamal Abdul al-Naseer for Egypt (Görmüs, 2016; Vannetzel, 2017). This pressure led German-trained economist Ahmad al-Najjar to initiate a cooperative bank in Mit Ghamr. The bank works on the participation (*Musharakah*) principle. The bank's name was Mit Ghamr Saving Bank of Egypt; due to political reasons, the bank was closed in 1967 (Orhan, 2018).

Pressure to run the country's politics and economics was also happening in Iran (Glassman, 2014; Gohardani and Tizro, 2019). Similar experiences have also occurred in some countries in Southeast Asia, mainly in the Indian continent, beginning from the late 16th century to the early 17th century. As mentioned by Fadzlur Rahman in his article (Rahman, 1973), during this time, the opening of the sea road between Hijaz and India occurred, and many Indian scholars began to visit Makkah and Madinah, some for study. Quoting what he said in the article:

> "As a result of this orientation, the characteristic orthodox Arabo-Islamic science of Hadith was introduced and propagated in India, its monumental champion in the seventeenth century being Shaikh Abd al-Haqq of Delhi, called *Muhaddith*, or traditionist par excellence."
>
> (Rahman, 1973, pp. 194 to 200)

The influence of traditional scholars in understanding and conceptualization of D-BIE is far-reaching. The influence results were reflected in the variations of the conceptualization of D-BIE as disclosed by scholars and writers from the Indian continent, such as the postage-stamped-based banking model and produce-sharing method of agriculture production (*Al-muzara'ah*), to avoid *riba*. Islamization of economics under Zia-ul-Haq's (1978 -1988) leadership was very aggressive during his lifetime but faded away after his demise (Kennedy, 1990).

2. Developing Divine-based Islamic Economics (D-BIE)

The publicity on developing D-BIE in Southeast Asian countries such as Malaya (later Malaysia), Indonesia, Brunei, Thailand, and Singapore after independence until the early eighties was not very aggressive. Development of the D-BIE system began to appear in the region only in 1983. The first Islamic bank in Malaysia, Bank Islam Malaysia Berhad, was established in the third quarter of 1983. Bank Mu'amalat in Indonesia in November 1991, followed by Tabung Amanah Islam Brunei (TAIB) in 1992 and Islamic Bank of Thailand in 2002. Singapore allowed the existing financial institutions to offer Shari'ah-compliant services (Ginting et al., 2019).

However, the re-emergence of D-BIE focused only on finance and banking, which is a tiny, insignificant part of the whole D-BIE and happened in a very haphazardly[1]. Scholar from the Indian continent (Hassan, 2018), who occasionally wrote on D-BIE, believed that it could not be treated as a valid model for a practical application because it had no proper conceptual framework. Its theories cannot be objectively and empirically tested (Khan, 2014). As a result, research outcomes relating to the D-BIE from a secular perspective needed to be more vital to convince and satisfy decision-makers to put the D-BIE into practice, as Muhammad Akam Khan and Zubair Hassan mentioned in the earlier-mentioned papers. Furthermore, the negative news about Iran's economic transformation into the D-BIE system and failure to implement the system in Pakistan, Sudan, Afghanistan, and a few other jurisdictions in many other parts of the world makes the D-BIE system look very ugly and unacceptable. Some non-Muslim scholars such as Visser (2019) said that the D-BIE system does not differ fundamentally from mixed-economy non-Islamic:

[1] Lack of proper planning and conducive regulatory and institutional frameworks.

> "There is little reason for non-Muslims to accord Islamic ethics special status. Further, it is found that essential drivers of the attempts to Islamize the economy are frustration about the sorrowful state of the Islamic world, at least since the early nineteenth century, and a wish to regain something of its former glory. In other words, identity politics is at play. There may include an element of subjectivity in this conclusion, as it depends on interpretations that are hard to prove or disprove conclusively. Still, statements by leading Muslim advocates of Islam economists give it weight. The conclusion may help interpret developments in the Muslim world, which is an indispensable step in finding a way to deal with them."
>
> (Visser, 2019)

D-BIE had disappeared from the radar from the 15th century to the beginning of the 20th century. Then, it re-emerged and advanced in some areas or components of macro and microeconomics. The most remarkable place of advancement was Islamic finance. The re-entry, however, could have had smoother sailing; the development of D-BIE encountered many shortcomings, challenges, and humiliation by certain groups of people. The work of Visser, Hans, Oliver Roy, and some Muslim scholars also has reflected the fact (El-Gamal, 2001; Kuran, 1995; Visser, 2019). To comprehend the magnitude of the issue, the researcher quoted what Oliver Ray said in his book:

> "The "Islamic threat," with radical Muslims everywhere on the rise and the march, remaking societies and altering the landscape of contemporary politics."
>
> (Roy, 1994)

The D-BIE system has lost its credibility, even among Muslims, due to its poor performance and failure to demonstrate and deliver what it is supposed to offer, as stated in Al-Qur'an and Al-Sunnah Al-Athar. It is branded poorly, is described as terrorist economics, as primitive and irrelevant to today's modern world, which is the age of technology and modernity. El-Gamal (2001), Kuran (1995), Visser (2019), Roy (1994) and many other scholars have highlighted the issues in recent works. As a result, the ability of the D-BIE system to deal with the present economic conditions became doubtful, and it was stormed with questions which were not entirely unreasonable. Therefore, the purpose of the research on hand is to re-introduce the D-BIE system not only as a theoretical economic doctrine but also as an alternative practical economic solution that reduces the frequency and magnitude of economic crises.

This study explains key motivational factors that drive the researcher to commit to the proposed research. It begins with a brief run-through of the motivation theories, followed by external and internal triggers that motivate the researcher to undertake the study. Al-Qur'an and the Hadith announced the most sought for ending the life of humankind, that is, the accomplishment of the pleasure of Allah SWT as the motivation for committing good deeds such as promoting the application of the D-BIE system (Al-Baqarah, Verse: 3, 9, and 72)[2]. It has been discussed and debated since classical times until today. Among people actively involved in developing secular theories and applying motivation, among others, were Taylor, Maslow, and Herzberg; they dealt with scientific management, the hierarchy of needs, and the two-factor theory of motivation, respectively. From the Divine perspective, discussions on motivation to perform good deeds began with Prophet Adam (AS). They cascaded through all other Prophets after him. Finally, they reached the times of the last Prophet, Muhammad (ﷺ), his companions, companions of the companions, and the early learned scholars or *Salaful-al-Saleh* as commonly known (Bhatti et al., 2016; Pakdel, 2013)

Plenty of literature materials on the subject are found in various databases. The research motivation has gone through many stages, beginning from ancient Greeks times – believing in the hierarchical order of things in society, such as the ones discussed by Maslow in the theory of hierarchy of needs, incentive theory of motivation, and many others (Herzberg, 2023; Pakdel, 2013)[3]. The inspiration from the Divine perspective began with the faith and belief in the existence of good reward (*Jannah*) if one does good deeds and Hellfire if humankind did a bad thing or did not obey the commands of Allah SWT (Al-Nisa', verses: 4, 55-56; Al-

[2] "Allah has promised the believing men and believing women gardens beneath which rivers flow, wherein they abide eternally, and pleasant dwellings in gardens of perpetual residence; but approval from Allah is greater. It is that which is the great attainment." (At-Tawba: 72).

[3] Herzberg's motivation-hygiene theory and dual-factor theory

Baqarah, verses: 24, 101, and 11; Sahih al-Bukhari, 6122; Muslim, 2847;). Classical scholars operationalised the commands of Allah SWT through analysis of the hierarchy of humankind's needs in the theory of the Grand Shariah's Objectives (Al-Baqarah, verse: 185).

The researcher only reviews literature materials that deal directly with the political economics aspect of human life and focuses on discussions of the result - the act of motivation rather than theory and explanation about the motivational factors. The researcher is incredibly motivated to undertake the proposed research firstly by the need to create and boost the trust and confidence in the ability of the D-BIE system to deal with economic matters, i.e., to demonstrate the operational viability and practicality of the system. The motivation for creating and boosting trust and confidence is rooted in the unprecedented increase in the frequency of economic crises and their devastating effects on the welfare of humankind, particularly during the early part of the twenty-first century. Economic crises were devastating; millions lost employment, and asset values deteriorated badly (Shiller, 2014).

As a student of economics and the religion of Islam, the researcher believes that it is his responsibility to properly conceptualise the religious rulings and the economic decisions and put them into practice so the benefits accrued can be enjoyed by society. Therefore, the second motivation for undertaking this research is to learn - to acquire knowledge about D-BIE.

The third factor that motivates the researcher to undertake this research is the presence of numerous scams and unfair treatment in secular-based economics (S-BE). Unfair treatments that have been practised in the current S-BE system - using institutions such as the United Nations and the International Monetary Fund (IMF)'s hidden agenda, the elusive Basel Committee, and many advanced countries could control the resources and the markets for their products. The other vehicles are economic development aids such as IMF rescue packages and Washington Convention. Economic growth vehicles usually come from multi-national banks and low-interest loans from advanced countries, such as World Bank providing loans raised through syndication, club deals, capital market participation, and equity participation in the development project in underdeveloped countries.

The fourth factor that motivates the researcher to undertake this research is to discover the real agenda behind the current financial order that places the world population at its mercy, creates so many fictitious assets on the global financial statement, and exposes the world economy to a challenging inflationary situation. The fifth factor that motivates the researcher to undertake the study is to gain some ideas about how the full-fledged D-BIE system works in reality under both present and future economic environments.

3. Discussion for Further Research on D-BIE

Sajjad Kabir described the meaning of the term "research problem" as a description of an area of concern or conditions to be improved, the difficulty that needs to eliminate, or a troubling question that exists in the scholarly literature in theory or practice that needs for meaningful understanding and deliberate investigation (Kabir, 2016). Furthermore, it sets up parameters for formulating the research methodology and scoping the literature review. It is also a basis for the formulation of research objectives and research questions. In this study, the troubling issue is that the people have lost trust and confidence in the D-BIE system's ability to deal with economic matters.

The issue of losing trust and confidence in the ability of the D-BIE system to deal with economic matters is rooted deeply in several factors. Some Muslim economists and leaders of Muslim-dominated nations proposed introducing the D-BIE system, such as Shari'ah permissible instruments like Sukuk and other structured financial instruments (Smolo and Mirakhor, 2010). Moreover, a few have come forward with impressive theoretical arguments supporting introducing the D-BIE system to overcome the increasing frequency of economic crises. Still, the acceptability of the system could be much better. The question is whether being thrown back reflects the lack of trust and confidence in the D-BIE system. The currently available models are not scientifically valid according to secular-based measures (yardsticks). No empirical evidence shows that the D-BIE system is working. Furthermore, many other negative features are associated with the current practice of the D-BIE system.

The promoters of the D-BIE can fall back on the performances of the three countries that pioneered the introduction of the D-BIE system. They were Pakistan, Sudan, and Iran to gain the public's trust and confidence in the D-BIE system's ability to deal with economic matters. Unfortunately, the performance of these jurisdictions in the D-BIE system, except for Iran, was disappointing (Shah et al., 2023). Despite 30 years of sanctions imposed by America and its alliances, Iran survives with encouraging results. Iran has turned the sanctions to its benefit and made the jurisdictions involved in imposing the sanctions look immature, and the sanctions appear to be a not-well-thought-through strategy. However, little is known about Iran's economic transformation process due to inaccuracy and manipulation of the information reported publicly, so actual data cannot be obtained (Glassman, 2014). It is also tricky to capitalise on the success story of Iran to gain the public and policymakers' trust and confidence in the D-BIE system's ability to deal with economic matters.

Having gone through the progress of the re-emergence of D-BIE, the system has lost its credibility because the public needs help understanding and conceptualising the comprehensive model of the D-BIE system theoretically and operationally. Therefore, to make the model respectable and gain the trust and confidence of political masters, other decision-makers, and the public, everybody needs to construct and understand a decent model D-BIE system.

There are five areas in which the problem of lack of trust and confidence in the D-BIE system's ability to deal with economic issues is rooted (Addas, 2008). The first area is the need for more comprehensiveness of the Shari'ah framework employed in developing the theories and conceptual and operational model of D-BIE. The second area is that the S-BE is defective and prone to economic crises (Moseley, 1991). The third area relates to the deficiency and weakness of the present model of D-BIE. The standard models need to be more comprehensive to cover all D-BIE elements, and most jurisdictions, such as the financial sector, practice a partial D-BIE. Some components of the D-BIE model are built on weak contracts such as *al-inah* (sale contract with immediate re-purchase), *tawaruq* (two sale and purchase contracts; buy on deferred payment and sell spot), and other product innovations. The model also has failed to exhibit the embedded mechanism that reduces the frequency and magnitude of economic problems[4]. The fourth area is that the commonly covered research methodology needs to include Divine consideration. As such, the research methodology is based on wild assumptions. The fifth area is ignorance and the need for comprehensive understanding in applying the Divine rulings and integrating environmental factors with the economic functions and activities in the D-BIE system's operation. These five main issues are the critical research focus areas of the ongoing study: the policies, procedures, and processes to respond to the five research questions.

Thus, the rationale (purpose) of the study is to gain and boost the stakeholders' trust and confidence in the D-BIE system's ability and viability to deal with domestic and global economic issues. Gaining and increasing trust and confidence in the D-BIE's capability is achievable among others, by constructing the prototype conceptual model of the D-BIE system. With the model readily available, the researcher believes that it will substantially enhance the confidence of the stakeholders, particularly the political masters and the government of a particular jurisdiction, in the ability of the D-BIE system to deal with the economic issues and agree to move ahead with the introduction and operation of the system.

The study is achievable through fulfilling the following two conditions below respectively: -

a. The reconstruction of the two types of D-BIE models (prototype and operational models)) requires comprehensive knowledge and information about D-BIE and S-BE.
b. It needs to have the operational model of D-BIE which can only derive from the prototype conceptual model of D-BIE, by incorporating environmental factors such as political, socioeconomics, international relations, technological advancement, etc., into the conceptual model. It is the model for specific jurisdictions. Because of time and space constraints, this study covers only the prototype conceptual model of D-BIE.

4. Conclusion

The D-BIE's conceptual or theoretical model provides high-level theories explaining various economic variables working according to multiple levels of humankind and Divine tenets without tying it to any jurisdiction. It is a prototype descriptive model that provides a broad and high-level understanding of conceptual and operational models of D-BIE. It aims to show the models and explain the mechanism and relationships among the various variables or components of the economic model and the market players. A complete treatment of this model will counter in the discussion to answer the fifth research question. The whole

[4] Production of non-permissible goods and fictitious assets will cease, automatically disappearing from the national income accounts and reducing GDP. The history of economic crises showed that the excessive creation of fictitious assets in the financial sector always caused troubles.

rationale of this study lies in the S-BEs and the D-BIE's being defective and prone to economic crises and theoretical and operational deficiencies, respectively.

Working with the acceptable model and standard baseline frameworks in developing and restructuring the economic system is a common practice today, particularly after creating the Bretton Woods system in 1944 (Lamoreaux and Shapiro, 2019), such as Standard Procedures to reconstruct the economy of war-torn countries and the Washington Consensus or reviving the economics and financial system in the aftermath of a significant crisis (Marangos, 2021). Therefore, the subjects of standard baseline frameworks will counter the discussions and debates on the issues.

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Child Healthcare Outcomes in Africa: Unlocking the Potentials of Islamic finance

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Abstract

The objective of this study is to analyze the effects of Islamic finance on child health care in 27 African countries over the period 1975 to 2021 using data from the World Bank and World Population Review. Results of the 2SLS estimation show that Islamic finance improves child health care in Africa. Specifically: (i) Islamic finance negatively and significantly affects child overweight, (ii) Islamic finance negatively and significantly affects child mortality, (iii) Islamic finance negatively affects anaemia prevalence in children, (iv) Islamic finance negatively and significantly affects the probability of dying among children. Furthermore, our robustness analysis reveal that these effects are more pronounced in middle income than low income countries, and non-Muslim dominated than Muslim dominated countries. The findings of this study are consistent with the empirical literature and support the view that African countries can turn to Islamic finance for the promotion of child health care and the attainment of the 2030 United Nations SDGs. The study recommends the need for policymakers to put in place the necessary mechanisms for the promotion of Islamic finance such as the enacting of laws that ensures the creation of full-fledged Islamic banks, encouraging research in Islamic finance and Islamic economics.

Keywords: *Africa, Child healthcare, Endogeneity, Islamic finance, Two-stage least squares (2SLS)*

1. Introduction

Child health is an important public health issue globally. The care and protection of children are vital because children are the future of a country. Their health is linked to the development of adult human capital and the national economy (Currie, 2020). This importance was further underlined in the 2015 United Nations Sustainable Development Goals having as one of its goals the significant reduction of both infant and maternal mortality by the year 2030. The third of the seventeen goals of this agenda is dedicated to ensuring healthy lives and the promotion of well-being for all. Child health can be considered as an important determinant of: a country's GDP (Amiri and Linden, 2016), since parents are able to save more money given a fall in healthcare expenditure and equally the fact that it constitutes an important part of future human capital; schooling (Khanam, 2014; Lo Bue, 2019); productivity and earnings (Viinikainen et al., 2020).

Despite the strides made in the area of health care in general and child health care in particular over the past decades, African countries are still to reach the same standards as that of high and other middle income countries. Africa is at a disadvantage compared to developed countries in terms of life expectancy and under-five mortality rates (WHO, 2021) partly explained by the fact that budget constraints bind more in poorer families, preventing them from buying more or better material health inputs such as better quality medical care and food, as well as safer housing and neighborhoods (Currie and Goodman, 2020). Consequently, of the 2.4 million newborns that died in 2020, Sub-Saharan Africa accounted for 43%, the highest neonatal mortality rate in the world (27 deaths per 1000 live births), followed by central and southern Asia (23 deaths per 1000 live births), with 36% of global newborn deaths (Macrotrends Africa, 2021; WHO, 2021).

If Africa is performing this badly with regards to child health care despite the numerous measures put in place such as increased immunization and sensitization campaigns, it only underlines the need for a paradigm shift from the current status quo. Studies such as that of Kanungo and Gupta (2021) have justified this point using the capability approach of Sen (1980), which refers to human development that offers substantive freedom to economic an transaction, societal inclusion, and normative utilities of happiness and choices (Nussbaum and Sen, 1993). Specifically, these studies have stressed the role of financial inclusion of the most vulnerable (Currie and Goodman, 2020; Kanungo and Gupta, 2021). Financial inclusion can foster economic empowerment and this can lead to better

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child health. This is especially true for women since it is believe that with greater power, women are in a better position to bargain for a greater share of household resources to be allocated toward expenditures that improve the health and well-being of children (DeLoach and Lamanna, 2011).

Talking about financial inclusion and capability enhancement, microfinance institutions have been praised for providing banking services such as small loans even to the most vulnerable members of the society especially in the developing world where a majority of the population is considered financially excluded by the dominant commercial banking system (Abbas and Shirazi, 2015; Beck, 2015). For instance, through microfinance, vulnerable members of the society such as women are given the opportunities to borrow, save, invest and benefit from the business activities (Zitouni and Jedidia, 2022). Thus, microfinance can positively influence child health care in at least two ways: indirectly through financial inclusion (DeLoach and Lamanna, 2011; Posso and Athukorala, 2018), which enables parents to owned income generating activities permitting them to better care for their children, and directly through health-related services, such as health education, health-care financing, clinical care, training community health workers, health micro-insurance and linkages to public and private health providers (Posso and Athukorala, 2018). In as much as the place of MFIs in health care development remains largely undisputable, Banerjee and Jackson (2017) have shown that instead of improving the incomes of disadvantaged populations, conventional microfinance further worsens the situation of the poor by increasing their debt ratio. In addition, the application of interest rates and collaterals as prerequisites for the granting of loans have voluntarily or involuntarily excluded a portion of the population from the financial system. For example concerning those that are voluntarily excluded, Cameron et al. (2021) noted that due to interest charges, 20% of the poor in some Muslim-majority countries do not take part in microcredit programs. The number excluded because of their “unbankable” nature is even staggering (Beck, 2015) especially in Africa. This further reduces the possible impact of microfinance on child health care.

Islamic finance has the potential of overcoming these weaknesses, given its principles that prohibit the use of collaterals and interest rates and the fact that it seeks to achieve social justice and welfare as indicated in *Maqasid al-*Shari'ah (objectives of Islamic law) (Iqbal and Mirakhor, 2017). This mode of finance is considered as one that operates according to the principles of Shari'ah[1]. The practice of Islamic finance must not involve *riba*, i.e. interest rate or usury, *gharar* and *maysir*, i.e., deception and speculation respectively, and haram activities that is to say prohibited by Shari'ah (Franzoni and Ait Allali, 2018). Under this mode of finance, users have a variety of categories such as Islamic banking, sukuk, Islamic funds and takaful and equally different products which are divided into contract-based (for example *mudarabah, musharakah, ijarah*) and distribution-based (zakat, waqf, sadaqah) to choose from (Iqbal and Mirakhor, 2017).

Islamic finance has recorded a tremendous growth rate since it was formally introduced in Egypt in 1963. It is expected to reach a value of around 3.5 trillion USD by 2024 (IFSB, 2019). The large Muslim population in Africa, offers a fertile ground for the flourishing of this mode of finance, which has existed on the continent since the 1980s. Despite the itsy-bitsy share of Islamic finance investment in Africa relative to other parts of the world such as the Middle East, this mode of finance has become part and parcel of the financial system of many countries on the continent. Empirical studies in the area of child health care and finance have rather examined the effects of conventional finance on child health care (DeLoach and Lamanna, 2011; Moseson et al., 2014; Posso and Athukorala, 2018). Studies examining the effects of Islamic finance on child health care have been scarce. The few existing studies have been focused on health care in general with less attention on child health and have mostly based their analyses on some distributive-based Islamic finance products such as waqf (Baqutayan and Mahdzir, 2018) and zakat (Hasbulah et al., 2022). This study entails to fill this literature gap and is the first continent-wide analysis of the effects of Islamic finance on child healthcare especially in the context of Africa.

The contributions of this paper are as follows: firstly, unlike the studies of Hasbulah et al. (2022) and Baqutayan and Mahdzir (2018) that focused only on the distributive dimension of Islamic finance, we adopt a more holistic approach that looks at both the distributive and the commercial dimension of Islamic finance with a particular focus on child health care. Secondly, we use panel data which allows for a more consistent analysis of the effects of Islamic finance on child health care since the longer period of study, from 1975 to 2021 permits us to take into account the different dynamics equally unlike the studies of Posso and Athukorala (2018), and DeLoach and Lamanna (2011) that adopted only a single indicator, we make use of four indicators of child health, namely overweight, infant mortality, the prevalence of anaemia, and the probability of dying. Lastly, our study is carried out at the macro level involving a continent-wide analysis in the context of Africa.

After controlling for endogeneity, results of the two-stage least square estimation show that Islamic finance ameliorates child health care in Africa. Specifically, there exist a negative and statistically significant effects of Islamic

[1] Shari'ah is a set of rules that Islam prescribes for humans to ensure their earthly well-being and their salvation in the hereafter (Islam and Ahmad, 2020)

finance on child overweight, infant mortality and the probability of dying at an early age among young children. While the effects of Islamic finance on the prevalence of anaemia among children are negative, they are not statistically significant.

The remainder of this paper is organized as follows. Section 2 presents the literature review. Section 3 discusses the methodology. Section 4 focuses on the results and discussion and section 5 draws conclusions and recommendations.

2. Literature Review: The Effects of Islamic Finance on Child Health Care

2.1 Theoretical literature review

Recent empirical studies examining the effects of the financial system on health care in general have made recourse to the Capability theory, particularly associated with (Sen, 2004; Sen, 2005; Sen, 1980), with the view that financial inclusion can garner peoples' freedom to make choices of essential needs such as improved water and sanitation, quality medical care as well as education, which would enhance their health (Immurana et al., 2021). Financial inclusion improves health by guiding specific economic opportunities and empowerment particularly among older populations (Allmark and Machaczek, 2015). In addition, financial capability provides opportunities for older people to take greater control of their finances, external environments, and be able to manage economic resources better and to adopt desired lifestyles and health outcomes (Allmark and Machaczek, 2015), including that of their children.

We therefore admit with the capability theory that the relationship between finance and child health care is fostered by empowering parents through giving them access to the necessary financial services such as access to credit. However, if this is the case in conventional finance, then it certainly will be for Islamic finance too, even more so because one of the two types of products it offers is especially dedicated to the redistribution of income, while the other types of products are based on the principle of profit and loss sharing, which reduces the burden on the borrower.

2.2 The effects of Islamic finance on child health care: A review of the empirical literature

Studies linking Islamic finance with health care have particularly focus on the social or the distributive dimension of Islamic finance especially zakat and waqf. For example in terms of zakat[2], Hasbulah et al. (2022), through a library research method found that zakat distribution through MAIPk, an institution responsible for administering and managing all zakat matters in the state of Perak in Malaysia positively enhances the health status of the beneficiaries (*asnaf*). In terms of waqf[3], (Baqutayan and Mahdzir, 2018) showed that waqf has been proven to provide an efficient alternative source of funding to the development of health care institutions. Thus whether it is waqf or zakat, the results have been convergent towards the idea that Islamic finance can serve as an important driver of health care, thereby confirming the results of the study of (Mohamed and Fauziyyah, 2020) according to which Islamic microfinance is one of the best tools to reduce poverty, especially in Muslim society and contradicting the results of the study by (Rokhman, 2013), which indicated that Islamic microfinance has no direct impact on health care. (Rokhman, 2013) advanced two reasons to justify his results. The first was the issuance of health insurance to the poor and the second reason concerned the tendency of the poor people to use alternative traditional medicine for medical treatment instead of going to hospital or doctor for medical treatment.

However, the role of Islamic finance in child health care can be modulated by a number of transmission channels. Three potential channels emerge from literature. The first channel is environmental protection. One of the principles of Islamic finance is the prohibition of activities that are linked to the destruction of the environment for example activities that create pollution or the over-exploitation of environmental resources as these activities are considered *haram* (forbidden) (Franzoni and Ait Allali, 2018; Nakhavali, 2017; Qoyum et al., 2022). However, recent empirical studies in the area of child health and the environment have concluded that child health can be negatively affected by environmental degradation (Balietti et al., 2022; Vrijheid et al., 2016; Zou et al., 2021). Thus, the protection of the environment is a channel through which Islamic finance can improve child health care. The second channel is women entrepreneurship. Islamic finance especially through women entrepreneurship can enhance women empowerment (Alaghbari et al., 2021; Islam, 2020; Zitouni and Jedidia, 2022). Meanwhile, other studies have testified that women empowerment is positively associated with child health (Essilfie et al., 2020) since it is believed that with greater power, women are in a better position to bargain for a greater share of household resources to be allocated toward expenditures that improve the health and well-being of children (DeLoach and Lamanna, 2011). Thus, empowering women through women entrepreneurship is a channel through which Islamic finance can improve child health care. The third channel is financial development. Islamic finance enables easy access to credit (Diomande, 2020; Ülev et al., 2022) given its products such as *qard hassan* and *mudarabah* that are tailored towards meeting the needs of the

[2] zakat is a tax at the rate of 2.5% paid by pious Muslims on all their personal property with the intention to reducing social inequalities.

[3] waqf involves the donation of a piece of land, the construction of a hospitals, the construction of schools for the benefits of the society.

most vulnerable members of the society. As shown by the literature, access to credit is an important contributor to health care in general and child health care in particular (Kruk et al., 2009).

The current study contributes to the above literature by looking at the role of Islamic finance in the amelioration of child health care in 27 African countries, from 1975 to 2021. The following sections provide the methodology, results, conclusion and recommendations.

3. Methodology

3.1 Data

This study uses secondary data mobilized from different sources. For our dependent variable, child health, we make use of the data provided by the (World Bank, 2021)[4]. The same data source is used in addition to World Population Review (WPR, 2021) for our control variables. A detailed exposition of the different data sources is found in appendix 1. 27 countries are considered in this study and their choice is based on data availability.

3.2 Measurement of variables

3.3 Dependent variables

Empirical studies in child health performance have employed different indicators to better capture child health outcomes. Some studies have used only single indicators of child health such as child mortality (Posso and Athukorala, 2018), child height (DeLoach and Lamanna, 2011). To better capture child health, other studies have combined a package of indicators. For example height, weight, anaemia, food security and parents' reported indicators as indicators of child health (Moseson et al., 2014); infant mortality, low birth weight, stunting, underweight, wasting, overweight, and anaemia (Yaya et al., 2020). Based on the above studies we adopt multiple measures of child health comprising of overweight, infant mortality, prevalence of anaemia, and the probability of dying.

3.4 Independent variables

Islamic finance is our variable of interest and is measured in this study with an indicator variable inspired from the work of (Ngono, 2021).

$$\text{Islamic finance} = \begin{cases} 1 \text{ for presence of Islamic finance} \\ 0 \text{ otherwise} \end{cases} \tag{1}$$

In order to construct this variable, we first of all identify the year of creation of the first Islamic finance institution in each country in our sample. For each of these countries, a dummy variable is created taking the value 0 for the years before the introduction of Islamic finance and 1 for the years after its introduction. It is important to note that loans from the Islamic development bank are not considered as the beginning of Islamic finance in these countries. We consider 27 African countries that practice Islamic finance as shown in appendix 2. Our study period is from 1975 to 2021. Our analyses start from 1975 so as to include Sudan which introduced Islamic finance in 1977. A two years backward shift is necessary so as to have a before and an after dynamic assessment. 2021 is the last year due to the availability of data for some indicators. Egypt is considered as the first country to formally introduced Islamic finance (in 1963) but it is included in our analysis due to the fact that the banks created in 1963 were merged with government banks in 1967 for political reasons. So Islamic finance in Egypt was formally reintroduced in 1979 following the establishment of Faisal Bank of Egypt (Daoud and Kammoun, 2020).

Our control variables are defined as follows: (i) Financial development measured by the total amount of credit to the private sector; (ii) Urbanization which is the percentage of urban population to total population (Salahuddin et al., 2020); (iii) logGDP per capital (Anyanwu, 2016), which measures the level of economic growth; (iv) female labour which captures women labour participation (Posso and Athukorala, 2018); (v) CO2 emission which measures the level of environmental protection (Akeju and Olanipekun, 2020); (vi) Internet (Salahuddin et al., 2020) which is used as a proxy for ICT; (vii) political stability (Ondere and Garfield, 2015) which measures perceptions of the likelihood of political instability and/or politically-motivated violence tension; (viii) Access to electricity which captures the percentage of the population using electricity (Irwin et al., 2020). The conceptual model is given as:

$$child\ health_{it} = f(islamic\ finance_{it}, financial\ development_{it}, urbanization_{it}, logGDP_{it}, female\ labour_{it}, CO2_{it}, internet_{it}, political\ stability_{it}, electricity_{it} \tag{2}$$

[4] Specifically, we employ the data from the Health, Nutrition and Population statistics (2021) and the Environment, Social and Governance (2021)

3.3 Econometric model

In order to empirically examine the effects of Islamic finance on child health care in Africa, we make use of the model below which is an empirical extension of Ajefu et al. (2020) who highlighted the impact of financial inclusion on mental health

$$CH_{it} = \alpha + \beta IF_{it} + \lambda_1 FD_{it} + \lambda_2 URB_{it} + \lambda_3 logGDP_{it} + \lambda_4 FL_{it} + \lambda_5 CO2_{it} + \lambda_6 IN_{it} + \lambda_7 POL_{it} + \lambda_8 ELEC_{it} + v_i + u_t + \varepsilon_{i,t} \quad (3)$$

Where CH_{it} represents child health variables (overweight, mortality, prevalence of anaemia, and probability of dying) in country i at period t, IF - Islamic finance, FD – financial development, URB - urbanization, $logGDP$ - logGDP per capita, FL – female labour, $CO2$ – CO2 emission, IN – internet, POL - political stability, $ELEC$ - access to electricity. α, β, λ, are the equation parameters while $v_i + u_t + \varepsilon_{i,t}$ are respectively temporal fixed effects, countries fixed effects and disturbance.

3.4 Estimation technique

The econometric model is first estimated using the ordinary least square approach (OLS). The OLS-based econometric technique is generally used as an initial framework in analysis to give the overall trend of results (Ongo Nkoa et al., 2022). However, there is a potential problem of endogeneity: (i) between Islamic finance and child health care variables. This reverse causality is explained by the fact that Islamic finance can lead to better health care of children as justified in the empirical literature review above. But it is equally worth noting that a household whose children are healthy can save more money and is consequently more likely to request Islamic finance products. (ii) There is the risk of a measurement error linked to the Islamic finance variable (Ngono, 2021). (iii) There is equally the possibility that Islamic finance moderates the relationships between GDP per capita (Imam and Kpodar, 2016) and child health on one hand and financial development and child health care on the other hand, given it principles permit even the most vulnerable members of the society to access financial services such as credit (Iqbal and Mirakhor, 2017). The performance of the Durbin Wu Hausman endogeneity test as shown in table 3 supports these facts. From this test, we reject the null hypothesis of the absence of endogeneity in favour of the alternative hypothesis. To address this problem, the related literature proposes the use of a two stage least square technique. Appendix 5 shows the Underidentification and the Overidentification tests of all instruments. The results show that all the instruments selected passed the tests.

4. Results

4.1 Descriptive analysis

The descriptive analyses below permit us to compare some macroeconomic variables between the periods without Islamic finance and the periods with Islamic finance. It follows that there has been an improvement in child health care between these two periods. Children overweight, mortality, anaemia prevalence and probability of dying have all recorded a decline of -0.059, -0.171, -0.270, -0.039 respectively during the periods with Islamic finance. As far as urbanization is concerned, it is the period with Islamic finance that registers the highest number of urban population that is 48.5%. The volume of credit offered to the private sector; financial development has almost doubled between the two periods with the period with Islamic finance registering 32.769 as opposed to 17.421 in the periods before Islamic finance was introduced. Economic growth measured using the log of GDP per capita is equally known to have witnessed an increase to 8.908 during the period with Islamic finance as opposed to 8.613 during the period before. Concerning female labour participation, it is rather the period without Islamic finance that recorded the higher rate, but this difference is not significant. While political stability and CO2 emission seem to have worsened during the periods with Islamic finance, it is the periods with Islamic finance that recorded an explosion in the rate of internet penetration in Africa, 13.148% as opposed to 1.519%. Lastly, during the periods with Islamic finance, more people have had access to electricity, 52.697% of the total population as opposed to the period without Islamic finance, 38.197% of the total population.

Table 1: A comparative analysis between the presence and the absence of Islamic finance

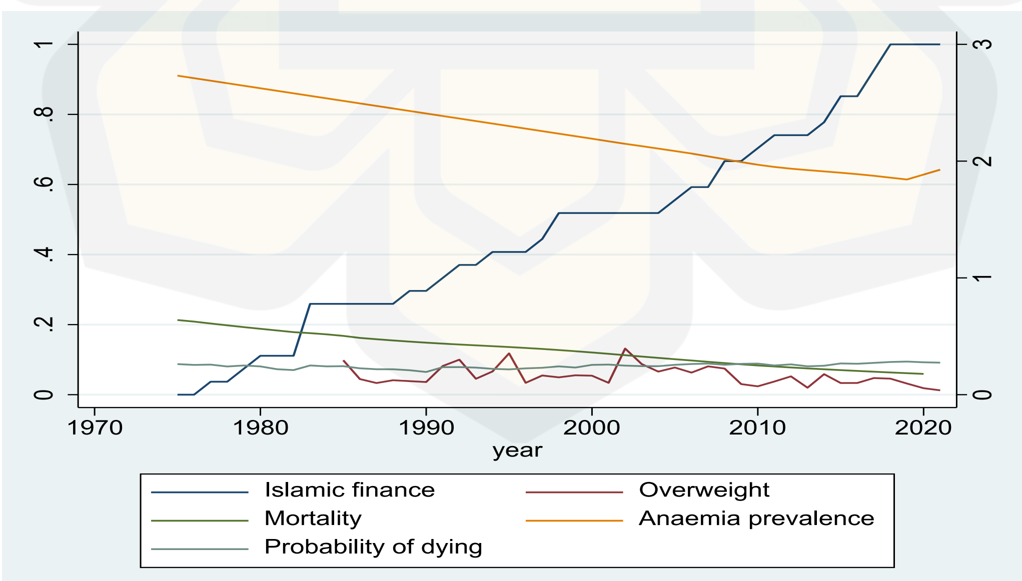
Variable	Before Islamic finance (1)	After Islamic finance (2)	Difference t-test (3) = (2) – (1)	Prob Significance
Child overweight	0.194 (.147)	0.135 (.158)	-0.059	0.0052**
Mortality rate	0.462 (.19)	0.292 (.183)	- 0.171	0.000***
Anemia prevalence	2.194 (.633)	1.917 (.597)	- 0.270	0.0000***

Probability of dying	.267 (.165)	.228 (.19)	-0.039	0.0014**
Financial Development	17.421 (25.336)	32.769 (36.506)	15.348	0.0000***
Urbanization	.381 (.248)	.485 (.22)	0.103	0.0000***
logGDP per capita	8.613 (.544)	8.908 (.485)	0.295	0.0000***
Female Labor	47.926 (20.087)	47.586 (22.73)	-0.340	0.6113
CO2 emission	.865 (1.992)	1.4 (2.069)	0.536	0.0001***
Internet	1.519 (6.415)	13.148 (18.229)	12.473	0.0000***
Political Stability	-.481 (.71)	-.898 (.93)	-0.417	1.0000
Access to electricity	38.197 (28.31)	52.697 (31.284)	14.500	0.0000***

Source: Authors

Figure 1 provides a visual description of child health care indicators and Islamic finance. Over the past few decades, Africa has made significant strides in health care in general and under-five healthcare in particular. For example, according to UNICEF (2020) under-five child mortality rates in Africa are reducing at an average annual rate of 3.7 per cent. Despite this real progress, challenges still remain as there are significant disparities both within and between countries, and also the fact that the region accounts for a quarter of all maternal deaths worldwide (UNICEF, 2022). Among the major health challenges on the continent, the prevalence of anaemia in children below the age of five constitutes one of the areas that have recorded the modest level of improvement. In sub Saharan Africa, Weze et al. (2021) found that anemia affects around 60% of children. The improvements recorded in child health care came at a time when most African countries started to embrace Islamic mode of finance, which has gradually become part and parcel of the financial system of most countries on the continent. For example in terms of sukuk, the continent accounted for just over 500million US dollars in 2018 (Moodys, 2018), accounting for just about 0.5% of the global sukuk assets value but in 2021, this value rose to over 155billion US dollars even though it is only about 1.55% of the global suku*k* assets value[5].

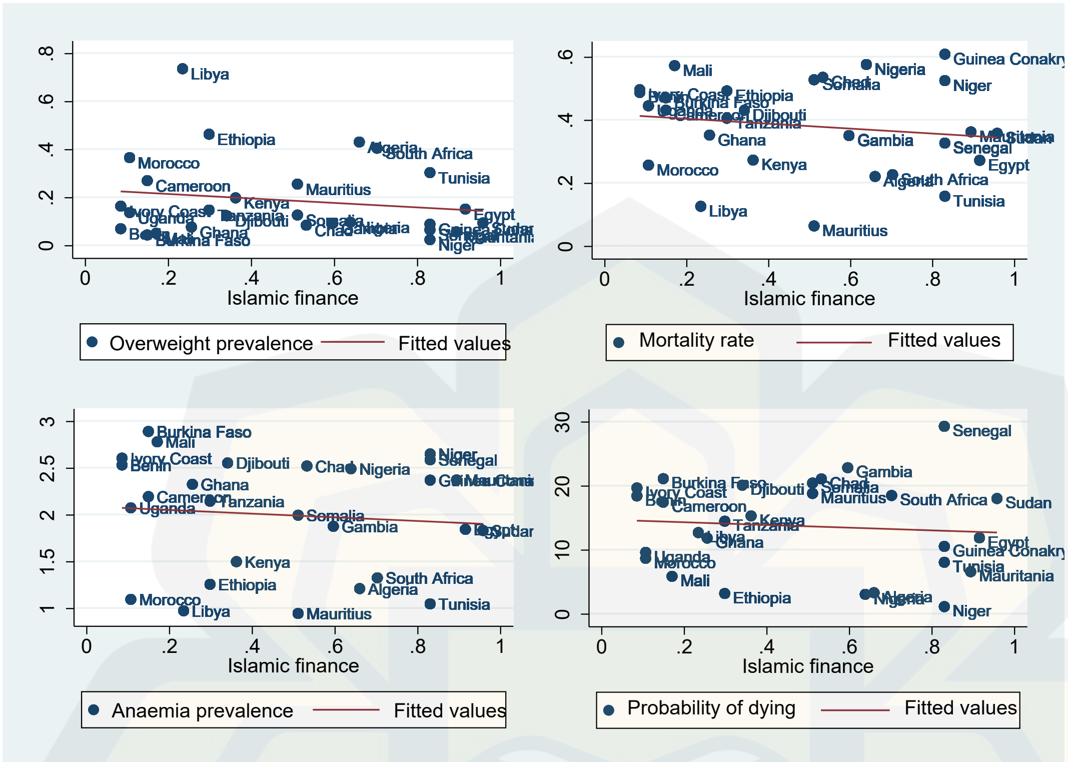
Figure 1: Evolutions of Islamic finance sand child health care in Africa from 1975-2021



Source: Authors' own based on WDI (2021) and the year of the introduction of Islamic finance in different African countries

[5] https://african.business/2021/05/finance-services/how-can-africa-tap-its-huge-potential-for-islamic-banking/

Figure 2: Correlation between Islamic finance and child health care in Africa



Source: Authors based on WDI (2021) and the year of the introduction of Islamic finance in different African countries

The two-way fitted plots in Figure 2 show that Islamic finance has negative effects on four indicators of child health – that is overweight, mortality rate, prevalence of anaemia and probability of dying, though with different levels of significance. This relationship can however be influenced by several other control variables in a modelling framework. There is therefore the need to verify this relationship through an empirical approach.

4.2 Baseline results

The results displayed in Table 2 below are obtained using the ordinary least square technique and indicate that our variable of interest, Islamic finance negatively and significantly affects child overweight, mortality rate and probability of dying. The effects of Islamic finance on the prevalence of anaemia while negative, are not statistically significant. However, this estimation technique despite being robust in some cases, might rather tend to produce inconsistent results in our case given it inability to address the problem linked to endogeneity as already justified at the level of our methodology and by the endogeneity test presented in table 2 below. The performance of the Durbin Wu Hausman endogeneity test as shown in Table 2 permits us to reject the null hypothesis on the absence of endogeneity in favor of the alternative hypothesis. To address this problem, the related literature proposes the use of a two stage least square technique.

Table 2: The effects of Islamic finance on child health care in Africa (estimation technique: OLS)

Variables	(1) Overweight	(2) Mortality	(3) Anaemia prevalence	(4) Probability of dying
Islamic Finance	-0.0451**	-0.0384***	-0.0265	-0.121***
	(0.0181)	(0.00836)	(0.0350)	(0.0220)
Financial development	0.00115***	0.000624***	-0.00451***	0.000228
	(0.000383)	(0.000118)	(0.000481)	(0.000278)

urbannor	-0.0174	0.161***	0.508***	-0.0879
	(0.0615)	(0.0247)	(0.103)	(0.0835)
logGDP per capita	0.342***	-0.0703***	-0.884***	-0.184***
	(0.0393)	(0.0155)	(0.0637)	(0.0455)
Female Labour	0.00393***	0.000413	-0.00304*	-0.00790***
	(0.000829)	(0.000433)	(0.00180)	(0.00110)
CO2 emissions	0.00855	-0.00844***	0.0271**	0.0341***
	(0.00856)	(0.00314)	(0.0130)	(0.00900)
Internet	-0.00341***	-0.00178***	0.00204	0.00293***
	(0.000750)	(0.000311)	(0.00128)	(0.000852)
Political Stability	-0.0222**	-0.0301***	0.0602***	0.0205*
	(0.0104)	(0.00439)	(0.0183)	(0.0109)
Access to electricity	0.00151***	-0.00280***	-0.00768***	-0.00284***
	(0.000561)	(0.000223)	(0.000931)	(0.000634)
Constant	-3.161***	0.946***	10.38***	2.599***
	(0.347)	(0.135)	(0.558)	(0.402)
Observations	156	553	513	324
R-squared	0.711	0.706	0.730	0.280
Endogeneity test	0.100	0.015	0.761	0.088

Standard errors in parentheses; *** p<0.01, ** p<0.05, * p<0.1
Source: Authors

The results presented in table 3 below are those of the two stage least square estimation technique after taking into account the problem of endogeneity. These results are very much in line with our baseline results obtained in Table 2 using the OLS technique, with the only difference being the levels of significance. The results reveal that Islamic finance ameliorates child health care in Africa. Specifically, there exist a negative and statistically significant effects of Islamic finance on child overweight (at 1% level of significance), infant mortality (at 1% level of significance) and probability of dying (at 1% level of significance). While the effects of Islamic finance on the prevalence of anaemia among children are negative, they are not statistically significant. These results further confirm those obtained by previous studies on the importance of the financial system in health care in general and child health care in particular (DeLoach and Lamanna, 2011; Moseson et al., 2014; Posso and Athukorala, 2018). The negative effects of Islamic finance on these child health outcomes can possibly be explained by a number of reasons including: first Islamic finance can offer health-related services, such as health education, health-care financing, clinical care, training community health workers, health micro-insurance and the construction of hospitals especially through the waqf product; secondly, Islamic finance as an important driver of financial inclusion, taking care of those considered as "unbankable" by the conventional system can help in the development of entrepreneurial activities especially females entrepreneurship hence enabling women to engage in income generating activities (Andriamahery and Qamruzzaman, 2021; Khanum et al., 2020). This in turn helps women take care of the needs of their children including their health care since it is believed that women are more likely to spend additional income on children's well-being (Posso and Athukorala, 2018).

Table 3: The effects of Islamic finance on child health care in Africa (estimation technique: 2SLS)

Variables	(1) Overweight	(2) Mortality	(3) Anaemia prevalence	(4) Probability of dying
Islamic Finance	-0.0692***	-0.0317***	-0.0189	-0.157***
	(0.0205)	(0.00980)	(0.0443)	(0.0262)
Financial Development	0.000938	0.000650***	-0.00448***	0.000208
	(0.000694)	(8.64e-05)	(0.000358)	(0.000233)
Urbanization	-0.0188	0.165***	0.512***	-0.117

	(0.0822)	(0.0200)	(0.0982)	(0.0864)
logGDP per capita	0.333***	-0.0698***	-0.883***	-0.196***
	(0.0608)	(0.0102)	(0.0519)	(0.0401)
Female Labour	0.00364***	0.000518	-0.00292*	-0.00836***
	(0.000776)	(0.000356)	(0.00150)	(0.00128)
CO2 emissions	0.0114	-0.00865***	0.0268***	0.0370***
	(0.0190)	(0.00252)	(0.0101)	(0.00841)
Internet	-0.00300***	-0.00184***	0.00196	0.00338***
	(0.000932)	(0.000218)	(0.00105)	(0.000778)
Political Stability	-0.0245*	-0.0295***	0.0608***	0.0173*
	(0.0148)	(0.00430)	(0.0189)	(0.0103)
Access to electricity	0.00144*	-0.00281***	-0.00769***	-0.00280***
	(0.000830)	(0.000153)	(0.000650)	(0.000552)
Constant	-3.043***	0.930***	10.36***	2.763***
	(0.546)	(0.0918)	(0.463)	(0.359)
Observations	156	553	513	324
R-squared	0.707	0.705	0.730	0.274
Uncentered R-squared	0.842	0.931	0.976	0.773
Number of countries	27	27	27	27

Robust standard errors in parentheses; *** p<0.01, ** p<0.05, * p<0.1
Source: Authors

While financial development proxied by the total amount of credit to the private sector has a negative effect on the prevalence of anaemia in children, it tends to increase under five mortality. These results are contrary to those obtained by Chireshe and Ocran (2020) on the effects of financial development on health outcomes in sub Saharan Africa.

Urbanization tends to worsen child health care in Africa, particularly child mortality and anaemia prevalence among children. This can be justified by the inadequate medical facilities in big cities in most African countries that fail to cope with the increasing urban population. This is partly in line with the results of the study carried out by Ameye and De Weerdt (2020) who concluded that child health care tends to deteriorate at the highest levels of urbanization.

Economic growth plays an important role in the amelioration of children health outcomes. Our results show that logGDP per capita negatively and significantly affects three measures of child health outcomes, mortality, the prevalence of anaemia and the probability of dying. These results are in line with those obtained by Salahuddin et al. (2020). The positive effect on child overweight can be explained by the perception that most families accord to child overweight.

Female labour participation while negatively and significantly affecting the prevalence of anaemia among children and the probability of dying, has a positive and significant effect on child overweight. The role of female labour participation on child health care has been accounted for by the literature by the fact that a well to do woman can guarantee the needs of her household since women are more likely to spend additional income on children's well-being (Posso and Athukorala, 2018). However, the positive effect of female labour participation on child overweight can be explained by the perception most families accord to child overweight. Studies have shown that some families interpret overweight as a sign of good health (O'Brien et al., 2022). This permits a well to do mother to obviously play a role in enhancing overweight in children. The same justification can be advanced for the rest of the control variables vis-à-vis their effects on child overweight.

The effects of CO2 emissions on child health care are mixed. While the effects on child mortality are negative, there exist positive effects on the other measures of child health outcomes. The former effect can be explained by the fact that the activities producing this pollution are able to generate enough resources which are used to produce health related services such as immunization and the construction of modern facilities. The latter effects are in line with the results of previous studies (see, for examples; Brugha and Grigg, 2014; Perera, 2017).

Internet access reduces child overweight and mortality rate while at the same time increases the probability of dying among children. Obasola et al. (2015) have already shown that ICT can positively affect health care. Contrary to the study of Obasola et al. (2015), Panova and Lleras (2016) showed that long term utilization of ICTs can inversely affect mental health. Similarly, political stability also has mixed effects on child health in Africa. While the effects are negative for overweight and mortality, it rather tends to have a positive influence on anaemia prevalence and the probability of dying. Lastly, access to electricity has negative and significant effects on child mortality, anaemia prevalence and probability of dying. This is in line with the results of the study by Irwin et al. (2020), who conceptualized the effect of access to electricity on health in low- and middle-income countries.

4.3 Robustness analysis

4.4 Robustness check: Taking into account disparities in religious practice (2SLS)

The first part of our robustness analysis involves dividing the countries in our sample into two groups: - Muslim dominated and non-Muslim dominated as shown in appendix 3. This division is done based on data provided by the World Population review (WPR, 2021). A country is said to be Muslim dominated if over 50% percent of its population practices Islam and vice versa. The table below provides the combined results of the two groups of countries.

Muslim dominated countries					Non- Muslim dominated countries			
	1	2	3	4	1	2	3	4
Variables	Overweight	Mortality	Anaemia prevalence	Probability of dying	Overweight	Mortality	Anaemia prevalence	Probability of dying
Islamic Finance	0.0126 (-0.0295)	-0.0421*** (-0.012)	-0.113* (-0.0585)	-0.190*** (-0.0402)	-0.109*** (-0.0346)	-0.0531*** (-0.0174)	-0.235*** (-0.048)	-0.0823 (-0.0542)
Financial development	0.00199*** (-0.000591	0.000763*** (-0.000111)	-0.00447*** (-0.000611)	-0.000634** (-0.000323)	0.00233 (-0.00243)	-0.00351*** (-0.00102)	-0.0183*** (-0.00279)	0.0114** (-0.0045)
Urbanization	0.0739 (-0.0586)	0.100*** (-0.0232)	0.146 (-0.133)	-0.278*** (-0.0857)	-0.348* (-0.181)	0.383*** (-0.0715)	1.456*** (-0.172)	0.688** (-0.316)
logGDP per capita	0.160** (-0.0635)	-0.0216 (-0.0193)	-0.443*** (-0.11)	-0.0534 (-0.0529)	0.230** (-0.102)	0.237*** (-0.0284)	0.183* (-0.11)	-0.646*** (-0.149)
Female Labour	0.00276*** (-0.000983)	0.00140*** (-0.000467)	0.00574** (-0.00255)	-0.0193*** (-0.00153)	0.00776*** (-0.00168)	-0.00334*** (-0.000768)	-0.0152*** (-0.00194)	-0.002 (-0.00205)
CO2 emissions	0.0703*** (-0.0136)	-0.0165*** (-0.00364)	-0.0590*** (-0.0166)	0.0181* (-0.00982)	-0.0133 (-0.036)	0.0187 (-0.0138)	0.116*** (-0.0369)	-0.0847 (-0.0575)
Internet	-0.00257*** (-0.000921)	-0.00205*** (-0.00027)	-0.00164 (-0.00129)	0.00353*** (-0.00106)	-0.000635 (-0.00142)	-0.00404*** (-0.000474)	-0.0024 (-0.00163)	-0.00145 (-0.00131)
Political stability	-0.00104 (-0.0122)	-0.0212*** (-0.00425)	0.0351 (-0.0229)	0.00375 (-0.012)	-0.0364 (-0.0225)	-0.0451*** (-0.00717)	0.0311** (-0.0153)	-0.00497 (-0.0164)
Access to electricity	0.000362 (-0.000807)	-0.00303*** (-0.000155)	-0.00685*** (-0.000812)	-0.00631*** (-0.000534)	0.00458*** (-0.00138)	-0.00364*** (-0.000451)	-0.00955*** (-0.00117)	-0.000834 (-0.00144)
Constant	-1.587*** (-0.587)	0.510*** (-0.175)	6.283*** (-0.991)	2.419*** (-0.495)	-2.448*** (-0.864)	-1.471*** (-0.239)	1.804* (-0.961)	5.697*** (-1.272)
Observations	98	324	304	180	58	229	209	144
R-squared	0.837	0.86	0.808	0.544	0.686	0.745	0.899	0.489
Uncentered R-squared	0.894	0.964	0.982	0.843	0.896	0.949	0.992	0.865
Number of countries	16	16	16	16	11	11	11	11

Table 4: The effects of Islamic finance on child healthcare in Africa taking into account disparities in religious practice (2SLS)
Robust standard errors in parentheses; *** p<0.01, ** p<0.05, * p<0.1
Source: Authors

The robustness analyses in table 4 are very much in line with our main results except for a change in the level of significance of the variable Islamic finance. However, it can equally be seen that the effects of Islamic finance on child health care are more pronounced in non-Muslim dominated than Muslim dominated countries. This is so despite the fact that Muslim dominated countries are considered the pioneers of this mode of finance. A possible justification of this result is that in Muslim dominated countries, women labour participation is still not given the same level of importance as is the case in non-Muslim dominated countries (Njoh and Akiwumi, 2012). This however reduces the indirect effects of Islamic finance on child health care in these countries.

4.5 Robustness check: Taking into account disparities in income level (2SLS)

The second robustness analysis of this study is done using the (World Bank, 2021) classification of countries into different income groups. The countries in our sample are divided into two groups, low income and middle income groups as indicated in Appendix 4

After taking into account income level, the results in table 5 below reveal that: as compared to the main results of this study, there is a drop in the level of significance on the effects of Islamic finance on child health outcomes. Specifically in low-income countries, Islamic finance negatively and significantly affects the probability of dying among children in Africa. The effects on the other indicators though negative are insignificant. On the other hand, in middle income countries, the results reveal that Islamic finance negatively and significantly affects overweight, mortality and probability of dying.

Thus, the effects of Islamic finance on child health can vary depending on whether one is talking about middle or low income countries. The fact that these effects are more pronounced in middle income countries can be justified by a number of points: health expenditure in low income countries is low and consequently there exist a high cost of health care services which limits the possible effects of Islamic finance; equally, low level of parental education in these countries especially female education makes parents to accord less importance to child health; there is equally the presence of social norms that reduce women empowerment and consequently child health. Lastly, traditionally, the majority poor do not go to hospital or doctor for medical treatment; they rather use alternative traditional medicine (Rokhman, 2013). All these issues tend to weaken the channels through which Islamic finance can affect child health. These factors, though present in middle-income countries, are considered less severe as compared to low income countries.

	Middle income countries				Low income countries			
	1	2	3	4	1	2	3	4
Variables	Overweight	Mortality	Anaemia prevalence	Probability of dying	Overweight	Mortality	Anaemia prevalence	Probability of dying
Islamic finance	-0.111*** (-0.0332)	-0.0386*** (-0.0114)	0.121** (-0.0501)	-0.0727** (-0.035)	-0.00501 (-0.0225)	-0.0116 (-0.0191)	0.0962 (-0.0626)	-0.213*** (-0.061)
Financial development	7.59E-05 (-0.00096)	0.000756*** (-0.00016)	-0.00439*** (-0.000752)	0.00166*** (-0.000482)	0.000506 (-0.000586)	0.00108*** (-0.000249)	0.0013 (-0.00119)	0.00202** (-0.00102)
Urbanization	-0.101 (-0.103)	0.183*** (-0.0244)	0.784*** (-0.108)	0.174 (-0.126)	0.208*** (-0.0758)	0.261*** (-0.0704)	0.0749 (-0.253)	-0.443*** (-0.117)
logGDP per capita	0.334*** (-0.0885)	-0.0886*** (-0.0184)	-1.029*** (-0.0854)	-0.190*** (-0.0507)	0.507*** (-0.0797)	-0.00586 (-0.0291)	-1.472*** (-0.14)	-0.263*** (-0.0577)
Labour participation	0.00376*** (-0.000916)	-8.67E-05 (-0.000402)	-0.00738*** (-0.00148)	-0.00504*** (-0.00142)	-0.00214 (-0.00179)	-4.65E-05 (-0.00104)	0.0278*** (-0.00524)	-0.0118*** (-0.0028)
CO2 emissions	0.0185 (-0.0244)	-0.00943*** (-0.00335)	0.0268* (-0.014)	0.0211** (-0.0103)	-0.820*** (-0.161)	-0.118 (-0.0982)	2.464*** (-0.41)	1.212*** (-0.334)
Internet	-0.00201* (-0.00113)	-0.00198*** (-0.000257)	0.00146 (-0.00136)	0.000855 (-0.000803)	-0.00308** (-0.00149)	-0.000957 (-0.00101)	0.00662* (-0.00359)	0.00292* (-0.00168)
Political stability	-0.027 (-0.0207)	-0.0360*** (-0.00736)	0.0980*** (-0.0264)	0.0247* (-0.0131)	-0.0067 (-0.0134)	-0.0138 (-0.00875)	-0.0242 (-0.0391)	0.0340* (-0.0183)
Access to electricity	0.00195** (-0.000956)	-0.00265*** (-0.000166)	-0.00901*** (-0.000695)	-0.00451*** (-0.00085)	-0.000223 (-0.000743)	-0.00633*** (-0.000788)	-0.0118*** (-0.00317)	-0.00614*** (-0.00176)
Constant	-3.022*** (-0.776)	1.122*** (-0.165)	11.84*** (-0.728)	2.428*** (-0.455)	-4.062*** (-0.663)	0.448* (-0.248)	12.98*** (-1.165)	3.526*** (-0.644)
Observations	86	351	323	207	70	202	190	117
R-squared	0.724	0.7	0.793	0.379	0.761	0.611	0.683	0.608
Uncentered R2	0.874	0.91	0.978	0.822	0.856	0.962	0.984	0.862
Number of countries	17	17	17	17	10	10	10	10

Table 5: The effects of Islamic finance on child healthcare in Africa taking into account disparities in income level (2SLS)
Robust standard errors in parentheses; *** p<0.01, ** p<0.05, * p<0
Source: Authors

5. Conclusion and Recommendations

This study examined the effects of Islamic finance on child health care in 27 African countries over the period 1975 to 2021. The data on different variables were gathered from the World Bank data and the World Population Review statistics. After controlling for potential endogeneity, our 2SLS results reveal that Islamic finance ameliorates child health care in Africa. Specifically, we found evidence of a negative and statistically significant effects of Islamic finance on child overweight (at 1% level of significance), infant mortality (at 1% level of significance) and probability of dying at an early age among young children (at 1% level of significance). While the effects of Islamic finance on the prevalence of anaemia among children are negative, they are not statistically significant. Our robustness analysis takes into account differences in religion and income level of the countries in our sample. The first results of this analysis reveal that the effects of Islamic finance on child health care are more pronounced in non-Muslim dominated than Muslim dominated countries. The second results of our robustness analysis indicate that the effects of Islamic finance on child health care are more pronounced in middle income countries than in low income countries. The findings of this study are consistent with the empirical literature and support the view that African countries can turn to Islamic finance for the promotion of child health care in particular and health care in general vis-à-vis the attainment of the 2030 United Nations SDGs.

From a policy perspective, the following measures could be adopted to increase child health care in Africa. Policymakers should put in place the necessary mechanisms for the promotion of Islamic finance such as the enacting laws that ensures the creation of full-fledged Islamic banks. Secondly more people especially women should be encouraged to patronize Islamic finance by creating awareness on the benefits and the specificities of Islamic mode of financing, laying emphasis on the sharia-compliant of Islamic finance institutions etc. Lastly based on our findings, there is the need for policymakers to adopt some accompanying measures such as reducing the cost of health care, encouraging female education amongst others. To the researchers, there is the need to adopt a more concrete measure of Islamic finance such as the total Islamic finance assets value as a percentage of total financial assets, total value of sukuk, etc even though this information is not currently available for many countries on the continent.

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Appendix 1: Data sources

Variables	Indicators	Data sources
Overweight	Percentage of children under age 5 whose weight for height is more than two standard deviations above the median for the international reference population of the corresponding age.	WDI (2021)
Mortality	the number of infants dying before reaching one year of age, per 1,000 live births in a given year.	Health Nutrition and Population statistics (2021)
Anaemia prevalence	Percentage of children ages 6-59 months whose hemoglobin level is less than 110 grams per liter, adjusted for altitude.	Health Nutrition and Population statistics (2021)
Probability of dying	Probability of dying between ages 5-9 years of age expressed per 1,000 children aged 5, if subject to age-specific mortality rates of the specified year.	Health Nutrition and Population statistics (2021)
Islamic finance	Binary variable (0 1)	Computed by authors
Financial development	Total amount of credit to the private sector	WDI (2021)
Urbanization	Percentage of population living in urban areas	WDI (2021)
Economic growth	LogGDP per capita	WDI (2021)
Female labour	Rate of female labour participation	WDI (2021)
CO2 emission	Those stemming from the burning of fossil fuels and the manufacture of cement.	Environment Social and Governance Indicators (2021)
Political stability	Perceptions of the likelihood of political instability and/or politically-motivated violence, including terrorism.	WDI (2021)
Access to electricity	Percentage of population with access to electricity	Environment Social and Governance Indicators (2021)

Source: Authors

Appendix 2: Islamic finance in Africa

Countries	Year of introduction	Muslim % of total population
Sudan	1977	97
Egypt	1979	92.35
Mauritania	1980	100
Niger	1983	98.3
Guinea Conakry	1983	89.1
Senegal	1983	96.1
Tunisia	1983	99.8
South Africa	1989	1.9
Algeria	1991	99
Nigeria	1992	49.60
Gambia	1994	95.7

Chad	1997	58
Somalia	1998	99.8
Mauritius	1998	17.3
Kenya	2005	11.2
Djibouti	2006	97
Tanzania	2008	35.2
Ethiopia	2008	33.9
Ghana	2010	18
Libya	2011	97
Mali	2014	95
Cameroon	2015	30
Burkina Faso	2015	61.5
Uganda	2017	14
Morocco	2017	99
Ivory Coast	2018	42.5
Benin	2018	27.7

Source: Authors' compilation based on (Ngono 2021; Daoud and Kammoun, 2020; WPR, 2021)

Appendix 3: List of countries by religion

Non-Muslim dominated	Muslim dominated
South Africa, Tanzania, Ghana, Benin, Kenya, Mauritius, Cameroon, Ivory Coast, Ethiopia, Uganda, Nigeria	Algeria, Libya, Senegal, Mauritania, Djibouti, Morocco, Tunisia, Egypt, Sudan, Mali, Guinea, Chad, Burkina Faso, Somalia, Gambia, Niger

Appendix 4: List of countries by income level

Middle income countries	Low income countries
Algeria, Libya, Nigeria, Senegal, South Africa, Tanzania, Mauritania, Ghana, Benin, Djibouti, Kenya, Mauritius, Morocco, Tunisia, Cameroon, Ivory Coast, Egypt	Gambia, Sudan, Uganda, Somalia, Niger, Guinea, Chad, Burkina Faso, Ethiopia, Mali

Source: Authors' based on (WDI, 2021)

Overidentification tests of all instruments
Dependent variable: Overweight

Underidentification test of all instruments (Kleibergen-Paap rk LM statistic)	Chi-sq(2) P-val = 0.0000
Overidentification test of all instruments (Hansen J statistic)	Chi-sq(1) P-val = 0.3222
Weak identification test (Cragg-Donald Wald F statistic):	79.844
(Kleibergen-Paap rk Wald F statistic):	46.630
Stock-Yogo weak ID test critical values:	
10% maximal IV size	13.43
15% maximal IV size	8.18
20% maximal IV size	6.40
25% maximal IV size	5.45

Dependent variable: Probability of dying

Underidentification test of all instruments (Kleibergen-Paap rk LM statistic)	Chi-sq(2) P-val = 0.0000
Overidentification test of all instruments (Hansen J statistic)	Chi-sq(1) P-val = 0.1436
Weak identification test (Cragg-Donald Wald F statistic):	234.236
(Kleibergen-Paap rk Wald F statistic):	107.102
Stock-Yogo weak ID test critical values:	
10% maximal IV size	13.43
15% maximal IV size	8.18
20% maximal IV size	6.40
25% maximal IV size	5.45

Dependent variable: Anemia prevalence

Underidentification test of all instruments (Kleibergen-Paap rk LM statistic)	Chi-sq(2) P-val = 0.0000
Overidentification test of all instruments (Hansen J statistic)	Chi-sq(1) P-val = 0.5604
Weak identification test (Cragg-Donald Wald F statistic):	499.334
(Kleibergen-Paap rk Wald F statistic):	255.534
Stock-Yogo weak ID test critical values:	
10% maximal IV size	13.43
15% maximal IV size	8.18
20% maximal IV size	6.40
25% maximal IV size	5.45

Dependent variable: Mortality

Underidentification test of all instruments (Kleibergen-Paap rk LM statistic)	Chi-sq(2) P-val = 0.0000
Overidentification test of all instruments (Hansen J statistic)	Chi-sq(1) P-val = 0.2533
Weak identification test (Cragg-Donald Wald F statistic):	538.864
(Kleibergen-Paap rk Wald F statistic):	286.110
Stock-Yogo weak ID test critical values:	
10% maximal IV size	13.43
15% maximal IV size	8.18
20% maximal IV size	6.40
25% maximal IV size	5.45

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