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Sukuk and Waqf: Proposal of Structures During the Crisis Linked to Covid-19 Pandemic – Case of Morocco

Hafssa Yerrou, Bezoui Oumaima*

Hassan II University, Casablanca, Morocco

*Corresponding author: boumaima@hotmail.fr

Abstract

The Covid-19 crisis is an unprecedented situation in modern society that requires unique and unprecedented solutions. Islamic finance, as a system that works for the good of the community, is an appropriate solution to this situation. Through its traditional Islamic economic institutions (Waqf and Zakat), and once they are put in collaboration with Islamic financial instruments such as Sukuk, the result will allow new funds to be integrated into the market and used for the purpose supporting activities and populations damaged by the crisis. It is under this aspect that we present this article, which demonstrates that Islamic finance and more particularly Sukuk, can be used as an economic catalyst in the event of crisis. Various studies have examined the issuance of Sukuk; yet no research has ever studied the specific use of Sukuk for protection against Covid-19 or for strengthening populations that were economically affected by the crisis, nor has it display the various Sukuk structures that could be used to empower people or help overcoming the crisis. Our research attempts to understand the basic content of Sukuk issuances and the scope of their use as a tool for economic empowerment in times of crisis. It also provides several past experiences that may support future Sukuk issuance for mitigating and combating the impact of the Covid-19 crisis. Our study both shows successful examples that could be implemented in Morocco and helps predict issues and challenges that could hinder the success of future Sukuk issuances.

Keywords: *Covid-19, Crisis, Sukuk, Waqf, Zakat*

1. Introduction

The subprime financial crisis highlighted the stability of Sukuk (Hanim et al., 2010; Ahmed, 2010). Similarly, multiple studies have indicated that Sukuk are a viable solution in the event of financial crises due to their lower volatility compared to stocks and their ability to diversify a portfolio (Sclip et al., 2016) and their relative stability (Hanim et al. 2010).

The Covid-19 crisis has also shaken the world economy and raised the need for financing for populations whose activity has been affected by the recession and the global slowdown in economic activity. In Morocco, health instability has caused and amplified the economic crisis (also linked to the poor cereal harvest), which has deteriorated the financial situation and the quality of life of poor populations. The situation is similar for the active populations of the economic segments most affected by the deterioration of the overall financial capacity of Moroccan households, in particular activities related to entertainment, hotels and tourism. In this regard, the EU delegation note of the commercial section of the European Union in Morocco indicates a loss estimated at 34.1 billion dirhams in terms of tourism turnover in 2020 and 14 billion dirhams in terms of turnover for the hotel industry, for a fall of nearly 6 million tourists (-98%), which would cause a total loss of 11.6 million dirhams of overnight stays) (EU delegation note of 26/03/2020).

However, the health crisis has benefited the sales of other activities (although they are of a limited number) which have developed and made remarkable gains, namely activities related to hospitalization and health services, activities related to technology and telecommunications (the wholesale distributor of computer

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hardware and software and telecommunication in Morocco, Disway, consolidated a turnover during 2020 allowing it to grow by 21.1% compared to the previous year), and e-commerce (according to a survey by Research and Quality Consulting and "les Eco", e-commerce recorded during the 1st half of 2020 an increase of 31.3% in number and 23.6% in amount compared to the same period in 2019) (LesEco.ma, 2020). Thus, although the crisis has devastated the financial situation of certain activities, it has benefited other segments by providing them with additional funds that can be invested or reinjected into the economy to minimize the impact of the crisis.

Sukuk are the most popular instrument of Islamic finance. According to the latest IIFM report dated 2021, Sukuk issues during 2020 reached $42,408 billion (IIFM, 2021). Indeed, the 2020 report indicates that in the context of the Covid-19 crisis, Sukuk will continue to grow through sovereign and quasi-sovereign issuances (IIFM, 2020, p.49), which indicates the importance of the government support in overcoming the crisis.

Structured according to Islamic securitization and in compliance with the precepts of Shari'ah, Sukuk are instruments allowing the raising of funds for the financial needs of activities that are linked to the real economy without leverage. Thus, Sukuk are a viable tool for financing the economic activities of disadvantaged populations affected by the crisis. By linking them to the traditional Islamic economic institutions of Waqf and Zakat, Sukuk can be the solution to promote the economy and overcome the crisis.

Through a review of Sukuk and their role as an economic catalyst, which we present in the first section, then we reveal the use of Sukuk linked to the Waqf (Waqf-Sukuk) in micro financing in the second section. Through the methodology of qualitative descriptive analysis approach by exploring the relevant literature, we will continue our study with an overview of Sukuk financing opportunities for the purpose of protection against the pandemic (vaccine Sukuk), and the revival of economic activity. Finally, we will present the challenges of this mode of financing and the tools allowing the spread of its use in the face of crises.

2. Methodology

This study uses qualitative descriptive analysis approach. We explore relevant literature that has tackled the use of Sukuk and Waqf as an instrument to alleviate significant social and economic issues. Through our approach, we have determined several Sukuk structures, linking Sukuk to Waqf, that have been used in different countries, i.e., Malaysia, Indonesia, and Singapore.

According to the qualitative descriptive analysis approach, we have built a sample of studies that have answered the question of proposing viable Sukuk and Waqf structures that will enable the resolution of social and economic issues. Our sample was constructed by using research keywords of "Waqf-Sukuk" and "Endowment Sukuk". The choice of articles is those with a proposal of Waqf-Sukuk structures.

3. From Financing to Empowerment: Sukuk and Economic Empowerment

3.1. Sukuk as an economic catalyst

Sukuk are "Certificates of equal value representing undivided shares in the ownership of tangible assets, usufructs and services belonging to particular projects or a specific investment activity. This being true after receipt of the value of the Sukuk, the closing of the subscription and the use of the funds received for the purposes for which the Sukuk were issued." (AAOIFI, 2004).

Due to their specificity, Sukuk have become one of the most important mechanisms for raising funds in international capital markets, thanks to their "Islamically" acceptable structures (Askari, 2023). These are securities issued, based on a Shari'ah-compliant contract, in the name of their issuers or holders, in equal values which represent financial rights and obligations. They represent a property in goods dedicated to investment namely real assets, profits, services or a combination of assets, currency, and debts, and they are securities that do not represent a debt of the issuer on the bearer of the Sukuk. Their bearers are partners in the profits, the distribution of which is made according to the conditions of the issuance bulletin which is a document that describes all aspects of the issuance (issuance amount, issuer information). In addition, the issuer and the investors are responsible for their losses (Askari, 2023), each according to the proportion of their ownership and the conditions negotiated at the start of the transaction.

Sukuk can be structured in different structures using the 14 modes of financing following the available Islamic contracts. These structures can be adapted to meet the specific needs of any population according to their economic activities and the needs of the latter. Indeed, it could be Sukuk Salam or degressive Sukuk Musharakah for farmers (Sakti, 2021). In the same context of agriculture, Sukuk can take the form of sovereign issuance for the financing of government projects aimed at supporting irrigation infrastructure and participation in harvest products. Thus, in the sections to come, we will provide different types of Sukuk and detail how Sukuk are used in the economic empowerment of vulnerable populations especially in crisis situations.

3.1.1 Waqf Sukuk

The practice of Waqf has long been a subject of discussion. Properties made available by the Waqif (or the donor of the Waqf property) are used exclusively as service providers to the community or a targeted section of the community. This focus on service provision, which until now characterizes the use of Waqf assets, limits the impact of the institution of the Waqf on society and hinders the development of its assets. The issuance of Waqf-Sukuk is presented as an innovative instrument to maintain and expand the properties of the Waqf and to achieve greater social and economic impacts on populations in need, particularly in crisis situations.

Waqf-Sukuk or Endowment Sukuk are sukuk issued using Waqf assets and properties as underlying assets. Indeed, the Waqf is considered, from the Islamic economic point of view, as a true institution supporting and providing economic assistance to the communities. Thus, when connected to Islamic finance through its combination with Sukuk, it will provide wider opportunities and open new growth prospects and have a valuable impact on the economic recovery of activities affected by the pandemic (Patria, 2020).

From 2013, several research (see, for examples, Ibrahim, 2013; Mohsin, 2013; Zain and Sori, 2017) have shown how countries, namely, Indonesia, Singapore, and Malaysia, have made efforts in the revitalization of Waqf properties and also in order to generate additional income for the improvement of its socio-economic impact, notably Singapore which is one of the pioneering countries in revitalizing the properties of the Waqf both in terms of practice and the development of institutional infrastructure. More recently, other efforts have been made by researchers to propose viable Waqf Sukuk structures to revitalize the Waqf properties (Bushra et al., 2022; Umar and Danlami, 2022; Ascarya and Masrifah, 2023).

Similarly, the Waqf assets currently available in several Muslim countries can be used as underlying assets for Sukuk issues, the funds of which will be deployed for the economic recovery of activities that have experienced a recession due to the pandemic (events, tourism, etc.) or the empowerment of the active population of these economic activities by directing them towards other activities which have experienced a boom during the Covid-19 crisis (telecommunications, delivery service, health service, etc.). In addition to the exploitation of Islamic finance to raise funds to revitalize the properties of the Waqf and make them beneficial, another possibility linking the Cash Waqf (Waqf Nuqud) and the Sukuk can be proposed, and this, in the form of Sukuk Mudarabah, with the institution of the Waqf as an investor and the active populations as an entrepreneur. This will make it possible to finance the activities of the populations affected by the crisis, either through the development of their current activities or the financing of new profitable activities during the crisis.

Thus, the structures of the Mudarabah and Musharakah Sukuk can generate income for the socio-economic development of the community (Hasan et al., 2021) especially in the event of a crisis. Although this idea has not yet been implemented, it involves a great potential for collaboration between the Waqf and Islamic finance in the contemporary world.

What is even more interesting in this combination is to allow the Sukuk and the Waqf in cash to serve another mission. Rather than contributing only to the redistribution of capital, this structure can also be used as a capital accumulation tool that will be dedicated to the financing of income-generating activities. Adopted from the study by Aziz et al. (2013), the Islamic bank can be responsible for issuing Cash-Waqf Sukuk to the public through Waqf institutions. Once these deposits are made, the bank can disburse the money, which is dedicated to nano-finance to meet the emergency needs of micro-enterprises through Islamic cooperatives (Shirazi et al., 2018). In the same context of micro and nano-finance, the following subsection will be dedicated to the presentation of Sukuk for the financing of micro and nano projects.

3.1.2 Sukuk for microfinance

Microfinance and Islamic finance share the same goals and objectives to some extent. Both aim to promote the creation of value for populations, and to encourage a fair distribution of income by encouraging sustainable income growth for micro-projects (Rohman et al., 2021).

In the pandemic situation, the issuance of sovereign Sukuk for support to populations affected by the economic recession is a tool for economic recovery. The government can set up a special micro-finance entity that will collect funds from investors through the issuance of Sukuk. Funds generated from the issuance of

Sukuk will be used to provide financing to micro-enterprises based on Musharakah or Mudarabah profit-sharing modes. Indeed, empowering affected populations through Sukuk-based micro-financing is relatively less costly than dedicated grant aid funds and financial support provided to them. This observation is true insofar as the subsidies do not generate profits and are dedicated to consumption, unlike the financing Sukuk which empower the populations and make them financially independent.

Furthermore, the Waqf-Sukuk structure can be integrated into micro-funding programs to effectively reduce the absolute inactivity of employees of crisis-affected activities through contracts of Qard al-Hassan (benevolent lending/loan without interest) or Mudarabah and Musharakah (Kholid and al., 2005). Thus, Mudarabah Waqf-Sukuk, Musharakah Waqf-Sukuk and Cash Waqf Sukuk can be designed to enable people with no income and very weak businesses to get out of the crisis cycle.

The issuance of Sukuk based on Waqf properties is also an option for Islamic microfinance institutions to finance micro-enterprises or small and medium-sized enterprises whose activity is impacted by the crisis. Indonesia's experience has shown the potential of the Waqf-Sukuk and its ability to be an Islamic instrument of nano finance (Yasin, 2021). This collaboration between the Waqf and the Sukuk provides funds for the empowerment and economic recovery of communities made vulnerable by the crisis.

One of the first studies of Sukuk employment in collaboration with Waqf and microfinance was conducted in Indonesia by Musari (2016). The study made it possible to build a Sukuk scheme for micro-finance through a program linking between Islamic banks and Islamic micro-finance institutions. The study proposed institutional arrangements for authorities and policy makers to put in place a regulatory framework for the development of Islamic microfinance. Finally, this study proves that Sukuk can be positioned as a tool for managing the lack and excess of liquidity and that these instruments have the capacity to be a bridge linking the financial sector and the real sector and can substantially meet the needs of the needy community.

During the Covid-19 pandemic, several other studies has been conducted with the objective to review what measures can be proposed to face the impact of the pandemic. Chenguel (2023) shows how Islamic social instruments, like Zakat (obligatory year charity) and Qard al-Hassan, and Sukuk can be used to face the crisis. Additionally, Sulaeman et al. (2022) studied how Cash-Waqf linked Sukuk can spur Indonesia in recovering the economic recovery in the aftermath of the pandemic. The study shows that Cash Waqf Sukuk returns can be used in the social and economic development in Indonesia.

4. Issuing Opportunities of Covid-Sukuk

We have analysed and explained how Sukuk can be an interesting catalyst for empowerment and economic revival, whether structured in combination with other Islamic social instruments or using their classical structures. Indeed, various experiments have been launched in economic empowerment programs using this specific Islamic financial instrument (Musari, 2016; Khouildi and Kassim, 2019). Likewise, there are many best practices around the world and schemes for issuing Sukuk combined with Waqf and Zakat with the aim of alleviating poverty and empowering communities whose incomes have become inexistant or severely diminished by the crisis (Hasan et al., 2021).

The IIFM (International Islamic Financial Market) report indicates that in the context of the Covid-19 crisis, Sukuk will continue to grow through sovereign and quasi-sovereign issuances (IIFM, 2020, p.49), which indicates the importance of government support in overcoming the crisis. The involvement of governments in the issuance of Sukuk is of ultimate importance, particularly for the realization of infrastructure projects that will give rise to lucrative economic activities allowing people to create value and to ensure and guarantee financial stability.

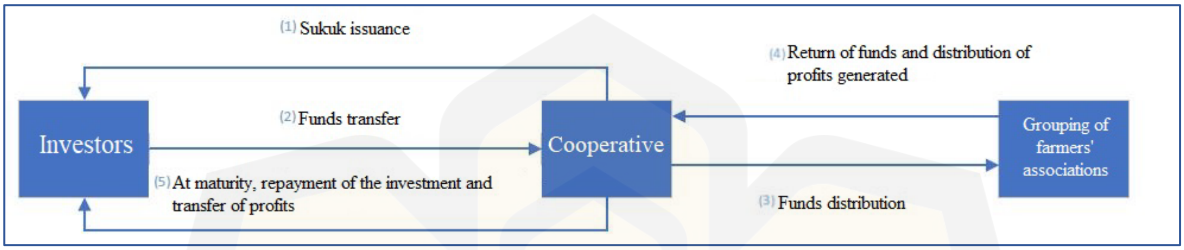
In the case of Morocco, this involvement can take the form of issuing sovereign Sukuk for the construction of irrigation infrastructure and participation in the proceeds of the harvest. Such state intervention could be used in the case of the Green Morocco project launched by the Moroccan government, which consists of providing various supports to farmers to enable them to implement precision farming practices and to improve their production. In addition, the following subsections will present other patterns of possible Sukuk issuances with more details on their structures.

4.1 Sukuk for cooperatives

During the health crisis, the most vulnerable structures are small businesses and cooperatives whose activity is related to entertainment or consumption (excluding the consumption of basic necessities). These very small businesses experienced a general slowdown given the change in the consumption behaviour of the populations during this period because of the confinement put in place (Martin et al., 2020).

Following the Indonesian example (Musari, 2016) which made it possible through Sukuk (as a micro-financing tool) to finance the grouping of farmers' associations (previously without the possibility of bank financing, including from Islamic banks) by launching Sukuk for cooperatives based on the Mudarabah contract.

Diagram 1: Structure of the Mudarabah sukuk of the association of farmer groups – Indonesia



Source: Adapted from Musari (2016)

Diagram 1 shows the practical use of Sukuk as a micro-finance instrument that provides essential working capital to Indonesian farmers who do not benefit from banking inclusion. Indeed, the combination of Sukuk and nano- finance has produced a financing model that has been proven successful in Indonesia (Musari, 2018) and has resulted in the mobilization of attractive funds to strengthen the financial position of farmers. This profit and loss sharing model between fund seekers (having no other funding alternatives) and investors can be replicated to meet funding needs during the Covid-19 period.

In addition, active populations in the agricultural and textile sectors (whose production must be converted to the need for the health crisis through the manufacture of masks, for example.) will be able to create similar associations and launch Sukuk to ensure the financing of their activities with the involvement of the government. In what follows, we will analyse the possibility of issuing Sukuk, for the revival of activities affected by the crisis.

4.2 Economic stimulus Sukuk

In this section we offer Sukuk compatible with the conditions of the Covid-19 crisis. Like all capital market issues, the issue of Sukuk is a costly operation which requires significant financing funds, which makes Sukuk issues monopolized by issuers with large funds to finance the operation.

Economic stimulus Sukuk during the Covid-19 period are Sukuk issued by the State and whose raised capital will be dedicated to fund applicants whose activities has been seriously affected by the crisis, namely entertainment, catering, travel agencies and consumer-related activities including textiles and others. In the case of these Sukuk, the issuance operation will be financed by the Covid-19 fund (set up in Morocco at the start of the pandemic to support populations who have lost all income during this crisis). Possession of the Sukuk will be made available not only to large investors (the traditional target buyers of all issues namely Islamic and conventional banks, pension funds and others) but also to the small investor by providing “Retail Sukuk”.

This structure primarily affecting the marketing (promotion) of Sukuk to a new target never served before in Morocco, and who were able to save during the crisis because of the profits accumulated from their usual activities (health activity) or during the confinement which reduced and changed their consumption behaviour. After the revival of the economy through the revival Sukuk, it is necessary to study and analyse the establishment of the Sukuk for the vaccination and immunization of the population to avoid the reproduction of such an economic crisis due to Covid-19.

4.3 Vaccine Sukuk

The Sukuk for vaccination is an application of the World Bank Treasury (WBT), in which the first operation took place in 2014. The WBT supported the International Financial Institution for Immunization (IFFIm) to successfully issue two Sukuk in less than a year, to raise 500 million dollars for the vaccination of children in the world's poorest countries (IFFIm, 2014), while guaranteeing a competitive rate of return (Salina et al., 2021). These Sukuk were oversubscribed, it allowed investors to gain and the community to benefit from the vaccination program.

This issue was followed by two other issues, the last of which, in 2019 for a total of 50 million dollars, was in cooperation with the Islamic Development Bank (IDB) and was based on the Murabahah structure. The IFFIm raises funds on the international capital markets to accelerate the availability of funds to finance its programs of vaccination and strengthening of the health system. Thus, IFFIm's financial base consists of legally binding grant payments, approximately $6.3 billion, from its nine sovereign donors.

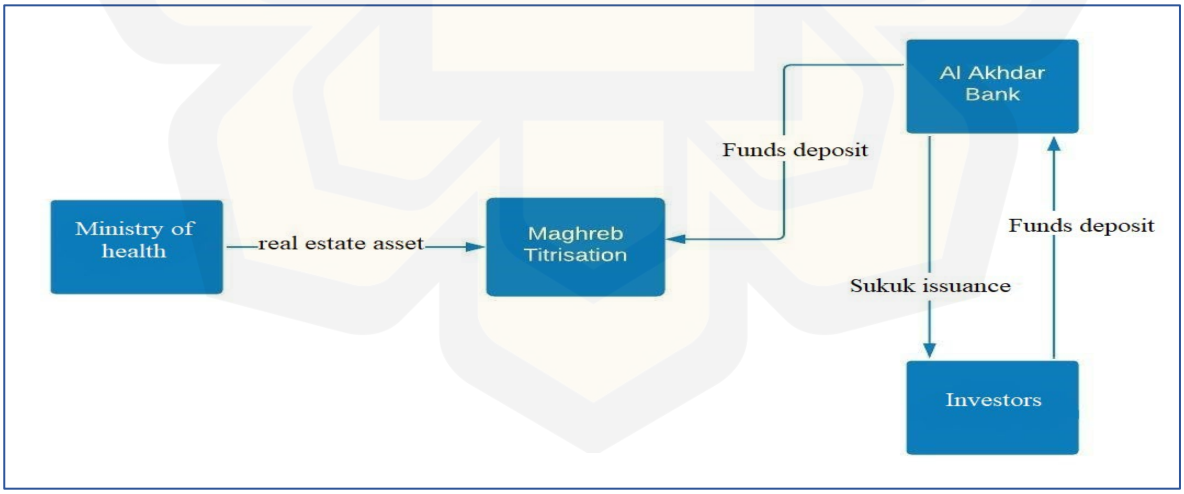
Theoretically, the impact obtained from this vaccination campaign could benefit the government because the cost of hospitalization can be avoided. This includes the cost of resources such as hospitals, doctors, hospital fees, which can be spent on other areas. Thus, part of these savings is used to reimburse Sukuk holders (Dorsett, 2017). By reproducing this structure, Morocco will have the opportunity to benefit from the same advantages as the beneficiary countries of the "Vaccine Sukuk".

Morocco made its first issue of domestic sovereign Sukuk in October 2018. The FT Imperium Sukuk, issued in the amount of 1 billion dirhams amortizable over a period of 5 years, were structured according to the Ijarah contract, and this, through the securitization of real estate assets belonging to the State. The subscription rate reached 3.6 times, which clearly indicates the need and interest of financial actors in the Islamic finance market and resident investors, including pension funds and organisations for collective investment in transferable securities, in this financial instrument (Standard & Poor's, 2022).

The Moroccan State, as the initiating institution, has created a compartment of funds arranged and managed by "Maghreb securitization" by placing state real estate assets there. The Sukuk were issued by the investment syndicate i.e., Al Akhdar Bank, the underlying assets were leased, and the rental income distributed to investors at an annual rate of return of 2.66% (Maghreb Titrisation Report, 2022).

Based on the steps followed in the first sovereign Sukuk issuance in Morocco, we propose below an operation of issuing Sukuk for the vaccine. However, according to Maghreb securitization and during the pandemic only Ijarah Sukuk certificates were operational. Thus, we propose an operation based on the Ijarah Sukuk, according to the explanatory diagram of the issuance operation shown below:

Diagram 2: Ijarah Vaccine Sukuk



Source: Authors'

The Ministry of Health as the issuer of the Sukuk for vaccination, will deposit assets in the compartment of funds created for the management of the issue by Maghreb securitization. State real estate assets (private university halls of residence, offices, etc.) will be rented and Sukuk holders will receive their annual income. Indeed, this operation will also benefit the development strategy of OPCIs (organisation for collective investment in real estate) in Morocco, launched since 2018 with the publication of law No. 70-14 relating to

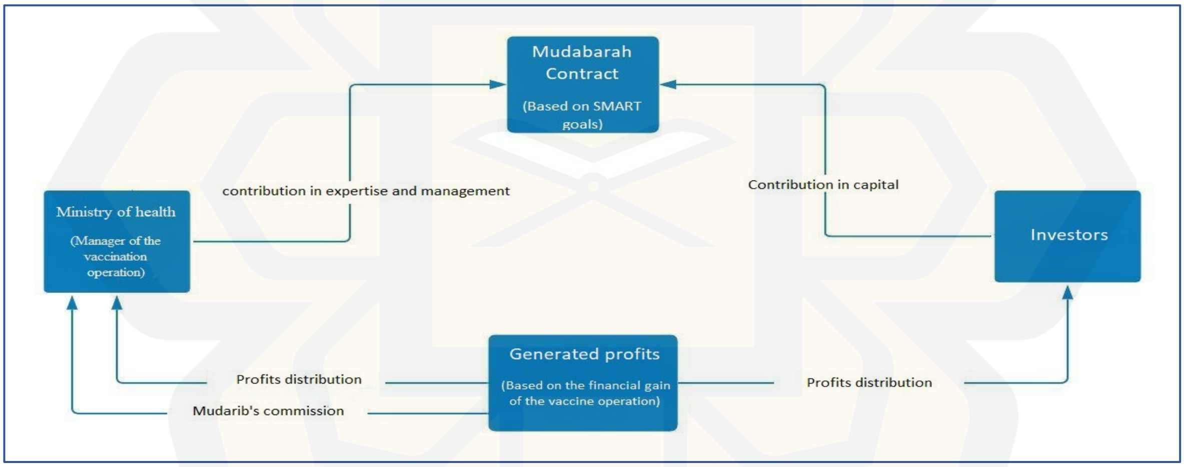
OPCIs and whose Sukuk are at the heart of the system.

In addition, another Sukuk issuance operation option could be adapted if the rest of the Sukuk structures were applicable in Morocco during the pandemic. It is a form of financing whose rate of benefit will be designated according to the gain made by the State from the vaccination operation (revival of the activities of economic sectors that have been in decline during containment, i.e., tourism, air transport, entertainment activities, etc., the reduction in budgets allocated to the Covid-19 tests, hospitalization, etc).

Indeed, the sukuk Mudarabah are a way out for the realization of this operation. The State being the entrepreneur (Mudarib) must ensure the management of the vaccination and the investor (Rab el Mal) undertakes to fully finance the project. The rate of profits sharing between the partners will be fixed based on the degree of achievement of SMART (Specific, Measurable, Attainable, Realistic and Timely) objectives defined before the launch of the operation. Investors will benefit at the end of this vaccination operation from income distributed between the contracting parties according to a distribution key to be defined at the start of the Sukuk issuance operation.

Once the Sukuk are issued, investors will receive income based on the perceived gains from vaccination i.e., through reduction in hospitalization costs, revival of economic activity once confinement is no longer a necessity, cost of State subsidies to produce masks and other sanitary products and the costs of subsidizing inactive populations due to confinement. Diagram 3 below shows the operation of the Mudarabah Sukuk for vaccination.

Diagram 3: Structure of Mudarabah sukuk for vaccination



Source: Authors'

Although the analysis of the exploitation of Sukuk in innovative structures has allowed us to propose several forms of issuance of Sukuk, possible for overcoming the Covid-19 crisis, and on the economic and health levels, these financial instruments face challenges preventing their widespread use. The unavailability of structures other than the Ijarah structure in Morocco was a main challenge that was newly overcame by the publication of a series of Ministerial Decrees on the 4th of August 2022. These decrees provide technical specificities of other contracts (Musharakah, Salam, Mudarabah, Murabahah, Istisnaa, Wakalah) and thus opening their use to financial actors. In what follows, we will present our analysis of the Sukuk challenges on which the obligation to act is now urgent.

5. Sukuk Challenges

Sukuk market is still in a development stage. Its growth has been remarkable to date with global outstanding of $722.8 billion at end of first quarters of 2022 (Fitch rating Global sukuk market outlook 1Q2022). At this scale of development, facing challenges and shortcomings is a sign of continued growth especially if the financial community and Islamic financial institutions are aware of them and are determined to overcome. One of the main obstacles relates to the legal and regulatory constraints that prevent private sector participation in the issuance of Sukuk in the OIC countries. In the jurisdiction of these countries, it is impossible to obtain satisfactory legal advice, which implies the impossibility of receiving a rating. The lack of a widely respected and regarded rating is one of the most significant challenges hindering the development of Sukuk issuance (Al bashir, 2022), and thus improving the use of Sukuk structure proposals mentioned in our article.

However, regulatory, and legal constraints are not seen as the only challenge. The ongoing discussion of asset-based Sukuk and asset-backed Sukuk is causing Sukuk to lose a lot of potential investors especially since no real transfer of assets takes place (Bezoui and Yerrou, 2021). Thus, this question should be studied and discussed to clarify any ambiguity for non-expert investors. In addition, the compatibility of the structures of the Sukuk must also be clear to allow investors, always worried about the Shari'ah aspect of the structures issued on the market, to embark on the subscription to the Sukuk, and this by adapting Islamic structures and not inspired by conventional finance. Indeed, this ignorance of the hidden possibilities and inherent potential of Sukuk builds barriers and prevents wider broadcast. The lack of knowledge of the great possible contribution of the wide range of Islamic financial instruments, during crises but also in normal situations, in achieving the objectives of poverty reduction and empowerment, is a real shortfall.

From our review, it is evident that the Sukuk market needs a stronger and dedicated regulatory and supervisory structure in Islamic countries. Harmonization of methods, standards and structures and greater clarity in the case of cross-border transactions is also of considerable need, particularly if market actors want to deal with unethical practices such as "Fatwa shopping". The demands for the existence of a central Shari'ah committee that has the right to impose international standards on domestic IFIs (Islamic Financial Institutions) while considering local specificities should be supported in order to overcome this challenge. Thus, standardizing will unify the practice in the Sukuk markets, which is "the very spirit and essence of the Muslim faith" (Jouti, 2013).

The establishment of a single and standard model will thus make it possible to popularize Islamic financial concepts and make practices easier to understand and control by regulators while ensuring interconnection between the different Islamic financial systems (Jouti, 2013), which will allow the comparability of international Sukuk and therefore a clearer valuation of Sukuk, and a more accentuated opening of negotiations on the secondary market and therefore the strengthening of the liquidity of these securities which is also one of the major challenges. Considering joining efforts and sharing the expertise of financial institutions of different nationalities to develop a comprehensive Sukuk structuring infrastructure is of crucial importance and will certainly lead to a reduction in structuring costs and support structural innovation at international application and therefore will benefit the whole sector in the long term.

As we have explained in our analysis, there are several ways to solve the challenges of Sukuk, the main one being the strengthening of the application of Islamic financial principles as conceived according to Shari'ah. Thus, restoring investor confidence in Islamic finance requires a paradigm shift in Sukuk structuring methods. Issuers should refrain from structuring Sukuk as instruments mimicking conventional (unsecured) bonds, and opt for Shari'ah-compliant structures, i.e., negotiable securities guaranteeing a real sharing of risks and profits which is an essential characteristic of Islamic finance. In this way, it is necessary to structure Sukuk as a risk-sharing instrument rather than as a security mimicking conventional bond.

On the other hand, in order to address the illiquidity of Sukuk in Morocco and the absence of active secondary markets, regular sovereign issues at different maturities are essential to deepen the market and establish a yield curve that can be used as a reference point for issuing companies (Kammer et al, 2015; Almaskati, 2023), allowing them to better assimilate Sukuk prices and strengthen their negotiation. Finally, as we have explained, all these obstacles and challenges described above are not insurmountable and can be remedied with the will of international and local financial institutions.

6. Conclusion

The Covid-19 health crisis has created social, economic, and financial difficulties. This extreme situation the world faced requires innovative solutions, in particular through an in-depth analysis of the potential of Islamic finance, which has proven its ability to generate profit while solving socio-economic problems. Islamic finance through Sukuk and social Islamic instruments, namely the Waqf and Zakat, have the capacity to generate solutions compatible with various critical situations, including the Covid-19 crisis, on the health level (Sukuk vaccination) or on the socio-economic level (Recovery Sukuk, Sukuk for cooperatives, etc.).

The potential of these two institutions requires careful analysis combined with the application of financial engineering to propose viable solutions. Our paper analysed the ability of the Waqf institution to create value while reducing the dependence of poor populations, most affected by the Covid-19 crisis; similarly, our article has proposed three solutions that Sukuk can provide by combining profit and socio-economic advantage. The potential offered by the institution of Waqf and Zakat is considerable. Our proposal for future studies would be to analyse the possibility of reviving the Waqf assets available in Morocco, as well as to propose a more viable organization of Zakat funds.

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Donation-Based Crowdfunding: Systematic Literature Review

Aimi Fadzirul Kamarubahrin*[a], Nurul Aini Muhamed[b], Rafisah Mat Radzi[c], Wan Nur Fazni Wan Mohamad Nazarie[d], Muhammad Iqmal Hisham Kamaruddin[e]

[a,b,d,e] *Faculty of Economics and Muamalat, Universiti Sains Islam Malaysia, Negeri Sembilan, Malaysia*
[c] *School of Distance Education, Universiti Sains Malaysia, 11800 USM, Pulau Pinang, Malaysia*

**Corresponding author: aimi_fadzirul4@yahoo.com*

Abstract

This study uses a systematic review to discover, analyses, and summarize donation-based crowdfunding. The related literature was subjected to a systematic literature review (SLR) for the current paper. By searching electronic open-access databases like Google Scholar, Scopus, and Emerald Insights, a systematic review of the literature was able to be conducted. A publication date between 2018 and 2022, a country, a methodology, and a dimension were the inclusion criteria. Using the Preferred Reporting Items for Systematic Review and Meta-Analyses (PRISMA) search methodology strategy, a narrative synthesis and systematic review were carried out and reported in accordance with the preferred reporting items statement. 409 studies from different sources have been found through a systematic review of the literature. 30 studies have been determined to be pertinent to the current study after the 379 studies were eliminated based on the selection criteria. According to the review, donation-based crowdfunding is essential to advance the development and raise awareness of those who cannot obtain loans. The study develops a research model that policymakers can use to develop a crowdfunding platform appropriately. The platform will help the country's economy grow thanks to improved performance and better financial access. This study proposes a one-of-a-kind research model to demonstrate donation-based crowdfunding.

Keywords: *Donation-based, Crowdfunding, Systematic literature review, PRISMA*

1. Introduction

According to several studies (see, for examples; Lu et al., 2022; Leonelli et al., 2020; Zhao and Sun, 2020), crowdfunding is an open call for raising funds, primarily online, in exchange for rewards or equity to support the further development of a specific idea or project. According to Wan Mohamad Nazarie and Williams (2021) and Cicchiello and Kazemikhasragh (2022), it was also described as a new method of financing ideas, businesses, or projects by obtaining numerous small amounts of funding from numerous individual funders, typically through online platforms. Crowdfunding is "an open call, primarily through the internet, for the provision of financial resources either in form of donation or in exchange for the future product or some other form of reward and/or voting rights" (Kasri and Indriani, 2021). In recent years, crowdfunding—defined as "the practice of soliciting financial contributions from a large number of people, especially from the online community"—has grown in popularity and success as a means of raising money for the arts, video games, and even some technology products.

Innovation has been attributed to crowdsourcing (St John et al., 2022; Davidson and Poor, 2019). A specific form of crowdsourcing called crowdfunding is designed to help people raise money for a project (Li et al., 2020). Al-Qershi et al. (2022) state that the former's objective is to raise the required sum of smart money to fund their project. The rapid increase of crowdfunding, which now raises tens of billions of dollars annually, has piqued the interest of academics and practitioners alike (Lee and Lehdonvirta, 2022; Li et al., 2020; Hossain

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and Oparaocha, 2017; Short et al., 2016). Crowdfunding had a global market value of $8.54 billion in 2020 and is projected to reach $11.98 billion in 2023 (Learnbonds.com, 2020). A funder may be a simple donor (a donation made without expecting any financial or non-financial benefit), a lender receiving non-financial benefits (reward-based crowdfunding), a lender (loan-based crowdfunding), or an investor (equity-based crowdfunding), depending on the type of crowdfunding (Chen et al., 2022).

Even crowdfunding has gained popularity among project creators looking to raise money; however, because of the flexibility requirements and openness of the crowdfunding environment, it also has a high potential for fraudulent activities (Teichmann and Falker, 2021). Kasri and Indriani (2021) claim that con artists never offer well-written project proposals, avoid having a social media presence, and are less likely to engage in previous crowdfunding activities. They also suggest numerous rewards for backers in the form of pledge categories. A donation-based crowdfunding platform could also be used to facilitate money laundering activities since it cannot be used for business fundraising (Salido-Andres et al., 2021). The conversion of money or other assets obtained through criminal activity is known as money laundering (Kolarov, 2022; Rusanov and Pudovochkin, 2021). In other words, a funder can clean up their "dirty money" while also presenting a positive image of themselves (Theerthaana and Lysander Manohar, 2021). Although donation-based crowdfunding can be used to support prosocial campaigns, it is still unclear theoretically and empirically why it is a suitable model for financing prosocial goals (Zhou and Sun, 2020). Fact, given that crowdfunding is a relatively new phenomenon, it is still necessary to investigate the Shari'ah compliance framework for the platform that accepts donations.

Aderemi and Ishak (2022), Ishak et al. (2022), Cox et al. (2022), Peng et al. (2022), Yacoub et al. (2022), and Ishak and Rahman (2021), all provide extensive literature on crowdfunding. Given that crowdfunding is a relatively new industry, the study is constrained because it concentrates on the general way that it is currently practiced (Aderemi and Ishak, 2022; Ishak et al., 2022; Ishak and Rahman, 2021). Despite the fact that crowdfunding is a new research topic, there are not many empirical studies on it, especially on donation-based crowdfunding. The need for strong evidence to guide best practices is highlighted by such problems, along with the need for transparency regarding the nation's economic growth via improved performance and better financial access. This systematic literature review sought to locate, analyses, and summarize the donation-based crowdfunding study in response to this need. To understand the current state-of-the-art research in the donation-based crowdfunding context, researchers present the results of a systematic literature review by looking for evidence of recurring patterns. The researchers conducted a systematic literature review to identify the various factors that might account for the variations in these studies' findings. The study's methodology is covered in the section that follows the introduction. Findings and a discussion section are then presented, and the conclusion follows.

2. Research Methodology

The study used the techniques developed by Muhamed et al. (2022) and Khairi et al. (2021) to meet its objective. In contrast to the "traditional" narrative review, it is a tool that aims to produce a scientific summary of the evidence in a particular area. The following characteristics, which are listed in Table 1, were the only ones intended for inclusion.

Table 1: Summary of inclusion criteria

Item	Description
Year	This item described the "year" of the articles in this study.
Country	The item described the "region" studied in the articles.
Methodology	The item described the "methodology" adopted in the articles.
Model/Theory	The model described the model/theory used in previous studies.
Dimensions	Dimension recognized specific studies related to the present study.

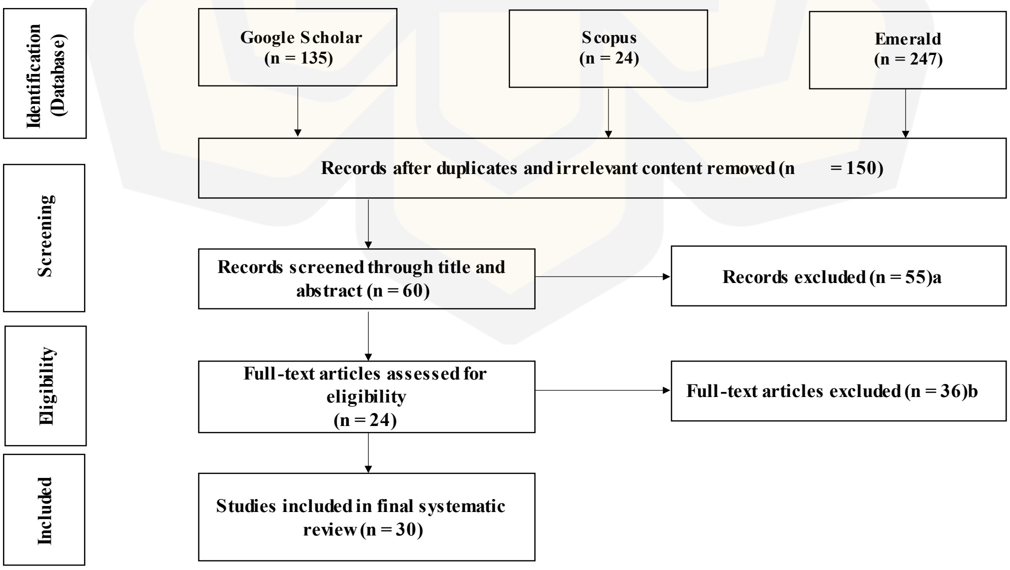
Source: (Muhamed et al., 2022); Khairi et al., 2021)

A systematic review compiles all empirical data that satisfies pre-established eligibility requirements to provide an answer to a particular research question (Desrosiers et al., 2020). It makes use of explicit, systematic methods that are chosen to reduce bias, resulting in accurate findings from which decisions can be made. According to Bichler et al. (2022), a systematic literature review is the statistical analysis and integration of the findings from various studies, while Linares-Espinós et al. (2018), a systematic review is the synthesis of a number of distinct but related experiments using statistical methods. According to Siddaway et al. (2019), a systematic review is an examination of "empirical analysis", which aims to explain variations in findings among studies. A systematic literature review analyzes several studies simultaneously that address the same question in order to learn information that none of the studies alone could reveal and to explain why the results of the studies differed (Pati and Lorusso, 2018). The aim was to lower the expense of experimental studies, which frequently produced inconsistent outcomes. This approach has quickly spread to other fields of study, including the social sciences, marketing, and the environment.

Researchers identified 409 studies that can serve as the foundation for a systematic literature review based on electronic open-access database searches (Google Scholar, Scopus, and Emerald). The terms "donation-based" and "crowdfunding" were used to narrow down the studies. The choice of online databases was made based on the researcher's familiarity with databases that the researchers studying donation-based crowdfunding were aware of as well as the list of accessible online databases. Khairi et al. (2021) advised searching multiple databases to accommodate as many citations as possible to prevent biased reviews. The full texts of articles were searched using the electronic open-access database. A total of 409 studies were found and reviewed. The idea put forth by Khairi et al. (2021) that it is crucial to identify a list of pertinent online databases to streamline the process is supported by the current researchers' experience in the literature search. After the primary search phase, the secondary search phase was used to continue finding pertinent material. It was added to the list of studies eligible for synthesis if all papers are acceptable.

409 published manuscripts completed over the previous five years provided the data for this research. The exact terms "donation-based" and "crowdfunding" were used in searches across electronic databases. Donation-based crowdfunding was restricted due to the manual sorting of the search results for both components. In Figure 1, the process of inclusion's flow and outcomes are shown. Three inclusion criteria were used for this systematic literature review. The information gathered for this analysis came from only empirical studies are included in the first criteria mentioned. Studies that met the second requirement were those that provided statistics necessary for calculating effect sizes using either mean and standard deviation data or data on the proportion of the population. Studies that provided information on statistics related to donation-based crowdfunding were excluded under the third inclusion criterion.

Figure 1: Flow chart of article search strategy according to PRISMA



Source: Authors'

A thorough search spanning seven electronic database sources and five years of empirical research, from 2018 to 2022, produced 409 search results, of which 30 were used for this study. Also, the bibliographies of the publications under review were checked to find as many pertinent studies as possible (Khairi et al., 2021). The title, abstract, and contents of an article were used to assess its applicability. Just 30 of the evaluated publications provided data suitable for the systematic literature review, out of the 409 eligible results, as not all of them were pertinent to this investigation.

Of the many donation-based crowdfunding platforms (Kim, 2022; Allah Pitchay et al., 2022; Baber, 2021; Behl et al., 2021), the final candidates for this meta-analytic analysis were picked in two steps. To find highly cited donation-based crowdfunding, the initial phase entailed conducting repeated searches throughout the retrieved manuscripts. The selection of the variables to include in the systematic literature study was justified by the number of papers referencing the factors as an indication of the attention these factors receive in the literature. The second round of selection took place during data collection when factors that did not produce enough data to calculate effect sizes were removed from the study. A rare occurrence in the literature, confusing interpretations (such as the phrase “gift”), and missing data for means and standard deviation, proportions, or sample size were all issues with these studies.

3. Results and Discussion

The findings will be examined in terms of the interventions used, the outcome domains, and the individual studies. Due to the nature of the research that were evaluated, a quantitative measure summary was not possible. In terms of the outcome categories measured, the location, and the database used, the research was too varied. Conducting a quantitative summary measure was not feasible or valid for the aforementioned reasons. Four major topics emerged from the review, as illustrated in Table 2. The findings offered a thorough evaluation of the donation-based crowdfunding throughout the previous five years. In this comprehensive literature study, 30 papers on donation-based crowdfunding were identified. Hence, studies on donation-based crowdfunding is limited. Thus yet, academic research has only been minimal.

The following details were obtained through an examination of articles written about donation-based crowdfunding between 2018 and 2022:

1) There is little research on donation-based crowdfunding.

2) China, Spain (6 studies), and India account for most the research's locations (4 studies). Many reasons are probably for the research centered from these nations. In this country, the two key determinants are a large population and rapid technological advancement. Hence, a study on the size or subject of donation-based crowdfunding became one of the more well-liked themes for publishing.

3) Due to the lack of research on donation-based crowdfunding, additional research may be required in this field and should focus on areas like education, applications, and other research areas.

This systematic review finds reviews and summarizes systematic reviews of donation-based crowdfunding. The dimension of focusing on behavior was used in the 30 investigations (Kim, 2022; Allah Pitchay et al., 2022; Baber, 2021; Theerthaana et al., 2021; Alegre and Moleskis, 2021; Zhang et al., 2020; Behl et al., 2020; Wang et al., 2019; Salido-Andres et al., 2018a; Salido-Andres et al., 2018b; Sasaki, 2018), campaign (Efrat et al., 2021; Zhou, 2021; Salido-Andres et al., 2021; Bukhari et al., 2020; Zhao and Sun, 2020; Alazazi et al., 2020; Cheng et al., 2019; Xu, 2018), platform (Behl et al., 2021; Golrang and Safari, 2021; Salido-Andres et al., 2019), investment (Arifah and Dalimunthe, 2020), management (Ba et al., 2020; Salido-Andres et al., 2020; Cason and Zubrickas, 2019; Weinmann and Mishara, 2019; Rijanto, 2018; Sokolova and Perez, 2018) and fintech (Khan and Ouaich, 2019).

There is a need to investigate donation-based crowdfunding since the majority of studies are only focusing on behavior segments and their views on donation-based are limited to only certain such factors influencing, performance, and its advantages, according to this review, even though the results of the studies did not cover all aspects due to the paucity of literature (Cason and Zubrickas, 2019; Xu, 2018). In addition, there is no established legal framework available for donors or investors (Abdullah, 2016). The applicable law for charities that solicit donations from the general crowd is the Trustee Act of 1949. The Act, unfortunately, is not sufficient to provide for newly structured community-based crowdfunding, due to the different scope of this crowdfunding, where the crowdfunding platform takes an intermediary role between the project founder and donors. Few studies were designed to explore this complexity (Kim, 2022; Allah Pitchay et al., 2022; Baber, 2021; Theerthaana et al., 2021; Alegre and Moleskis, 2021; Zhang et al., 2020; Behl et al., 2020; Wang et al., 2019; Salido-Andres et al., 2018a; Salido-Andres et al., 2018b; Sasaki, 2018).

Additional significant findings of this analysis included the fact that China and Spain have consistently improved in their promotion of donation-based crowdfunding studies. It demonstrates that China and Spain are the two nations that embrace donation-based crowdfunding platforms for unbankable causes (Salido-Andres et al., 2021; Salido-Andres et al., 2018a; Zhou, 2021; Zhang et al., 2020). Donation-based crowdfunding was advanced and given consideration in order to draw attention to the platform and assist those from underserved and bankable groups in receiving funding and using it for their purposes (Efrat et al., 2021). Donation-based crowding, in contrast to other forms of crowdsourcing, is focused on intrinsic motivation and the ideas of charity and almsgiving without requesting rewards (Abdullah and Oseni, 2017). In general, there are three parties involved in every type of crowdfunding (i) platforms, (ii) donors/funders, and (iii) beneficiaries. Platforms as intermediaries will channel funds contributed by the funders to the beneficiaries. As the return is not becoming the factor of involvement and contribution among the funders, there is no obligation for the beneficiaries to pay back.

Considering mixed findings, research might be useful in addressing the issues. Scholars might claim, for instance, that they need a trustworthy source of data and knowledge. It demonstrated that the conclusions might serve as the basis for further study into donation-based crowdfunding around the globe. Also, it will convey important knowledge regarding the requirement of donation-based crowdfunding, which benefits underserved and unbankable people significantly. This comprehensive assessment also highlights the ground-breaking aspects of donation-based crowdfunding, particularly for Malaysian nations and relevant regulatory organizations to effectively extend and develop the platform.

Table 2: Characteristics of studies involved in donation-based crowdfunding

Author's	Year	Country	Title	Dimension
Kim	2022	South Korea	What convinces donors? An analysis of donation-based crowdfunding projects from non-profit charities: The case of South Korea	Behavior
Allah Pitchay et al.	2022	Malaysia	Self-determination theory and individuals' intention to participate in donation crowdfunding	Behavior
Baber	2021	India	Religiosity and intention to participate in donation-based crowdfunding	Behavior
Theerthaana et al.	2021	India	How a doer persuades a donor? Investigating the moderating effects of behavioral biases in donor acceptance of Donation crowdfunding	Behavior
Efrat et al.	2021	Israel	The emergence of well-being in crowdfunding: A study of entrepreneurs and backers of reward and donation campaigns	Campaign
Behl et al.	2021	India	Enabling artificial intelligence on a donation-based crowdfunding Platform: A theoretical approach	Platform
Golrang and Safari	2021	Iran	Applying gamification design to a donation-based crowdfunding platform for improving user engagement	Platform
Zhou	2021	China	Donation-based crowdfunding title classification based on BERT+CNN	Campaign
Alegre and Moleskis	2021	Spain	Beyond financial motivations in crowdfunding: A systematic literature review of donations and reward	Behavior
Salido-Andres et al.	2021	Spain	When the winner takes it All: Online campaign factors influencing the success of donation-based crowdfunding for charitable causes	Campaign

Author's	Year	Country	Title	Dimension
Zhang et al.	2020	China	Why do people patronize donation-based crowdfunding platforms? An Activity Perspective of critical success factors	Behavior
Bukhari et al.	2020	N/A	The Effects of creator credibility and backer endorsement in donation crowdfunding campaigns success	Campaign
Zhao and Sun	2020	China	Pure donation or hybrid donation crowdfunding: Which model is more conducive to prosocial campaign success?	Campaign
Alazazi et al.	2020	United States	Success factors of donation-based crowdfunding campaigns: A machine learning approach	Campaign
Arifah and Dalimunthe	2020	Indonesia	The impact of financial literacy on the investment decision of non-donation-based crowdfunding in Indonesia	Investment
Ba et al.	2020	China	Exploring the donation allocation of online charitable crowdfunding based on topical and spatial analysis: Evidence from the Tencent GongYi	Management
Behl et al.	2020	India	Examining the role of dialogic communication and trust in donation-based crowdfunding tasks using an information quality perspective	Behavior
Salido-Andres et al.	2020	Spain	Mapping the field of donation-based crowdfunding for charitable causes: Systematic review and conceptual framework	Management
Wang et al.	2019	China	Exploring individuals' behavioral intentions toward donation crowdfunding: Evidence from China	Behavior
Cason and Zubrickas	2019	United States	Donation-based crowdfunding with refund bonuses	Management
Cheng et al.	2019	China	Matching donations based on social capital in Internet crowdfunding can promote cooperation	Campaign
Khan and Ouaich	2019	Luxembourg	Feasibility analysis of blockchain for donation-based crowdfunding of ethical projects	FinTech
Weinmann and Mishara	2019	Netherlands	The effect of social distance in donation-based crowdfunding	Management
Salido-Andres et al.	2019	Spain	Determinants of success of donation-based crowdfunding through digital platforms: The influence of offline factors	Platform
Salido-Andres et al.	2018	Spain	Non-profit organizations at the crossroads of offline fundraising and social innovation: The influence of promoter behavior on the success of donation-based crowdfunding through digital platforms	Behavior
Salido-Andres et al.	2018	Spain	Non-profit organizations at the crossroads of offline and online fundraising in the digital era: The influence of the volume of target beneficiaries on the success of donation-based crowdfunding through digital platforms	Behavior
Rijanto	2018	Indonesia	Donation-based crowdfunding as corporate social responsibility activities and financing	Management

Author's	Year	Country	Title	Dimension
Sasaki	2018	Japan	Majority size and conformity behavior in charitable giving: Field evidence from a donation-based crowdfunding platform in Japan	Behavior
Sokolova and Perez	2018	France	The digital ingredients of donation-based crowdfunding: A data-driven study of Leetchi projects and social campaigns	Management
Xu	2018	United States	Will a digital camera cure your sick puppy? Modality and category effects in donation-based crowdfunding	Campaign

4. Conclusion and Recommendation

Worldwide, crowdsourcing has emerged as a viable and well-liked method of project financing. As a result, this study lays the groundwork for future research in this field. It is the first study to date to conduct a systematic literature review and identify the various variables that may contribute to the differences in study outcomes. The two primary contributions of this research are the use of an easily accessible and potent new tool and the vast data use that enables us to comprehend the gaps in each type of crowdfunding currently available.

By combining the findings of a sizable sample of data, the literature's ambiguity on donation-based crowdfunding has been clarified. The results of this study are particularly important because they offer background information on the subject. Most importantly, this research fills a knowledge vacuum about donation-based crowdfunding because it is the first of its kind.

Underserved and unbankable groups are unaware of more complex elements of donation-based crowdfunding such as the need for registration, regulation, and governance process on the platform, etc. The lack of information on donation-based crowdfunding also has caused them difficulty in accessing financing. Although the issue of donation-based crowdfunding is relevant for micro-business entrepreneurs, a lack of research has been conducted on it. Nevertheless, empirical evidence on donation-based crowdfunding is scarce. Hence, there are several aspects where this paper extends prior research and contributes to the donation-based crowdfunding literature. Industry, practitioners, academics, and businesspeople can use the study's findings to further their understanding of the significance of donation-based crowdfunding and the platform development process.

The requirement for registration, regulations, the platform's governance process, etc., are some of the more complicated aspects of donation-based crowdfunding that underserved and unbankable communities are ignorant of. They have also had trouble getting finance due to a lack of knowledge about crowdfunding that is based on donations. There is not much research on the topic of donation-based crowdfunding, despite the fact that it is important for microbusiness owners. Nonetheless, there is a dearth of empirical data on crowdfunding that is donation-based. As a result, this work builds on earlier research in a number of areas and adds to the body of knowledge on donation-based crowdfunding.

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Small and Medium Enterprise Financing in The Gambia: Role of Islamic finance

Cherno Jallow

Faculty of Business and Management, Istanbul Sabahattin Zaim University, Turkey

Email: jallow.cherno@std.izu.edu.tr; cherno65@gmail.com

Abstract

SMEs play a crucial role in emerging and developing countries, as they contribute tremendously to income generation, job creation, and socioeconomic growth. In the Gambia, the role SMEs play in the growth and development of the economy is tremendous as the sector contributes over 60% of the urban labour force and 20% to the country's GDP. Despite its importance, the sector still needs support from all stakeholders, including government and financial institutions. This study aims to delineate the challenges SMEs face in obtaining finance and to further explore the level of awareness and adoption of SME managers towards Islamic finance products. For a sample of 87 SMEs in the Gambia, results of the analysis indicates that, the major challenge hampering the growth of the sector among others is lack of finance. The findings also indicate that SME owners would prefer to use Islamic financial contracts to meet their financing challenges for business expansion. Thus, Islamic finance instruments can serve as a solution to the financing problems that SMEs face. Participatory contracts, such as Mudarabah and Musharakah, can play a crucial role given their risk sharing features in increasing SMEs' financial inclusion and ultimately enhance the development of the sector. Accordingly, there is a need for the government of the Gambia to create a robust regulatory framework required for the development of the Islamic finance industry that could offer support in mitigating the financing constraints faced by SMEs.

Keywords: *SME, Islamic finance, Islamic finance for SMEs, The Gambia*

1. Introduction

The key sector that drives the growth and development of any economy across the world, particularly in emerging and developing nations, is the Small and Medium Enterprise (SME) sector. Owing to its dynamic role in driving the global economy, the SME sector has been acknowledged as a catalyst for growth and development and contributes immensely to job creation in both the formal and informal sectors of the global economy (Jallow, 2019). The World Bank reported that the SME sector constitutes approximately 90% of all businesses and collectively contributes to more than 50% of job creation globally (The World bank, 2023). SMEs are usually perceived as the engines of growth in any economy. Thus, SMEs contribute to poverty alleviation through income generation and enhance income equality, economic development, and the growth of any economy (Waked, 2016).

SMEs contribute immensely to the growth and development of the African economy in general, and Gambia's economy in particular. With a rapid increase in rural to urban migration coupled with a dynamic workforce, the growing importance of SMEs in job creation in Africa is eminent. The SME sector in Africa accounts for approximately 90 percent of all businesses and contributes immensely to the Gross Domestic Product (GDP) of African economies. In light of the above, the SME sector has become important for the growth and development of African economies.

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The SME sector in the Gambia is vital for the development of the economy and is often very heterogeneous and the bulk of which is in the informal sector. The SME sector helps create employment opportunities, particularly for youths, and improves the economic balance. The sector's contribution to the Gambia's economy in terms of employment (GDP) is about 60% and 20% respectively.[1] The five-year MSME policy plan 2019-2024 envisages the development of the SME sector towards a sustainable economic transformation through innovation, creativity, and high performance (GNPM, 2019).

However, despite playing a pivotal role in the development of any economy, a number of challenges impede the growth and development of the SME sector. Among the notable constraints that SMEs face is access to finance, particularly in developing countries, the Gambia is no exception. Access to finance is a major obstacle in the growth and development of the SME sector in the Gambia. Lack of access to obtaining finance from financial institutions hinders them from meeting their economic targets and business expectations (Sabiu and Abduh, 2021). In most cases, SMEs in the Gambia resort to internal sources of funding, such as personal savings, to start and operate their businesses leading to a risky and unsustainable investments. Consequently, the lack of access to external financing hampers the growth and development of the SME sector. Furthermore, SMEs in the Gambia also face other critical factors that affect their performance such as institutional and capacity constraints, administrative barriers, poor and inadequate public infrastructure, difficulty in accessing external loans, asymmetric information and high taxes and corruption (Jallow, 2019).

During the last few decades, the Islamic finance industry has significantly increased in market size and growth. This increment has been primarily attributed to the growing interest of the Islamic finance products not only by Muslim majority countries but western countries as well. The underlying principles of Islamic finance are based on the prohibition of interest, risk sharing, and all financial transactions should be free from gambling and uncertainty. These underlying principles are derived from the main legislated sources of the Islamic religion which consist of the Quran and Sunnah and by extension Ijma and Qiyas. A recent report indicates that the Islamic finance industry exhibited double-digit growth with a market value reaching all times high to USD 4 trillion in 2021, which indicates a 17% growth, up from 14% in the previous year following rebound from large-scale disruption as a result of the Covid-19 pandemic (GIFR, 2022). Moreover, most of the growth is recorded in the Islamic banking and Sukuk component of the Islamic financial system. Thus, the Islamic finance industry has shown apparent resilience despite the effects of the past financial crisis and the resultant global economic downturn.

In the Gambia, the enactment of the Financial Institution Act 1992, which was later amended and changed to the Banking Act 2009, served as a regulatory guideline for the finance industry and provisions have been incorporated into the guidelines to provide Islamic banking and finance services in the country. The Central Bank of the Gambia regulates Islamic financial institutions in the country. As of the end of 2022, the Gambia has one fully fledged Islamic bank, three Islamic microfinance institutions, an Islamic teacher's corporate credit union and two Takaful operators. Given the tremendous growth of the Islamic finance sector in the Gambia, Islamic financial institutions can extend financial facilities to SMEs, which could serve as an alternative solution to the lack of access to finance SMEs faced. Islamic modes of financing such as Mudarabah, Musharakah, Murabahah, Salam, and Ijarah can remedy the capital constraints faced by SMEs and further facilitate access to finance.

Against this background, this study aims to examine the challenges SMEs face in obtaining finance in the Gambia and to further explore the awareness and adoption of SME managers about Islamic finance products. The study collected data through questionnaires from 87 SMEs operating within the greater Banjul region in the Gambia. The study uses descriptive data analysis techniques, and the results indicate that if utilized, Islamic finance contracts can serve as a solution to the access to credit challenges faced by SMEs for their survival and business expansion. In this context, this study contributes to the academic and literary discourse on Islamic finance for SMEs in the Gambia.

The rest of the paper is structured as follows: Section two discusses the literature review; the third section describes the methodology employed in this study; and the fourth and fifth sections present the results and conclusion respectively.

[1] Source: https://www.undp.org/gambia/news/high-level-policy-forum-msmes, accessed 15th November, 2022

2. Literature Review

2.1. Definition of Small and Medium Enterprises

The absence of a universally accepted definition of Small and Medium Enterprises (SMEs) creates a situation where the definition is country or industry specific and most often relative to the level of economic, social, and environmental context of a given jurisdictions (Jallow, 2019). Countries and international organizations adopt different measures to define SMEs based on context. Nonetheless, the most recurring trend in defining SMEs in the literature is the number of employees, sales turnover, and asset size (Hussein Kakembo et al., 2021). In Canada and United states, SMEs are classified based on their number of employees and annual turnover. The European Union Commission defines small enterprises as businesses that employ less than 50 people with an annual turnover of 10 million euros whereas medium-sized enterprises are enterprises with a workforce of 250 persons and a turnover of no more than 50 million euros annually (European Commission, 2019). Numerous countries have adopted the definition of the European union to define SMEs. In countries such as the United Kingdom, SMEs are categorized based on the following criteria: small enterprise employ up to 49 employees with a turnover of £2.8 million while medium enterprises employ up to 250 people with a turnover of no more than £11 million.[2]

Similarly, in Africa, various measures have been used to categorize SMEs. South Africa, Nigeria, Ghana, and Kenya use the number of employees and turnover to categorize SMEs. For instance, in Nigeria, the Small and Medium Enterprises Agency defines small-scale businesses as firms that have a number of employees between 10 and 49 with an asset base of 5-49 million naira excluding land and buildings, while medium-sized entities employ 50 to 199 with a total asset of between 50 and 499 million naira excluding land and buildings (Chinedu, 2023). This definition indicates that many SMEs are small enterprises and operates at a low productivity levels.

In the Gambia, the Ministry of Trade classifies SMEs based on employment and investment size. Thus, according to this classification, businesses with employees between 5 and 49 and a total investment of GMD 100,000 or less are classified as small-scale enterprises whereas businesses that employ up to 99 people with an investment capital of more than GMD 1 million are classified as medium-sized enterprises (GNPM, 2019). The SME sector in the Gambia is considered informal and a bulk of the businesses in this sector operate in the form of sole proprietorship structures and business activities cut across various sectors, including trading, commercial, services and agricultural businesses (Jallow, 2019).

2.2 Importance of Small and Medium Enterprises towards economic growth

The growing importance of the SME sector has been highlighted in the literature. This sector contributes immensely to the socio-economic development and industrial revolution of most national economies worldwide. Accordingly, the SME sector plays a pivotal role in providing job opportunities, particularly in the private sector, and ultimately reduces the income gap between the haves and the haves not (Hussein Kakembo et al., 2021). According to recent evidence, the SME sector accounts for over 90% of businesses and contributes to more than 50% of employment opportunities globally.[3] In European Union countries, the SME sector is a major source of job creation and entrepreneurial skills as it constitutes about 99% of all businesses and provides around 80 million jobs (European Commission, 2021). This is further evident in emerging and developing economies, where the SME sector serves as a catalyst for growth through employment creation and poverty alleviation. Similarly, the SME sector in Africa accounts for about 90 percent of businesses and contributes immensely to the Gross Domestic Product (GDP) of African economies, particularly in countries such as Nigeria, Ghana, Egypt, and Kenya. In Ghana for instance, Ikechukwu et al. (2023) established that SMEs constitute about 70% of all businesses and account for 40% of the country's GDP.

In the Gambian context, SMEs play a significant role in the growth and development of the economy. The SME sector represents a vast portion of businesses, contributing over 60% of the urban labour force, thereby making it the second highest employer of the Gambia's labour force after agriculture, and are noted to contribute not less than 20% to the country's GDP (GNPM, 2019). These estimates are significantly higher when SMEs in the informal sector are considered. Like other emerging and developing economies, the government of the Gambia, as in many developing countries, is adamant in developing and having a vibrant

[2] Source: https://www.gov.uk/government/publications/fcdo-small-to-medium-sized-enterprise-sme-action-plan/small-to-medium-sized-enterprise-sme-action-plan, accessed 15th October 2022.
[3] Ibid.

SME sector in its drive towards achieving sustainable economic growth and development for the betterment of its citizenry. In recognition of the tremendous role SMEs contribute to economic development, job creation, and alleviation of poverty, the Gambia government prepared the Gambia National Policy 2019-2024, with the aim of developing the SME sector in the country. The policy document is guided by a vision that aims to ensure broader access to financial resources, technology, open markets, SME training, along with promoting a business-friendly legal and regulatory environment which will ultimately attract national and international investment (GNPM, 2019).

2.3 Challenges faced by Small and Medium Enterprises

As already noted, SMEs are the engine of growth and a key contributor to job creation and GDP globally. Despite having a pivotal role in the development of an economy, a number of challenges impede the growth and development of the SME sector. Arguably, the SME sector is not far better in developing countries, specifically in Sub-Saharan Africa. The literature reveals a myriad of issues and challenges affecting the SME sector in Africa, including difficulties in accessing finance, poor infrastructure, inadequate and erratic electric power supply, lack of managerial and entrepreneurial skills, poor legal systems, corruption, and a range of other challenges (Ikechukwu et al., 2023). For long, difficulty in accessing finance was among the key obstacles facing SMEs in developing countries, especially in Sub-Saharan Africa. The literature has revealed that lack of access to finance from formal financial institutions continues to be a significant challenge to the growth and development of SMEs in Sub-Saharan Africa (see for instance; Andrews Osei Mensah, 2016; Beck and Cull, 2014; Bongani Sibindi and Mpofu, 2022). According to Bongani Sibindi and Mpofu (2022), high default rates, capacity gap, and low financial literacy are some of the factors deterring SMEs from accessing finance from formal financial institutions.

Moreover, the challenges faced by SMEs in the Gambia are similar to those in other Sub-Saharan African's countries. The SME sector in the Gambia remained underdeveloped and a bulk of the businesses in the sector are informal businesses. Furthermore, lack of effective and sufficient credit provisions remains a significant challenge for SMEs development in the Gambia as most of the SMEs depends on the availability of funds to operate and expand their businesses (Hussein Kakembo et al., 2021).

2.4 Islamic finance for SMEs

2.4.1 Principles of Islamic finance

Islamic finance is based on the ethos and principle of Islamic law, which emphasize social justice, equality, and property rights based on the tenets of achieving the overall goals and objectives of the Islamic economic system. Its underlying principles are based on risk sharing, interest prohibition in all financial transactions, prohibition of engaging in speculative activities such as gambling, Gharar (uncertainty) and all financial transactions should be link to the real economy. The industry plays a crucial role in enhancing financial inclusion, poverty alleviation, resource and saving mobilization particularly in Muslim majority countries (Ali et al., 2020). According to the global Islamic financial report, the Islamic finance industry exhibited double digit growth with a market value reaching all time high to USD 4 trillion in 2021, which indicates a 17% growth, up from 14% in the previous year following a rebound from large scale disruption as a result of the Covid-19 pandemic (GIFR, 2022).

In the Gambia, the enactment of the financial institution Act 1992 which was later amended and changed to the Banking Act 2009 served as a regulatory guideline for the finance industry and provisions have been incorporated in the guideline to provide Islamic banking and finance services geared towards enhancing financial inclusion and economic growth in the country. The central bank of the Gambia is the body responsible for the supervision and regulation of the Islamic financial institutions. As of the end of 2022, the Gambia has one fully fledged Islamic bank, three Islamic microfinance institutions, an Islamic teacher's corporate credit union and two takaful operators. Giving the tremendous growth of the Islamic finance sector in the Gambia, Islamic finance products could serve as an alternative solution for the lack of access to finance SMEs faced. Islamic modes of financing, such as Mudarabah, Musharakah, Murabahah, Salam, and Ijarah, can remedy the capital constraints faced by SMEs and further facilitate access to finance.

2.4.2 Islamic finance for SMEs

Research has shown that a major constraint hampering the growth and development of the SME sector relates to access to external finance from conventional financial institutions due to the high collateral, exorbitant interest, and other administrative related challenges (Bongani Sibindi and Mpofu, 2022; Hussein Kakembo et al., 2021). Besides, access to finance challenges may also be related to religious concerns where SME owners may seek to get alternative source of funding that is in line with the ethos of their religious values. With its asset-based nature and risk sharing principles, Islamic finance promotes ethical and inclusive products that Muslims entrepreneurs can tapped in to grow their businesses. Consequently, financing SMEs through Islamic modes of financing can be an alternative solution to the interest-based financing available to SME managers. Elasrag (2016) argued that financing SMEs through Islamic finance products can be a solution to the capital constraints SMEs faced and thus contributes to the sector's growth and development. Table 1 illustrates some of the Islamic finance contracts that can serve as a solution to SME financing.

Table 1: Islamic finance contracts for SME financing

	Participative Products		Shariah compliant Debt based financing	
	Mudarabah	Musharakah	Murabahah	Ijarah
Description of the Product	Financial institution provides capital and the SME manager make investment.	Financial institution enters into an equity investment with the SME owner in order to make profit. Both parties provide capital on a predetermined margin. The agreement is mostly on diminishing Musharakah	A contract where the financial institution purchased an asset in the exact description as requested by the SME owner to be repurchased by the SME owner.	A contract of leasing where the financial institutions lease an asset to the SME manager for an agreed price over a given period.
SME Remuneration	SME manager controls and manage the business while the loss if any is transferred to the financial institution.	A joint-venture investment where the SME manager can easily access funding	Reduces asymmetry information associated with financing SMEs	SME manager acquire assets for which they may not have enough capital to make spot payment.

Source: Author's compilation

2.5 Empirical review

The available literature on SME and Islamic finance focused on different orientations and a range of issues related to the role Islamic finance can play in enhancing the growth of the SME sector. Among these studies is Benbekhti et al. (2021) who argued that Islamic finance products can serve as an effective tool in financing SMEs needs and development. The authors further argued the need to providing funding opportunities to SMEs in order to boost production and development of the Turkish economy. Al Balushi et al. (2019) examined the factors behind SME owner's decision to adopt Islamic finance services in Oman. Based on a data collected from 385 SME owner managers, the authors indicates that SME owner managers intention to adopt Islamic finance is partly influence by their knowledge of Islamic finance contracts. In Nigeria, Sabiu and Abduh (2021) explore the effectiveness of Islamic banking inclusion on SME growth in the state of Kano. The authors used a quasi- experimental approach, and the findings indicates that, Islamic bank financing has a significant impact on SMEs employment growth. Furthermore, in a study by Attar and Faleel (2021), the authors aim to compare the Islamic and conventional sources of funding available to SMEs in Saudi Arabia. The study finds that majority of the SME owners would opt to use Islamic sources of funds to expand their business as compared to conventional sources of funds.

3. Methodology and Results

The methodology adopted in this study is the exploratory research design method which will be useful in providing an in-depth analysis of Islamic finance and SME financing in the Gambia. To achieve the objective of this study, structured questionnaires were designed to collect data from SME owners within the greater Banjul region, in the Gambia. This region was selected because most of the SME owners are operating within this region. A total of 100 questionnaires were sent via google forms of which only 87 respondents participated in the survey. The data was analyzed using the statistical package for social sciences (SPSS) version 20.

3.1 Results

3.1.1 Demographic information

The demographic information of SME managers is presented in Table 2. Out of a total 87 respondents, 67 (77 %) SME managers are males while only 20 (23 %) are females indicating that a relatively small number of SME female managers are operating a business. Thus, men operating a business tends to be more strongly represented in the SME sector than their female counterparts. The number of years a firm has been operating is also included in the demographic information of SME owner managers in order to focus on the survivability of their businesses. In Table 2, the data indicates that most businesses started operating within the last 5 years. This represents about 69 % of the total sample. SMEs that have been operating between 6 to 20 years amounts to 29.9% while older SMEs with business experience of over 50 years represents only 1.1% of the sample.

Table 2: Demographic information

Items	Frequency	Percentage (%)
Gender		
Male	67	77
Female	20	23
Company Age		
5 years and below	60	69
6-20 years	26	29.9
Over 50 years	1	1.1
Monthly Turnover		
<GMD 20,000	37	42.5
GMD 20,001 to GMD 100,000	25	28.7
GMD 100,001 to GMD 250,000	11	12.6
>GMD 250,000	14	16.1
Educational Qualification		
Without qualification	8	9.2
High school degree	11	12.6
Diploma	19	21.8
BSc Degree	35	40.2
Post-graduate	11	12.6
Other qualification	3	3.4

Source: Research questionnaire

Furthermore, monthly sales of SMEs were also examined. These SMEs comprises of the services, retail trading, and real estate sectors of the economy. The first group of firms had an average monthly sales turnover below GMD 20,000 (42.5 %). The other 28.7% SMEs are having a monthly turnover of between GMD 20,001 to 100,000. Meanwhile, 12.6% had a monthly turnover ranging between GMD 100,001 to GMD 250,000, while the remaining 16.1 percent of the firms makes a monthly turnover of more than GMD 250,000. The educational details show that most of the respondents 40.2 % were having a university degree, 12.6% of the respondents had a post-graduate degree, 12.6% had high school certificates, while 21.8 % had a diploma. Few respondents are without educational qualification and that is about 9.2 % of the total respondents. while 3.4 % had other qualifications.

3.1.2 Challenges SMEs faced in the Gambia

Table 3: Frequency distribution of SMEs major challenges

Constraints	Frequency	Percentage (%)
Lack of access to Finance	48	55.2
Competition	28	32.2
High interest on Loan	11	12.6
High Taxes	26	29.9
Others	10	11.5

Source: Research questionnaire

The SME sector in the Gambia as in other developing countries are constraint with a number of challenges. As shown in Table 3, SMEs face a number of challenges which are hindering their growth and development. Among the main challenges hampering the growth of SMEs in the Gambia is lack of access to finance which represent about 55.2 % of the total respondent. This finding is consistent with the finding by Wang (2016) in which the author finds that lack of access to finance was the biggest obstacle facing SME operators. Thus, since access to finance from financial institutions is a challenge, most SMEs in the Gambia source their capital investment through personal savings, borrowing from friends as well as other external sources. This confirms one of the objectives of our study which aims to identify the main challenges facing SMEs. Moreover, the findings also show that 32.2% and 12.6% of the respondents perceived competition and high interest on loan respectively as an obstacle to the growth of their businesses. The respondents who believe competition as a constraint mostly operates in the real estate industry. During the last decade, the real estate industry experienced a significant growth which leads to high competition in the sector. SMEs who find high taxes as an obstacle to their growth was about 29.9 %. Finally, 11.5 percent of the respondents identified other factors as their main challenges to the growth of their businesses. These challenging factors include low customer base, insufficient human resource, and office space among others.

3.1.3 Islamic finance for SMEs in The Gambia

This section evaluates the perceptions and opinions of SME managers about Islamic finance and their willingness to use Islamic finance contracts for their financing needs.

Table 4: Knowledge about Islamic finance products

Questions	Frequency	Percentage (%)
Islamic finance awareness and existence		
Yes	70	80.5
No	17	19.5

Choice between Islamic Finance and Interest based finance, you will choose to use Islamic finance products.		
Strongly Agree	43	49.4
Agree	22	25.3
Neutral	17	19.5
Disagree	5	5.6
Do you think Islamic Finance is a viable financing option for financing SMEs?		
Yes	77	88.5
No	10	11.5
Mode of Islamic financing		
Musharakah	36	41.4
Mudarabah	29	33.3
Murabahah	14	16.1
Ijarah	8	9.2

Source: Research questionnaire

With regards to the awareness of the existence of Islamic finance in the Gambia, 80.5 % of SME managers affirmed that they are aware of the existence of Islamic finance in the Gambia. In addition, only 19.5 % said they are not aware of the existence of Islamic finance in the Gambia. Meanwhile, nearly 75% of SME owners would prefer to use Islamic finance contracts instead of conventional contracts. Furthermore, about 88.5% of SME managers agreed that Islamic finance is a viable option of SME financing in the Gambia.

SME managers were asked which Islamic finance products they would prefer to use as an alternative financing for their businesses. Most of the respondents would prefer to use Musharakah which represents about 41.4% of the total respondents, followed by Mudarabah (33.3%), Murabahah (16.1%) and Ijarah (9.2%). Thus, from the findings, Musharakah and Mudarabah are the most popular Islamic finance products that SME managers would want to use for financing.

Conclusion

SMEs play a crucial role in emerging and developing countries as it serves as the niche for income generation, job creation and socio-economic growth. Despite its importance, the sector still needs support from all stakeholders including the government and financial institutions. This study aims to delineate the challenges SMEs face in obtaining finance and to further explore the level of awareness and adoption of Islamic finance products by SME managers. For a sample of 87 SMEs in the Gambia, results of the analysis indicates that, the major challenge hampering the growth of the sector among others is lack of finance. The findings also indicate that SME owners would prefer to use Islamic financial contracts to meet their financing challenges for business expansion. Thus, Islamic finance instruments can serve as a solution to the financing problems that SMEs face. Participatory contracts such as Mudarabah and Musharakah can play a crucial role given their risk sharing features in enhancing SMEs' financial inclusion and ultimately enhancing the development of the sector. Accordingly, there is a need for the government of the Gambia to create a robust regulatory framework required for the development of the Islamic finance industry that could offer support in mitigating the financing constraints faced by SMEs.

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The Potential of Micro-Takaful in Improving Financial Inclusion among Low-income Households in Ethiopia

Howlet A. Beshir*, Syed M. Alhabshi, Habeebullah Zakariyah

Institute of Islamic Banking and Finance, International Islamic University Malaysia

**Corresponding author:* howlet.cma@gmail.com

Abstract

In Africa, informal insurance societies are still active and have historically served as the major options for low-income households seeking financial and non-financial risk protection services. Low-income households have not had access to mainstream financial services despite the existence of these arrangements because of their numerous drawbacks. This study aims to determine whether micro-Takaful adoption has the potential to increase Islamic financial inclusion among low-income households of informal risk-sharing services users in Ethiopia. The Theory of Change (ToC) was employed in this study to understand how adoption of micro-Takaful affects financial inclusion. A mixed method design was employed to achieve the objective, and primary data was collected from 654 members of informal risk-sharing arrangements through a survey. Besides, qualitative interviews were also conducted with different stakeholders. The study found that adopting micro-Takaful has a significant impact in enhancing financial inclusion by improving financial usage and financial quality but otherwise for financial access. The findings of this research will have theoretical and practical implications.

Keywords: *Micro-takaful, Theory of Change, Informal risk-sharing, Financial inclusion, Ethiopia*

1. Introduction

The concept of financial inclusion has gained popularity and dominated various finance conferences. Developing nations have also been working to design policies and take appropriate actions to give their population access to the financial system. Even though there is no single, widely acknowledged definition of financial inclusion (Tita and Aziakpono, 2017), World Bank (2018) offers one of the most often-used definitions. According to this definition, financial inclusion means "... people and businesses have access to practical and reasonably priced financial products and services that meet their needs - transactions, payments, savings, credit, and insurance - delivered responsibly and sustainably." Abel et al. (2018, p.1) define financial inclusion as "the process of bringing the weaker and vulnerable members of society into the ambit of an organized financial system, which ensures that they access timely and adequate credit and other financial products at affordable price."

Financial access requires carefully thought-out processes or tried-and-true methods. Indeed, some factors could boost financial access, including but not limited to digital finance (Ozili, 2018), a person's income, education, and use of communications devices (Wang and Guan, 2017), and usage of mobile money through the moderating influence of social networks (Okello et al., 2016).

However, more discussion is required about the methods or tools that promote financial inclusion than about those that enhance it. In order to discuss what impedes or promotes it, financial inclusion should first come up in the lives of low-income residents. To this effect, researchers have concentrated on the informal financial sector since they believe it is one of the excellent options available in order to achieve financial

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inclusion among low-income households in developing countries. In developing nations, the informal financial sector will probably continue to play a significant role in terms of financial access. This is true for Ethiopia, a developing nation in the Horn of Africa.

According to the most recent census in Ethiopia, which was held in 2007, over 34% of the country's population is Muslim (Central Statistical Agency, 2007)[1]. The World Bank's estimate reveals that the population of Ethiopia was 120,283,026 in 2021, with a per capita income of $925.10/year[2]. Nonetheless, a Shari'ah compliant insurance service like Islamic micro-insurance (micro-Takaful) is currently scarcely available to this group since the country's Islamic finance sector is in its infancy.

In addition to the need for more availability of Shari'ah compliant insurance services, the high insurance cost is a serious problem. Tens of millions of people are excluded from formal risk mitigation services since the majority of Ethiopians are living in poverty (Abera and Asfaw, 2019). So, for low-income persons below the poverty line, informal risk-sharing arrangements (IRSA) are still a feasible choice and a means of promoting financial inclusion.

One of Ethiopia's most well-known IRSAs, locally named *iddir*, is a cost-effective risk-sharing arrangement. It embraces millions of low-income members, and it can be found in the nation's rural and urban areas. This IRSA remains the only available choice for regular group insurance for low-income Ethiopians who cannot pay for formal insurance services. This indigenous institution was formed to support one another to share risks of members against unforeseen losses, primarily the death of a family member. It also offers in-kind and monetary aid in times of adversity with no to low-interest rates (Wossen et al., 2015).

Despite IRSA's exceptional promise as an alternative source of risk mitigation, the severe effects of global warming, traffic accidents, drought, unemployment, and infectious and non-communicable diseases at a national or pandemic level are much beyond the capabilities of these arrangements. This left low-income households vulnerable to the effects of such risks. Additionally, scholars in previous studies have noted flaws in these arrangements, such as a lack of horizontal expansion and limited risk coverage (Aredo, 2010); a lack of capital (Teshome et al., 2014); and corruption and embezzlements by the leaders (Bazezew and Chanie, 2015).

Given the rising Muslim population in Ethiopia, the limits of these IRSAs, and the start of Islamic financial services in Ethiopia, it is essential to introduce a Shari'ah compliant insurance like a micro-Takaful model, which research shows has facilitated financial inclusion (see, for examples; Sadiq and Musthaq, 2015; Rusydiana and Devi, 2017; Puad, 2017; Hassan, 2016). As a result, this research seeks to find how adopting micro-Takaful will affect financial inclusion among these low-income households. Although other researchers have looked at how micro-Takaful affects financial inclusion, this study is unique since it targets low-income IRSA users in Africa and uses the Theory of Change (ToC) as its research framework.

2. Literature Review

Two of the numerous factors that keep people in poverty are a lack of access to financial services and improper management of the risk of natural catastrophes (Zuliani and Ab Rahman, 2018). According to Sadiq and Mushtaq (2015), access to financial services for low-income is crucial for reducing poverty in conjunction with sustainable development. According to Haroun and Yusoff (2019), who concur, there are several approaches to eradicating poverty, but financial inclusion may be the most effective because it empowers people to escape poverty independently.

Islam places a strong emphasis on social justice, diversity, and the fair distribution of resources. According to Hassan (2016), social responsibility and working for the common good are the key characteristics of Islamic economics and finance that set it apart from its conventional equivalent. Islamic finance approaches the problem of financial inclusion from two angles: 1) by advocating risk-sharing contracts as a potential alternative to conventional debt-based financing, and 2) by using particular tools for wealth redistribution within the community (Mohieldin et al., 2011). The Islamic financial system as a whole is based on the principle of social justice, which calls for an equitable distribution of wealth among members of the society in order to foster both social and financial inclusion (Hassan, 2016).

[1]Retrieved from http://www.statsethiopia.gov.et/census-2007-2/ on September 12/ 2020
[2]data.worldbank.org/indicator/SP.POP.TOTL?end=2021&locations=ET&start=2006 accessed on March 19/2023

In light of these and other considerations, Shari'ah-compliant microfinance is the most logical way to provide inclusive finance, and these Islamic microfinance institutions are essential for creating long-lasting channels for inclusive finance (Sadiq and Musthaq, 2015).

Micro-takaful is growing in popularity among low-income Muslims as an alternative to conventional microfinance. It serves as a tool to meet the needs of those with lower incomes to give access to affordable protection (Bakhtiari, 2013). Khan (2009) describes micro-takaful as "A mechanism to provide Shari'ah-based protection to the blue-collar, underprivileged individuals at an affordable cost." However, a more comprehensive definition provided by Islamic Financial Services Board (IFSB) (2015) is: -

> *Micro-Takaful service exists in both Family and General forms. It is a joint-guarantee scheme whereby a group of participants agrees to help one another jointly for losses resulting from certain risks under the guiding principles of Tabarru' (donation), Taawun (mutual assistance), and prohibition of Riba (usury). The low-income and underprivileged demographic segment is offered micro-takaful services by various entities regulated and supervised by regulatory and supervisory authorities under the national laws of any jurisdiction.*

According to Ya'u (2012), the main goal of micro-Takaful is to bring the concerns of individuals and micro-businesses into one basket. These institutions are operating for sustainability, particularly in developing countries where there may not be sufficient economic stabilizers and relief funds to cushion against the unwanted calamities that may befall. The need for Shari'ah compliant microfinance is increasing, which becomes an excellent opportunity for micro-Takaful establishments. According to Rusydiana and Devi (2017), micro-Takaful should be adopted because it has proven to offer 'win-win-win' solutions to the following:

a) The low-income households; providing them insurance protection services that they never experienced before.
b) Microfinance Institutions; since the group's partner can provide better services to their clients with lower risks; and
c) Insurance companies; can reach new market niches through microfinance institutions which were difficult to approach.

In agreement with (a) above, Puad (2017) adds how crucial it is for households to have access to micro-Takaful as an additional or alternative coping strategy because some households may require additional protection beyond the purview of such programs or may not be covered at all by existing social protection programs. According to Htay et al. (2015), introducing micro-Takaful in Malaysia could increase competition in the Takaful sector as Takaful operators currently concentrate on Takaful goods that are only accessible to middle- to high-income groups. Ahmad (2007) also notes that providing micro-Takaful to low-income groups expands the Takaful companies' product range, encourages the true risk-sharing idea, and makes the sector competitive with traditional insurance.

Bank Negara Malaysia emphasizes that micro-Takaful functions, including reducing poverty and fostering social mobility, primarily fall under the purview of structural economic policies and state social safety programs. According to the World Bank (2017), micro-takaful is a socially responsible strategy that strives to combat poverty, aid the vulnerable, and support the underserved by promoting financial inclusion and pooling resources and risks among villages or communities. In his study, Hassan (2016) discovers opportunities to improve the economic standing of low-income Muslim communities through creative approaches in designing and delivering Islamic micro-financial products suitable for the poor. For the general economic growth of the community in non-Muslim countries as well, Puad (2017) contends that the Islamic financial sector must concentrate on microfinance and micro-Takaful due to the significant number of Muslims who live in poverty in these nations.

The other factor for the adoption of micro-Takaful is the promotion of the use of insurance or Takaful by financial institutions as a guarantee for credit. As per the World Bank (2017), this is crucial in developing nations as low-income people generally have low liquidity and little ability to pledge other sorts of guarantees acceptable to formal banking requirements.

Many scholars have studied the potential of micro-Takaful and discovered that it has enormous potential to increase financial access. According to Ahmed (2016), Takaful insurance is one of the economic service sectors that most Muslim and Arab nations anticipate would develop exponentially between 20 and 25 percent over the next few years. For instance, Zuliani and Ab Rahman (2018) concluded that micro-Takaful might be delivered in Indonesia if the country's low-income and underprivileged populations' demands were met. Hasim (2014) also confirms that Iraq has to implement at least life and accident insurance and foster an insurance culture in the low-income market. According to Mokhtar et al. (2012), micro-Takaful can be successful even in markets with little prior Takaful experience so long as the products, processes, and policies are straightforward, the premiums are modest, the administration is effective, and the distribution methods are creative.

As per the literature review, underdeveloped nations should think about creating micro-Takaful products for low-income households for several reasons, the most important of which is financial inclusion. The current study also aims to identify the impact of micro-Takaful adoption on financial inclusion using the Theory of Change (different framework from the existing literature) among low-income informal risk-sharing users in Ethiopia (new study area).

Desired outcomes of financial inclusion

One way of evaluating the desired outcomes of the financial inclusion framework is through its dimensions; access, usage, and quality (World Bank, 2012). The current study uses these desired outcomes to measure financial inclusion. Each of the dimensions is briefly explained below.

Financial Access – is the capacity that financial institutions have to provide financial services and products, and access indicators reflect the depth of outreach of financial services. Indicators of access include penetration of bank and insurance branches.

Financial Usage – how clients use financial services, including how frequently and long they use them over time. Average savings balances, number of transactions, and number of payments made are considered indicators of financial usage.

Financial Quality **-** is the ability of the financial service or product to meet the consumer's needs. There are some indicators of financial quality as a proxy for convenience, product fit, transparency, safety, consumer protection, and financial literacy.

The financial inclusion framework of Bank Negara Malaysia (BNM) also explains the vision of the financial inclusion framework, which is to develop an inclusive financial system that best serves all members of society, especially the underserved, by enabling them to have access to and usage of affordable, quality, and essential financial services to meet their needs. The approach effectively considers the standard metrics of access, usage, and quality.

Theoretical framework

The Theory of Change (ToC), which emerged in the 1990s as a methodological model and framework for evaluating comprehensive community initiatives, explains the need to define strategic, long-term goals by stakeholders as a precondition for change and then working backward to identify the conditions prior to achieving the desired change. The theory of change postulates that a series of short and medium-term successes set the foundation for obtaining long-term benefits, as Anderson (2005) explained. A ToC is a logical flow of actions that charts a program's mechanism as it produces particular results.

Theory of Change (ToC) comprehensively explains how and why a desired change is anticipated in a particular context (UNDAF, 2017)[3]. It is mainly concerned with defining or "filling in" what has been referred to as the "missing middle" between what a program or change initiative does (its activities or interventions) and how this contributes to the attainment of the intended goal. In order to do this, it first determines the desired long-term goals. Then it works backward from these to identify all essential conditions (outcomes) and how these were causally related to one another for the goals to actualize.

ToC's perspective originates in various academic fields and organizational development (Prochaska et al., 1992; Burke, 2017). According to scholars (Martin-Baró, 1994; Prilleltensky, 2008), change activities should

[3]Theory of Change: https://unsdg.un.org/resources/theory-change-undaf-companion-guidance. Accessed on July 15, 2021

concentrate on the structures that support the laws and practices that marginalize individuals and communities. The ToC is founded on the premise that social change is complicated and requires a complete study of the underlying elements that contribute to it (Kania and Kramer, 2011). The framework entails defining the desired results, outlining the actions required to accomplish those results, and determining the resources and activities needed to carry out those processes.

Several scholars examined the application of ToC in many contexts, including social programs (Connolly and Seymour, 2015), educational programs (Lusk et al., 2016), and social work (Broussard and Joseph, 2013). In order to map out the procedures required to attain the desired goals, the researchers developed a program using the ToC framework and selected the desired outcomes. The ToC offers a helpful framework for comprehending intricate societal issues and creating workable solutions. Organizations can design targeted interventions that are more likely to result in positive social change by identifying the desired goals and outlining the activities required to achieve those outcomes.

In this study, a ToC helps to articulate how adopting micro-Takaful (intervention) will lead to financial inclusion (intended outcome). Figure 1 shows how the ToC applies to this study, and Figure 2 shows the research framework of the study, respectively.

Figure 1: Change process

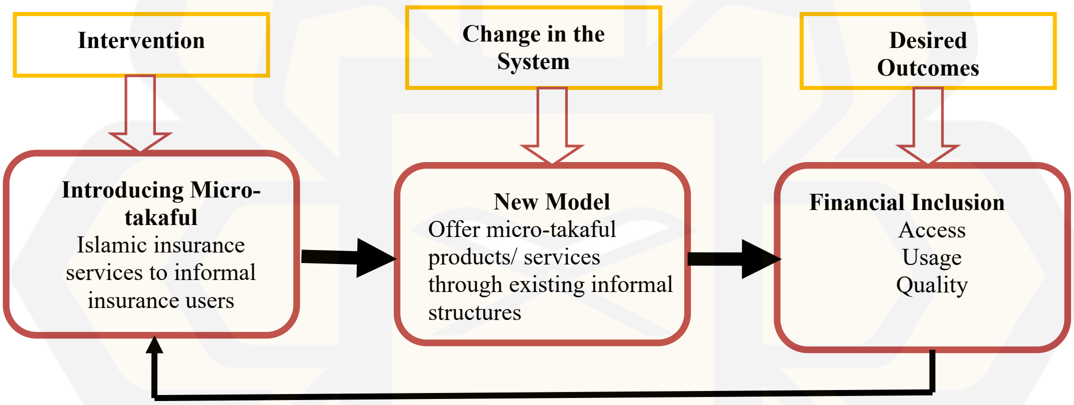
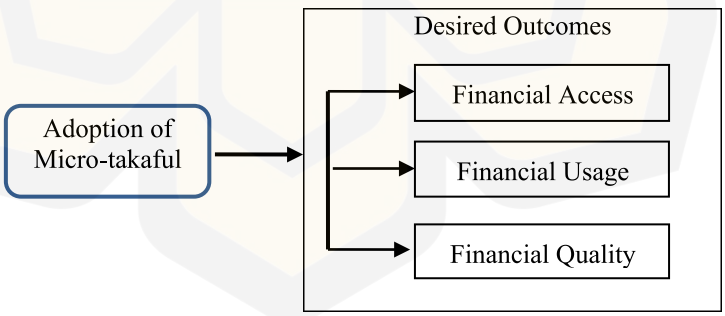


Figure 2: Research framework based on TOC (Modified from BNM)



This study uses the ToC to explain how the adoption of micro-Takaful brings about the desired outcomes of access, usage, and quality to explain financial inclusion. Thus, the following hypotheses are suggested to predict the impact of micro-Takaful in improving financial inclusion.

H1 - Adoption of micro-Takaful positively and significantly influences access to finance by informal risk-sharing services users.

H2 - Adoption of micro-Takaful positively and significantly influences usage of finance by informal risk-sharing services users.

H3 - Adoption of micro-Takaful positively and significantly influences quality of finance by informal risk-sharing services users.

3. Research Methodology

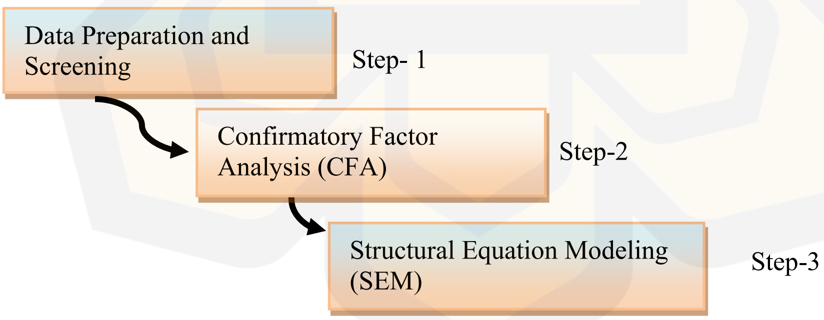
The objective of this research is best achieved by combining quantitative and qualitative methods. Hence a mixed method "dominant/less dominant" design was used. Using mixed methods entails mixing or integrating quantitative and qualitative methods and data (Creswell, 2018). Similarly, Johnson and Onwuegbuzie (2004, p. 21) state that the mixed method approach is a rich field because with the mixed methods design, "words, pictures, and narrative can be used to add meaning to numbers," which allows research results to be generalized for subsequent studies and examinations. Even though the quantitative approach was dominant in this study, the qualitative data were also very relevant to enhance some of the quantitative findings.

This study covered three regions (states) and one city administration in Ethiopia. It was conducted in five (5) cities, including the capital, Addis Ababa. The regions were selected based on the size of their population and location convenience. A survey method was used to collect quantitative data. The data collection instrument (i.e., the questionnaire) was prepared in such a way that respondents were asked about their degree of agreement at the 1-5 level, where "Definitely" is represented by 5 and "Definitely Not" is represented by 1. On the other hand, the researcher used semi-structured interviews to collect qualitative data from different stakeholders to understand the topic under investigation.

The population of this study includes low-income members of IRSA (for quantitative survey) and Islamic finance experts, insurance experts, and heads of IRSA (for qualitative interview). Since the number of these arrangements, especially the Islamic ones is unknown, it was difficult to determine the sample size. Hence, the researcher used the guideline of (Comrey and Lee, 1992) suggested to determine the sample size. The authors state that a sample size of 50 is believed to be very poor; 100 as poor; 200 as fair; 300 as good; 500 as very good; and 1,000 as excellent. This study is expected to achieve a sample size of seven hundred (700) respondents for members of IRSAs, as Comrey and Lee (1992) suggested, as more than very good. In addition, six respondents were selected, two from each profession or position of Islamic finance, insurance, and IRSA.

The quantitative analysis of this study followed three steps, as depicted in Figure 3, whereas thematic analysis was employed to analyse the qualitative data.

Figure 3: Steps for the quantitative analysis



4. Results and Discussions

The demographic information of respondents is explained in terms of gender, age, education, occupation, and basic financial literacy of the 654 respondents. Initially, the questionnaires filled were 700, however, only 654 of them were found to be usable for further analysis. Table 1 presents the demographic information of the respondents.

Table 1: Demography of respondents

Demographic Information	Frequency	Percentage
Gender		
Male	405	62
Female	149	38
Age		
18-35	287	44
36-55	327	50
55-75	26	4
66-75	14	2
75 and above	0	0
Education		
No Formal Education	32	5
Primary - High school	399	61
Certificate/College Degree	223	34
Occupation		
Government Sector	105	16
Private Sector	72	11
Self-Employed	379	58
Others	98	15
Basic Financial Literacy		
Yes	451	69
No	203	31

Data screening

Data screening involves identifying and correcting inconsistencies or errors and several steps, such as identifying missing values, outliers, duplicates, and other errors. In this study, 25 missing values were identified, representing 4.0%. The missing values were found to be random with no special pattern. Researchers (such as; Tabachnick and Fidell, 2019; Raymond, 1986) agree that missing values of 5% or less are insignificant and can be replaced by mean substitution. Hence, the 25 missing values identified in this study were replaced using their respective mean values.

Outliers must also be identified and addressed since they can affect the statistical analysis results. In this study, the Mahalanobis Distance was used to identify outliers, hence p-value of less than 0.003 was considered a different score from the others; thus, 18 observations were deleted from the data set (See Appendix A).

Multicollinearity analysis

One of the necessary preliminary analyses in regression analysis is evaluating multicollinearity. Independent variables are expected to be correlated with the dependent variable in statistical analysis (Hair et al., 2010). According to Field (2013) and Montgomery et al. (2021), multicollinearity issue occurs when one independent variable is highly correlated with one or more other independent variables. Multicollinearity can be evaluated by examining the Variance Inflation Factor (VIF) and tolerance value. A tolerance value of less than 0.20 and a VIF value of 5 or higher indicate multicollinearity (Hair et al, 2010; Tabachnick and Fidell, 2019). Table 2 below shows no multicollinearity issue in the data as VIF is less than 5 and tolerance values are higher than 0.20.

Table 2: Assessment of multicollinearity

Model	Collinearity Statistics	
	Tolerance	VIF
Access	.995	1.005
Usage	.894	1.118
Quality	.892	1.122

Normality testing

Testing for normality is a critical assumption when conducting multivariate analysis (Hair et al., 2010). The normality assumption is met if the skewness and kurtosis values are no more than 3.0 and 10.0, respectively (McDonald and Ho, 2002). The researcher conducted a normality test for 20 items, as illustrated in Appendix B. The normality testing confirmed that the skewness and kurtosis coefficients are within the normal range; thus, normality has been achieved for this study.

Reliability analysis

The Cronbach's Alpha coefficient (α) is a commonly used measure of internal consistency, especially when using Likert scales (Taherdoost, 2016). Most scholars generally accept a minimum coefficient of 0.70 for measuring internal consistency (Whitley, 2002). Table 3 illustrates the reliability analysis of the data in this study.

Table 3: Reliability analysis

Variables	Cronbach's Alpha (α)	No. of Items
Adoption	0.858	6
Access	0.879	4
Usage	0.818	5
Quality	0.812	5
Overall - TOC	0.853	20

The Cronbach's alpha (α) of each variable as well as the overall alpha, displayed a sufficient internal consistency as it met the requirement of the minimum coefficient, 0.70.

Confirmatory Factor Analysis (CFA)

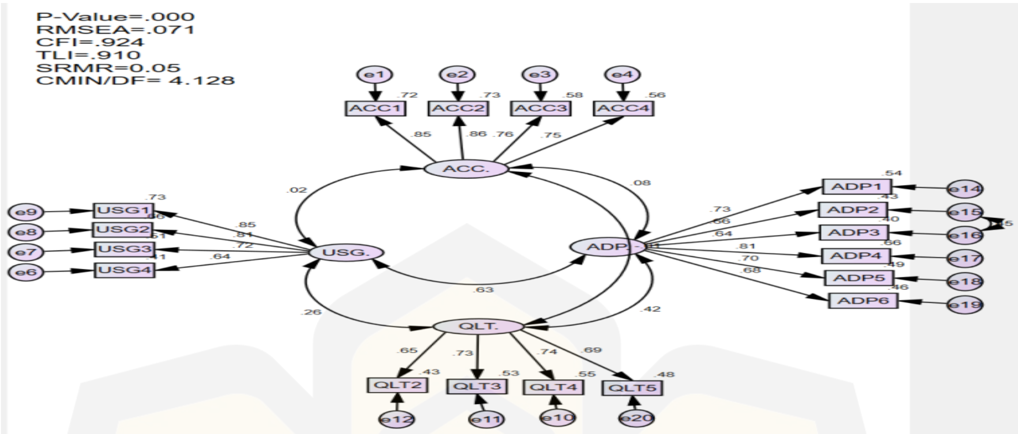
The validity of the model is a crucial consideration when applying structural equation modeling (SEM). This is typically assessed using a Confirmatory Factor Analysis (CFA). The link between a set of observed variables and their underlying constructs can be tested using a statistical approach called CFA. CFA and construct validity are closely related since it enables researchers to assess how well a group of observed variables capture the intended concept or constructs.

CFA determines how well the observed data matches the proposed model. Various fit indices, such as chi-square, Root Mean Square Error of Approximation (RMSEA), Comparative Fit Index (CFI), and Tucker-Lewis Index (TLI), are used to compare the observed data to the model in this process. Low values for chi-square, RMSEA, standardized root mean square residual (SRMR), and high values for CFI and TLI signify good model fit. Five distinct types of indicators were utilized in this study to assess the model's goodness-of-fit.

Measurement model

The measurement model comprises the four latent constructs as explained in the research framework, namely, micro-Takaful adoption (ADD), financial access (ACC), financial usage (USG), and financial quality (QLT). Figure 4 shows the measurement model.

Figure 4: Measurement model



The fit indices of the measurement model met the required threshold as presented in Table 4 after some modifications have been made on the initial measurement model.

Table 4: Fit indices for the measurement model

Fit Indices	Measurement Model	Threshold
RMSEA	0.071	< 0.08 (Browne & Cudek, 1993)
SRMR	0.05	< 0.05 good (Byrne, 1998)
CFI	0.924	> 0.90 good fit (Hu & Bentler, 1999)
TLI	0.910	> 0.90 good fit (Tucker & Lewis, 1973)
Chisq/df	4.128	< 5 acceptable (Hu & Bentler, 1999)

Reliability and validity

Besides the fit indices, the CFA analysis incorporates reliability, convergent validity, and discriminant validity in this study. Besides Cronbach's alpha, composite reliability is also a statistical measure used to assess the validity of CFA. It refers to the internal consistency of the latent construct and is calculated by estimating the reliability of the composite score of all items that measure the construct (Raykov, 1997). Composite reliability values range from 0 to 1, with higher values indicating greater internal consistency. As per Nunnally and Bernstein (1994), a commonly accepted threshold for composite reliability is 0.70 or higher.

Another statistical measure used to assess CFA's validity is convergent validity. Convergent validity refers to the degree to which different measures of the same construct are related. Average Variance Extracted (AVE) is commonly used to examine the convergent validity among item measures (Hair et al., 2010). The authors state a factor loading of 0.50 or higher is accepted for convergent validity.

To evaluate discriminant validity, the Heterotrait-Monotrait ratio of correlations (HTMT) is used in this study. The HTMT ratio was introduced by Henseler et al. (2015) as a new criterion to evaluate discriminant validity. The authors claim that in comparison with traditional approaches, the HTMT criterion is a more conservative assessment, hence, offers a more reliable test of discriminant validity. The authors argued that because HTMT explicitly considers the association between various constructs and the variety of their indicators, it provides a more accurate measure of discriminant validity. An HTMT ratio of less than 0.9 is often accepted.

This research uses Cronbach's alpha (α) and composite reliability (CR) to test the reliability, AVE to assess convergent validity, as illustrated in Table 5.

Table 5: Reliability and convergent validity

Constructs	Cronbach's Alpha	Composite Reliability	AVE
Adoption	0.858	0.855	0.50
Fin. Access	0.879	0.880	0.65
Fin. Usage	0.841	0.844	0.58
Fin. Quality	0.797	0.797	0.50

Statistics	Suggested
Composite Reliability	> 0.60
Cronbach's Alpha	> 0.70
Convergent Validity	AVE ≥ 0.50

It can be referred from Table 5 that all constructs achieved the required value of 0.70 for Cronbach's alpha, 0.60 for composite reliability, and 0.50 for average variance extracted (AVE). Hence, we can conclude that reliability and convergent validity have been established for this study.

As explained above, the HTMT ratio was used for the discriminant validity test. From the information presented in Table 6, it can be referred that the HTMT ratio for all the constructs is below 0.90. Thus, discriminant validity has also been established. Therefore, the researcher moved on to the next step of the analysis, which was testing the structural model.

Table 6: Discriminant validity

MONOTRAIT

Access	Usage	Quality	Adoption
0.6438	0.5688	0.4948	0.5109

HETEROTRAIT

	Access	Usage	Quality	Adoption
ACCESS				
USAGE	0.0145			
QUALITY	-0.0043	0.1407		
ADOPTION	0.0445	0.3334	0.2069	

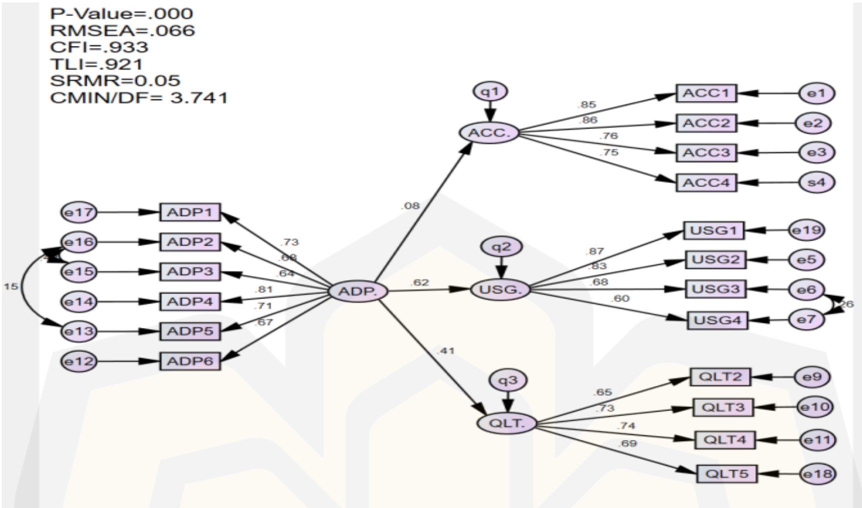
HTMT RATIO

	Access	Usage	Quality	Adoption
ACCESS				
USAGE	0.0240			
QUALITY	-0.0075	0.2652		
ADOPTION	0.0775	0.6184	0.4115	

Structural model

According to Kline (2015), SEM is a flexible and effective tool that enables researchers to evaluate complex models that contain numerous independent and dependent variables. Latent variables, which are not immediately observable but may be inferred from the observed data, can be compared using the SEM method. In this study, *p*-values from the structural model were used to test the hypothesis of the suggested conceptual model. The structural model is displayed in Figure 5.

Figure 5: Structural model



The structural model illustrated above confirmed that the goodness-of-fit has been achieved as the fit indices of the structural model met the required threshold, as presented in Table 7.

Table 7: Fit Indices for the measurement model

Fit Indices	Structural Model	Threshold
RMSEA	0.066	< 0.08
SRMR	0.05	< 0.05
CFI	0.933	> 0.90
TLI	0.921	> 0.90
Chisq/df	3.741	<5

Estimation of the result

Table 8 shows the statistical result based on maximum likelihood estimation and shows that two of the three hypotheses were supported as they were found to be statistically significant.

Table 8: Path statistical result

	Hypothesized Path	Estimate	S.E.	P	Decision
H1	Adoption (ADP) → (ACC)	0.118	0.069	0.088	ADP and ACC are +vely related but not significant. *(Not Supported*)
H2	Adoption (ADP) → (USG)	0.829	0.066	***	ADP and USG are +vely related and significant. *(Supported)*
H3	Adoption (ADP) → (QLT)	0.057	0.057	***	ADP and USG are +vely related and significant. *(Supported)*

Note: *** Significant at $p < 0.001$

As per the quantitative results, IRSA members/users believe that adopting micro-Takaful increases financial access, but the result also shows that the impact is not that significant. The insignificance impact may be attributable to IRSAs prevalence throughout the county. Hence, the members do not expect the micro-Takaful services to be as reachable as the IRSA services. IRSA members also know the challenges formal institutions face in expanding to different territories. Thus, they may think accessibility is possible but not easy.

Adoption of micro-Takaful has a significant and positive impact on financial usage and quality, unlike financial access. As explained earlier, IRSAs can be found everywhere and in different forms; however, their financial capacity is limited. It seems vital for the members to look for what they cannot benefit from their current institutions. As per the findings, members believe the adoption of micro-Takaful increases the quality of protection services and the flexibility and range of products.

Qualitative analysis and discussion

For the qualitative data, two insurance experts, two Islamic finance experts and two IRSA heads (six in total) agreed to be interviewed. Table 9 presents respondents profile, and they are represented by IN1 and IN2 (insurance experts); IS1 and IS2 (Islamic finance experts); and IH1 and IH2 (heads of IRSA).

Table 9: Profile of respondents

Resp.	Qualification	Gender	Religion	Position	Experience
IN1	Masters	M	Islam	Branch Manager (Insurance Co.)	10 years
IN2	Masters	M	Islam	Senior Expert (Insurance Co.)	7.5 years
IS1	Masters	M	Islam	Expert (Takaful)	2 (current) 7 in total
IS2	Masters	M	Islam	Assistant Manager (Takaful)	2 (current) 9 in total
IH1	*Bachelor's	M	Islam	Self-employed	30 years
IH2	**Diploma	M	Islam	Government employee	24 years

* has served 2 years as an Islamic IRSA
** has served 6 years as an Islamic IRSA

The main questions for the interview include:

1. What is your opinion about offering other financial protection services for low-income people?
2. Is it a viable option to adopt/introduce micro-Takaful in Ethiopia? Why/why not?
3. Is micro-Takaful a suitable option to enhance financial inclusion? How?
4. It is known that there are similarities between IRSAs and micro-Takaful. What is your opinion of providing these services with IRSAs?
5. What features do you propose if micro-Takaful services are provided along with IRSAs?

A thematic analysis was employed for the qualitative analysis and based on this; three themes emerged from the interview responses.

Theme One: Essentiality of Shari'ah compliant low-fee risk mitigation alternative

The respondents agreed on the essentiality of alternative risk protection coverage for the low-income citizens. For instance, IN1 stressed on the need for alternative solution as:

> *The insurance service in Ethiopia serves high-income and middle-income earning people. The poor people need to get these services. Besides, micro-insurance services are not widely available. The most famous micro-insurance service available is the government-provided community health insurance which is limited to health care coverage to a certain limited amount of coverage. No time shall be spent if alternative solutions are available.*

As per IS1, an alternative structure is welcome for the Muslim population. It is a known fact that majority of the Muslim population is low-income earning. He explained how important devising of a mechanism as:

> *Half of the population in Ethiopia are Muslims. Nearly all the population of Somali and Afar regions are Muslims, and their livelihood depends on pastoralism and agro-pastoralism. In these two regions I mentioned, and in other regions, most of the Muslim population lives in poverty. Alternative Shari'ah compliant risk mitigation mechanisms besides IRSAs, money transfers from relatives, or contributions from the community, when perils occur are mandatory.*

Most of the respondents also stressed the affordability of an alternative risk mitigation strategy if it is to be introduced. More specifically, IN2 elaborated:

> *Insurance products are expensive in our country, making them a non-feasible option for low-income households. I do not expect these services will be cheaper anytime soon. Since most of the population is categorized as low-income, there is no doubt about the need for cheaper financial protection mechanisms. The only financial structures available are these arrangements and the government community health insurance, which has limited capacity. What is more important than alternative risk protection strategies for low-income people?*

From the perspective of the heads of IRSA too, finding an alternative risk protection coverage for the poor is a noble task. IH2 mentioned:

> *An alternative means of protection for people with low incomes is not a choice but mandatory. Product-wise, such services also are less diversified. Take iddir, for instance. It has very limited services. How about life, illness, injury/accident coverages? Where can they get all these with affordable fees? There is none. If a low-fee risk mitigation mechanism with diversified products is introduced, it will be a great relief for the low-income households.*

From the responses, all respondents stated that an alternative strategy, service, product, or model is compulsory for low-income people to access this financial service. There is no difference in their opinions regarding the necessity of devising an alternative risk-sharing mechanism for the low-income households.

Theme Two: Cheaper fees, availability of customized and variety of products

Respondents were asked what features they propose for the micro-Takaful model to be offered. Most of them mentioned similar features. For instance, IS2 stated:

> *The micro-Takaful model should have good governance and administration structure if governance is taken as a feature. This is important for its sustainability. Besides, it must be managed by experts with a basic knowledge of Islamic finance, especially micro-finance.*

Likewise, IN2 proposed provision of variety of products and customization as good features by stating:

> *Low-income households must be lucky enough to access different risk protection mechanisms. For the new model to succeed, various products should be offered. Customization of products is also essential.*

IH1 also mentioned:

> *It is better to remember that IRSAs' services are affordable to low-income households. Hence, the micro-Takaful institutions should consider their pricing for these groups of society who may be unable to afford pricey products.*

The second theme that emerged was the specific features proposed by respondents. The insurance experts emphasized the pricing of the products and the availability of various products. At the same time, the Islamic finance experts focused on the need for experts and good governance.

Theme Three: Micro-Takaful has the potential to promote inclusive finance

The respondents have the same opinion on the possibility of achieving inclusive finance through micro-Takaful. They mentioned different grounds to strengthen their opinions. IH1; for instance, expected the financially excluded low-income community would get the chance to access various products offered by micro-Takaful. He said:

> *The different products availed by the micro-takaful model have attractive features. The low-income community is excluded from accessing the very basic protection coverages such as accidents, injuries, and property losses. In my opinion, the availability of these services will incredibly promote inclusive finance.*

In agreement with this, IN2 explained that micro and small enterprises will also get the chance to get covered for their properties. These enterprises have been out of any form of risk mitigation mechanisms including IRSAs. He stated:

> *It is not just individuals only but micro and small businesses (MSEs) also will have the opportunity to access affordable insurance services for their properties and stocks. Thus, the establishment of micro-takaful is not only beneficial for households but also for MSEs. This promotes financial inclusion among the MSE owners too.*

Another interesting remark came from IH2 who stated that non-IRSA members will also get the chance of accessing risk coverages. He explained this as:

> *IRSA members enjoy some financial and non-financial benefits should peril occur. Due to different reasons, there are many low-income households who are not IRSA members and miss any kind of opportunity to get risk protection. I hope that if micro-takaful is introduced, it will have the capacity to attract these people to include them in the risk protection/coverage.*

Two respondents linked the low-fee structure of micro-Takaful to its suitability of enhancing financial inclusion. For instance, IN1 is convinced with the fact that micro-Takaful is a low-fee model designed for the poor which can also serve the non-Muslim low-income community. He said:

> *Insurance services and takaful products are beyond the financial capacity of low-income people. Micro-Takaful model is designed for low-income people. Thus, these households can have the chance to access some of the risk coverage products. This opportunity is not just for the Muslim community. The non-Muslim community will also get the chance to access these products.*

It is also a well-known fact that the Muslim community has been waiting for a Shari'ah compliant product or service. Its availability will attract those excluded as per IS1. He mentioned:

> *The Muslim community in Ethiopia has long awaited Shari'ah-compliant financial products, including takaful services. Muslims were excluded from financial services for decades for fear of non-Shari'ah compliance. Apart from the variety of products and the low fees, the Shari'ah compliance of the micro-takaful model will attract many people who were excluded from financial services.*

Interestingly, the different modalities and customization of the micro-Takaful were mentioned by IS2 as good features to reach out to the excluded. His words included:

> *The low contribution is an essential feature of a micro-takaful model. This by itself attracts many low-income households. Besides, the micro-takaful can be offered in different modalities such as the Mudarabah, Wakalah, or Waqf models. It can also be customized to fit the Ethiopian market or low-income peoples' needs. The different modalities will make micro-takaful a suitable model for the people, which will assist in reaching out to those in need of its services.*

The third theme that came into view was the possibility of micro-Takaful in encouraging financial inclusion. From the fee structure to customization, from its convenient modality to Shari'ah compliance, from the variety of products to convenience to MSEs were discussed by the respondents to support their opinions towards the prospect of micro-Takaful in promoting inclusive finance. The insurance experts focused on the fees to be paid by participants, which are low relative to the insurance and its accessibility by micro and small enterprises.

The Islamic finance experts pointed out the Shari'ah compliance of micro-Takaful and its low fee structure. In contrast, the heads of *iddirs* emphasized the availability of various products and the possibility of including non-*iddir* members.

5. Conclusion and Recommendation

The results ascertained the adoption of micro-Takaful will promote inclusive finance among the excluded class. Three dimensions, access, usage, and quality were used to measure financial inclusion, and it was found that adoption of micro-Takaful will have a significant and positive impact in increasing financial usage and quality among low-income households. The exception is financial access; although it is not significant, if micro-Takaful is adopted and its services are offered, there is a chance that financial access will increase. The findings from qualitative interviews also confirmed the potential of micro-Takaful in boosting inclusive finance. The findings pointed towards the prospect of micro-Takaful in promoting financial inclusion and contribute in updating the development of Islamic financial inclusion programs in Ethiopia. Besides, users of this research can update their knowledge of financial inclusion or apply the findings.

Despite its theoretical and practical contributions, this research has its limitations. Future research may include rural locations, as this study focuses on cities. The respondents in this research were restricted to low-income IRSA members. However, future researchers may include low-income households who are not users of any form of risk-sharing services and households from the middle-income category to strengthen the analysis and make the findings more comprehensive.

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Appendix A: Mahalanobis Distance

Observation Number	Mahalanobis d-squared	p-value
27	105.5921	0.0000
53	104.0395	0.0000
9	102.5793	0.0000
61	100.8833	0.0000
359	99.3245	0.0000
181	99.127	0.0000
146	98.9539	0.0000
259	97.6845	0.0000
47	97.0129	0.0000
26	96.9558	0.0000
25	96.7381	0.0004
32	96.3766	0.0006
5	95.8242	0.0009
52	94.4657	0.0012
8	94.3253	0.0017
2	93.9543	0.0024
70	93.2145	0.0025
35	92.994	0.0026
11	92.6507	0.0033
48	92.4321	0.0038
4	91.752	0.0039
42	91.7155	0.0040
28	91.4533	0.0043
19	91.3857	0.0048
73	90.6268	0.0063
69	90.4272	0.0065
14	90.1601	0.0069
12	89.6789	0.0080
10	89.187	0.0083
3	89.1857	0.0089
13	88.9428	0.0092
18	88.896	0.0105
7	88.7556	0.0106
1	88.7436	0.0111
15	88.6664	0.0112

17	88.5723	0.0129
23	88.4759	0.0134
16	88.2809	0.0140
62	88.0705	0.0153
38	87.9944	0.0167
43	87.8359	0.0167
21	87.7641	0.0174
84	86.6076	0.0175
50	86.4337	0.0180
24	86.3987	0.0180

Appendix B: Normality Assessment

Code	Items	Skewness	Kurtosis
ADP1	Adoption_Consider it as a viable option	-1.205	1.284
ADP2	Adoption_Willingness to use MT is high	-.522	-.516
ADP3	Adoption_Likelihood of using MT is high	-.407	-.161
ADP4	Adoption_Forsee potential of MT services	-.914	.850
ADP5	Adoption_Take up MT within the *iddir* system	-1.216	1.530
ADP6	Adoption_Willing to use MT even if provided outside of the *iddir* system	-.814	.411
ACC1	Access_Risk protection coverage will increase	-.737	-.437
ACC2	Access_Easy access to MT agents	-.666	-.630
ACC3	Access_E-service access to MT	-.918	1.588
ACC4	Access_Various products will be available	-.653	.472
USG1	Usage_Enhance participation	-.491	-.200
USG2	Usage_More than one MT service	-.472	.053
USG3	Usage_Facilitate use of MT with*iddir*	-.484	-.759
USG4	Usage_Encourage other members	-.337	-.344
USG5	Usage_Flexibility of contribution	-.728	-.082
QLT1	Quality_Provided according to preference	-.167	-.485
QLT2	Quality_Prompt MT Service	-.404	-.141
QLT3	Quality_Provided by experts	-.748	.327
QLT4	Quality_Professional facilities will be available	-.662	-.077
QLT5	Quality_Individualized attention will be giveN	-.404	-.283

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Measurement Constructs for Personal Financial Capability in Islamic Finance. Evidence on Zanzibar

Fauz Moh'd Khamis

School of Business, the State University of Zanzibar

Email: fauzmokha79@gmail.com

Abstract

This study conceptualises the constructs and indicators to assess the individual's financial capability in Islamic finance. This study applied an exploratory approach by reviewing the literature about financial capability and literacy. Besides, this study used convenient sampling to obtain questionnaire respondents across the Zanzibar region. This study performed exploratory and confirmatory factor analysis to determine the validity and reliability of the conceptualised measurement constructs and indicators. The factor analysis confirmed three constructs of personal financial capabilities in Islamic finance: attitudes towards Islamic finance, Islamic financial literacy, and Shari'ah compliance financial behaviour. Besides, this study proposed eleven indicators to measure the three proposed constructs of individual's financial capability in Islamic finance. The original contribution of this study is to conceptualize and validate the measurement constructs and indicators for personal financial capability from an Islamic finance perspective. This study extends to the Islamic financial capability model by incorporating attitudes towards Islamic finance, Islamic financial literacy and Shari'ah-compliant financial behaviour. The proposed measurement constructs are useful for researchers and service providers in Islamic finance and banking to evaluate the ability of a person to make viable financial decisions based on Islamic principles.

Keywords: *Financial capability, Islamic finance, Shari'ah compliant financial behaviour, Zanzibar*

1. Introduction

While most studies on individuals' financial behaviours in Islamic finance focus on Islamic financial literacy, this study proposes the measurement constructs for persons' financial capability in Islamic finance. Generally, personal financial success and well-being depend significantly on the ability to make viable financial decisions given certain socioeconomic circumstances (The World Bank, 2022). Based on the financial capability approach, a meaningful relationship exists between personal financial capability, socioeconomic circumstances, and an individual's financial behaviour and well-being (Bagwell et al., 2014). Subsequently, this study proposes Islamic financial capability as a measure of the wider aspect of an individual's ability to deal with the general financial environment through Islamic finance to achieve financial targets and well-being. This study urges the financial capability framework to comprehend an individual's financial ability compared to the knowledge-based measurements proposed under the concept of Islamic financial literacy (Shephard et al., 2017). Previous studies have also suggested that financial literacy alone is insufficient to indicate an individual's ability to make informed financial decisions. In addition to financial literacy, an individual needs internal freedom to behave in his best interest (Bagwell et al., 2014; Perotti et al., 2013). Indeed, a financially capable person should be confident and willing to act on available opportunities (Istikomah et al., 2022).

Islamic finance studies use Islamic financial literacy synonymously with personal financial capability (Abdullah and Anderson, 2015; Setyowati et al., 2018). Most of these studies focus on knowledge and understanding of Islamic financial concepts and products but fail to incorporate the components of attitudes and financial behaviour in assessing Islamic financial literacy (Aisyah and Saepuloh, 2019; Albaity and Rahman, 2019; Bünyamin and Mutlu, 2017; Nawi et al., 2018; Rahman et al., 2018). Abdullah and Anderson (2015), Setyowati et al. (2018), and Bünyamin and Mutlu (2017) incorporated literacy knowledge, attitudes, and behaviour to develop a financial literacy index. However, these studies were based on conceptualized indicators and did not validate the measurement constructs. Most studies lack consistency in their measurement indicators of Islamic financial literacy (Firdausi and Kasri, 2022). This problem has also affected the comparability of the results of studies of people's financial capabilities in Islamic finance. Thus, this study suggests that Islamic financial literacy is an important component of Islamic financial capabilities. However, Islamic financial literacy alone is insufficient for reflecting a person's financial capabilities.

This study contributes to the literature by conceptualizing and validating the constructs and measurement indicators of financial capability from an Islamic finance perspective. This study provides new insights for researchers and financial service providers of Islamic finance. This study sheds light on researchers and financial institutions that assess people's willingness and ability to use Islamic financial services. Because of the novelty of this area, this study is based on the general financial capability frameworks of previous scholars to propose the components of personal Islamic financial capability (Bagwell et al., 2014; Kempson et al., 2005; Kempson et al., 2013; Shephard et al., 2017). The measurement constructs proposed by Bünyamin and Mutlu (2017) to measure the Islamic financial literacy index also form the basis for measuring Islamic financial capabilities. Subsequently, this study is classified into literature revive, methodology, results and conclusion sections.

2. Literature Review

This section discusses the basic financial capability models and the limitations of Islamic financial literacy measurements. In addition, this section introduces the constructs for measuring personal financial capabilities in Islamic finance.

2.1 The basic financial capability measurement frameworks

Financial capability studies refer to Amartya Sen's financial capability approach, which emphasizes human freedom to act upon opportunities to achieve well-being. According to Sen's (2007) capability approach, it is of moral importance for humans to achieve welfare (Sen, 2007). Accordingly, Sen (2007) defined financial capabilities as a blend of abilities that enables a person to decide to act. The combination of capabilities and the people's perspective "beings" and "doings" (functioning) should result in the person's "reason to value". In general, basic capabilities include the intrinsic and socioeconomic attributes that should be considered. Focusing exclusively on material resources has been criticised by the capability approach. Nevertheless, Sen's capability approach does not specify the forms of capabilities to be considered or provide an approach to aggregate capabilities in the overall assessment. Various financial capability models have been proposed, based on Sen's capability approach (Kuhumab, 2018).

From a financial perspective, the financial capability framework proposed by (Kempson et al., 2005) provides the basis for many financial capability measurement frameworks. Kempson et al. (2005) asserted that a financially capable person possesses the combination of knowledge, skills, attitudes, and confidence required to make financial management decisions, given certain personality and environmental circumstances. Environmental circumstances include experience and the socioeconomic environment, such as social influences, religion, culture, and economic status (Godinho and Russel, 2013; Kempson et al., 2005). Subsequently, Sherraden (2010) proposed a financial capability framework that combines financial literacy and accessibility of financial services. According to Sheradden (2010), financial literacy and inclusion are important components of financial capability. Financial literacy is obtained from financial knowledge, whereas financial inclusion refers to affordable, attractive, easy-to-use, safe, and reliable financial services. Besides, economic socialization (cognitive, behavioural, and environmental influences) has a crucial contribution to an individual's financial capability (Sheradden, 2010).

Taylor (2011) suggested that the assessment of financial capability should cover a wider scope of financial knowledge, skills, and behaviour, which are required to enable a person to make successful economic decisions. Bagwell et al. (2014) categorized personal financial capabilities into abilities, mindset, and connections. Ability refers to financial literacy, which represents financial knowledge and skills. The mindset represents financial attitude and motivation. The connection represents the ease and accessibility of financial services (Bagwell et al., 2014). Conversely, Shephard et al. (2017) define financial capability as a combination of behaviour influenced by an individual's level of financial literacy, attitude, and many psychological factors. Psychological factors include optimism, locus of control, non-impulsivity, goal orientation, and susceptibility to peer effects. In a narrow definition, Shephard et al. (2017) referred to financial capability as positive financial behaviour. The definition provided by Shephard et al. (2017) corresponds with that of Atkinson et al. (2006). Nevertheless, Bagwell et al. (2014) and Kempson et al. (2005) differentiated financial behaviour from financial capabilities and suggested that these components should be measured accordingly. According to Atkinson et al. (2006), financial behaviour includes performing four important informed financial decisions: tackling problem debt, managing money well, building resilience, and preparing for life ahead. Thus, financial capabilities are essential to informed financial decisions. Indeed, individuals' financial well-being depends on their ability to act upon their financial behaviour (Bagwell et al., 2014; The World Bank, 2022).

Based on the reviewed financial capability models, the main components of financial capability are categorized as internal capabilities, which include mind-set (attitude and motivation) and ability (skills and knowledge), and external capabilities, which are referred to as connections (easy and accessible financial services). In most cases, personal financial capabilities represent internal personal capabilities, which depend on the environmental circumstances (The World Bank, 2022). The environmental circumstances affecting financial capabilities include social, cultural, economic and political factors that require a careful assessment (Kempson et al.,2013). In Islamic finance, the assessment of a person's financial capability should reflect the knowledge, attitudes and confidence about Islamic finance. Unfortunately, the current literature lacks comprehensive measurement constructs and indicators for assessing the Islamic financial capability of a person. This current study conceptualises the measurement constructs for intrinsic personal financial capabilities in Islamic finance. The study conceptualized Islamic financial capability measurement constructs based on prior research (Atkinson et al., 2006, Bagwell et al., 2014; Godinho and Russel, 2013; Kempson et al., 2005; Shephard et al., 2017; Sherraden, 2010). The subsequent section discusses the Islamic financial literacy (IFL) concepts as used interchangeably with financial capability by some prior studies (Aisyah and Saepuloh, 2019; Albaity and Rahman, 2019).

2.2 Measurement indicators for Islamic Financial Literacy (IFL)

Prior studies have made significant contributions by defining and conceptualizing the measurement indicators for IFL. However, the literature provides variations in the meaning and measurement indicators of the IFL (Table 1).

Table 1: The Definitions of IFL

Definition	Author and year
Ability to use financial knowledge, skills, and attitude in managing financial resources according to Islamic principles.	Abdullah and Cheng (2014)
Islamic financial knowledge acquired through education and experience; specifically related to Islamic financial concepts and products.	Abdullah and Anderson (2015)
Individuals' knowledge of Islamic finance.	Hidajat and Hamdani (2016)
Individual's ability to use Islamic financial knowledge, skills and attitude in managing finance.	Rahim et al. (2016)
Individual degree of financial knowledge, attitude and behaviour.	Setyawati and Suroso (2016)
Individual's Islamic financial knowledge, attitudes, and behaviour.	Setyowat et al. (2018)
Individual's degree of knowledge, awareness, and skill in basic Islamic financial information and products	Antara et al. (2017)
Ability to understand finance according to Shari'ah (Islamic law) compliance	Aisyah and Saepuloh (2019)
Knowledge of the basic concepts and products of Islamic finance.	Nawi et al. (2018)

Based on the references (Table 1), IFL has a narrow and broader meaning. In a narrow definition, IFL is defined as a person's degree of awareness, knowledge, and skills regarding basic Islamic financial concepts, products, and operations. Broadly, IFL is defined as a person's ability to use financial knowledge, attitude, and behaviour in managing personal finance by Islamic principles. In addition, the existing definitions clearly show that

Islamic financial "knowledge, "awareness" and skills" are common to most definitions of IFL. Some studies extended the definition by incorporating attitude and behaviour; however, the problem is that the measurement instrument proposed by these studies is not available and some are not validated (Albaity and Rahman, 2019; Bunyamin and Mutlu, 2017). Most of the available instruments measure an individual's knowledge and familiarity with the concepts and products of Islamic finance (Table 2). Against these limitations, this study conceptualises comprehensive measurement constructs and indicators to assess personal financial capability from an Islamic finance perspective.

Table 2: Common indicators used to measure IFL

IFL measurement items	Sources
Awareness and Knowledge about: 1. Basic Islamic finance concepts: prohibition of Riba (usury) 2. Basic Islamic finance products/contracts: basic features of Salam contracts; Murabaha contracts; Mudarabah contracts; Ijarah contracts; Istisna'a contracts; and Musharakah contracts.	Hidajat and Hamdani (2016)
1. I know that I might or might not receive any return when the contract is concluded 2. I acknowledge uncertainty on the sanctity of financial contract is strictly prohibited in Islam 3. I always make sure that there is no element of interest in all financial transactions that I made 4. I understand that all Islamic financing must be backed by asset 5. I can only invest in permissible activities or services 6. I am aware of the availability of Islamic instruments in the market 7. In Islam, I only transact with people that I trust	Rahim et al. (2016)
1. Information on financial knowledge: division, purchasing power, profit and loss sharing, calculation of profit and loss sharing, compound of profit and loss sharing, risk and return, definition of inflation, diversification 2. Information on financial behaviour: spending behaviour, paying bills on time, looking at financial affairs, setting long-term goals and striving to achieve, being responsible and having a household budget, active saving or purchasing investments. 3. Information on financial attitude: attitudes towards spending and saving money 4. Personal Financial management practice: cash management, financing management, risk management, retirement and estate planning, general management- creating financial goals, making plans on reaching financial goals, setting specific financial goals for the future	Setyawati and Suroso (2016)
1. Knowledge of Islamic financial products: leasing, Sukuk (Islamic bond), participation account, insurance, credit cards, and Individual retirement funds. 2. Individuals' financial attitudes: project financing, risk diversion, positive return, risk-return, risk basket, inflation-price, exclusively for Muslims 3. Individuals' financial behaviour: paying bills, financial tracking, it is to spend money, daily living, spending-saving motive, analysis before buying, participation in banks are different, the risk of savings, long-term goals, emulation of religious rules	Bunyamin and Mutlu (2017)
1. Basic Concepts: prohibition of Riba, prohibition of Gharar, prohibition of Maysir 2. Borrowing Concepts: Mudarabah (profit sharing contract), Musharakah (profits/loss sharing contract), Ijarah (lease contract), Murabahah (trade contract), Istisna' (product under construction), Qard al Hassan (interest-free loan), Rahn (Mortgage), Ujrah (commission) 3. Saving/ Investment Concepts: Wadia'a (saving), Waqf (endowment)	Antara et al. (2017); Ahmad et al. (2020)

4. Protection Concepts: Takaful (Islamic insurance)	
1. Concept of money: the concept of money in Islam and lawful means to earn a return 2. Islamic banking: The general principles of Islamic banking 3. Takaful: the nature of takaful contract i.e. the principle of Tabarru' (donation), Gharar (uncertainty) in insurance contracts, insurer-insured relationship in Takaful 4. Shari'ah compliance investments: prohibition of Gharar, Maysir (gambling), Shari'ah-compliant investment contract	Nawi et al. (2018)
1. Basic Questions of Islamic Financial Literacy: Numerical, Basic of Riba, Gharar and Maysir, Muamalah Contract 2. Advance Questions of Islamic Financial Literacy: Islamic Banking, Islamic Capital Market, Non-Islamic Banking Industry 3. Questions of Personal Financial Planning: Financial Management Planning, Islamic Investment Choice	Setyowati et al. (2018)

3. Methodology

This study was based on an exploratory design. This design was deemed suitable because of the limited existing research in this area (Nawi et al., 2018). References to personal financial capabilities in Islamic finance are limited. Thus, this study conceptualizes the components of personal Islamic financial capability by reviewing the literature on the general concepts and models of financial capability, financial literacy, and Islamic financial literacy. Reviewing this area provides a broader exploration of the research area and, hence, the basis for proposing measurement constructs and indicators for financial capability from an Islamic finance perspective (Antara et al., 2017). Subsequently, a cross-sectional survey was conducted to collect responses from 389 Zanzibar residents. This survey enabled researchers to validate the conceptualized constructs and indicators of Islamic financial capability. The study used convenient sampling procedures to select respondents from 11 districts across the 5 Zanzibar regions. For respondents to be involved in the survey, they must be Zanzibar residents, above 18 years of age, and able to read and write. Using the IBM SPSS-AMOS software, we conducted exploratory factor analysis (EFA) and confirmatory factor analysis (CFA) to determine the reliability and validity of the measurement constructs and items (Field, 2015).

3.1 The study area

This study was conducted in Tanzania-Zanzibar. Zanzibar is a semi-autonomous state of the United Republic of Tanzania with a total population of 1.899 million (OCGS-Zanzibar, 2022). Most residents in Zanzibar are Muslims. Thus, Islamic finance has been the most desired mode of financing (FinScope, 2017). In recent years, there has been a significant increase in financial institutions offering Islamic financial services in Zanzibar, particularly Islamic banking services. Five banks offered Islamic financial services in Zanzibar. Islamic social financial institutions such as Waqf and trustees (Amanah) are well established. Besides, efforts are underway to establish Islamic insurance and other forms of financing (Khamis et al., 2022). Given the increasing desire for Islamic finance and the newness of Islamic finance in Tanzania, assessing the financial capability of people is an important step towards improving the quality of services.

4. Results and Analysis

4.1 Proposed constructs for personal financial capability in Islamic finance

A broader investigation of an individual's capability beyond Islamic financial literacy may provide a better understanding of individuals' financial behaviour, including the choice and usage of Islamic financial products. This study conceptualizes a measurement model for Islamic financial capability based on the financial capability models designed by Bagwell et al. (2014), Kempson et al. (2005), Kempson et al. (2013) and Shephard et al. (2017). Therefore, in addition to the components proposed by the general financial capability frameworks, this study considers the unique characteristics of Islamic finance.

Henceforth, Islamic financial capability is conceptualised using three (3) components: Islamic financial literacy, attitude towards Islamic financial institutions and products, and Shari'ah-compliant financial behaviour (Table 3). A person who possesses a combination of Islamic financial literacy, a positive attitude towards Islamic finance, and financial behaviour embedded with Shari'ah compliance will use Islamic financial services to manage their finances (Bunyamin and Mutlu, 2017; Rahim et al., 2016; Setyowati, et al., 2018; Setyawati and Suroso, 2016).

Table 3: Measurement constructs for personal Islamic Financial Capability (IFC)

	Constructs	Measurement indicators	Source
1.	Attitude on Islamic financial services (ATTIFS)	Perceived usefulness of Islamic finance; Perceived Compatibility of Islamic finance; Perceived Ease of use of Islamic financial services	Buchari, Rafiki and Qassab (2015); Albaity and Rahman (2019)
2.	Islamic financial literacy (IFKN)	Knowledge and awareness about Islamic financial concepts and products	Hidajat and Hamdani (2016); Antara et al. (2017)
3.	Shari'ah compliance Financial Behaviour (SCFD)	Tracking finances; planning; Staying informed; Preserving Islamic principles in financial transactions	Bunyamin and Mutlu (2017); Firdausi and Kasri (2022); Shakirah and Ahmad, (2020)

4.1.1 Islamic Financial Literacy (IFKN)

Commonly, Islamic financial literacy measures the awareness and knowledge about Islamic financial concepts and products (Aisyah and Saepuloh, 2019; Antara et al., 2017; Nawi et al., 2018; Setyawati and Suroso, 2016). The assessment of Islamic financial literacy may also include knowledge about Islamic financial products, attitudes towards Islamic finance, and financial behaviour according to Islam (Bunyamin and Mutlu, 2017; Setyowati et al., 2018). In this study, Islamic financial literacy represents a person's awareness, knowledge, and skills regarding basic Islamic finance's operational concepts and products (Abdullah and Anderson, 2015; Antara et al., 2017).

4.1.2 Attitudes towards Islamic Financial Services (ATTIFS)

Islamic financial capabilities are determined by attitudes towards Islamic financial services and institutions. This study defines ATTIFS as evaluative judgments and confidence regarding the usefulness, compatibility, and simplicity of Islamic financial services and institutions (Albaity and Rahman, 2019; Buchari et al., 2015).

4.1.3 Shari'ah compliance financial behaviour (SCFD)

A persona attached to Shari'ah compliance is probably able to consider Islamic finance in undertaking financial decisions. Thus, a financially capable person in Islamic finance should have Shari'ah compliance discipline. In this study, the SCFD measures an individual's tendency to abide by Islamic principles in planning and managing financial management activities abiding by Islamic principles (Bünyamin and Mutlu, 2017).

4.2 Validation of the measurement constructs and indicators

This study performed surveys to validate the measurement construct and indicators for personal financial capability from an Islamic finance perspective. This study used a structured questionnaire to collect responses from Zanzibar residents. The results are presented in the following paragraphs: The presentation of the results starts with the respondents' profiles, exploratory factor analyses, and confirmatory factor analysis.

4.2.1 Preliminary test

The preliminary tests involved the review for missing values, outliers and data normality. There were no missing values from the dataset; hence, all 389 received questionnaires fitted for the preliminary analysis. Outliers were determined using Mahalanobis distance (MD). Accordingly, the p-value for each MD was calculated to determine whether there were any outliers. All p-values were above 0.01 (Field, 2015), hence, there was no outlier problem from the data set. Data normality was determined using the kurtosis and skewness values. The normality test indicated a slight skew of the data, but not a serious skew (Table 4). Therefore, the assumption of normality of the data was met.

Table 4: Normality test

	Skewness		Kurtosis	
	Statistic	Std. Error	Statistic	Std. Error
ATTIFS	-1.027	.213	.878	.423
SCFD	-.680	.213	.172	.423
IFL	-.825	.213	.831	.423
Valid N (listwise)	389			

Source: Author

4.2.2 Respondents' profile

The respondents' profiles (Table 5) show that most respondents were male, young, Muslim, educated and had a low level of income. The results showed that the respondents could answer the questionnaires appropriately and independently. These results reflect the actual socioeconomic situation of the Tanzanians.

Table 5: Respondents' profile

		Frequency	Per cent
Gender	Male	202	51.9
	Female	187	48.1
Age	18 to 29 years	308	79.1
	30 to 39 years	69	17.8
	40 to 49 years	9	2.3
	60 and above	3	0.8
Religion	Muslim	359	92.2
	Non-Muslim	30	7.8
Education level	Not attended any school	4	1.0
	Ordinary secondary education	9	2.3
	Advanced secondary education	18	4.7
	Basic/technical certificate	27	7.0
	Ordinary diploma	45	11.5
	Bachelor Degree	286	73.5
Income level (Exchange rate: TZS/USD = TZS2,341)	Less than TZS 300,000	274	70.5
	TZS300,000 to 499,999	69	17.7
	TZS500,000 to 999,999	18	4.6
	TZS1000,000 to 1,999,999	15	3.9
	TZS2000,000 to 2,999,999	6	1.5
	TZS3000,000 to 4,999,999	3	0.8
	TZS5,000,000 and above	4	1.0

Source: Author

4.2.3 Exploratory Factor Analysis (EFA)

The EFA for this study was based on principal component analysis (PCA), and Varimax rotation was performed to simplify the results and provide the best indicators for each construct in the measurement instrument (Coakes, 2011). Sampling adequacy was examined using the Kaiser-Meyer-Olkin test (KMO), and the correlation between the indicators was examined using Bartlett's test sphericity. These tests determine the suitability of performing the EFA. Based on the results (Table 6), KMO was above the 0.7 threshold, and the significance value of Bartlett's test sphericity was below 0.05. Therefore, sampling adequacy is substantial, and the data are suitable for performing EFA (Field, 2015).

Table 6: Sampling adequacy and validity

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.844
Bartlett's Test of Sphericity	Approx. Chi-Square	1700.800
	df	210
	Sig.	.000

Source: Author

Subsequently, PCA divided the measurement indicators into three constructs: attitudes towards Islamic financial services (ATTIFS), Islamic financial knowledge (IFKN), and Shari'ah-compliant financial behaviour (SCFD). These three constructs explain approximately 61.9 per cent of the variance in the model (Table 3). The original questionnaire consisted of 11 indicators to measure ATTIFS, 12 indicators to measure IFKN, and 10 indicators to measure SCFD. The minimum extracted loading was set at 0.5 as the cut-off value, and loading below 0.5 was deleted from the matrix (Field, 2015). Based on PCA results (Table 3), seven ATTIFS indicators had loading values above 0.5, eight IFKN indicators had lodging values above 0.5, and six SCFD indicators had loading values above 0.5. In contrast, some indicators had loading values below 0.5 and were removed from the measurement constructs. The removed indicators involved Four indicators of ATTIFS (FATT8, FATT9, FATT10, and FATT 11), four indicators of IFK (IFL5, IFL6, IFL7, and IFL12), and four indicators of SCFD (FB4, FB8, FB9, and FB10). Additionally, we performed a reliability test to examine the internal consistency of the measurement indicators in the constructs. This study used Cronbach's alpha (CA) to assess the reliability of measurement indicators. Based on the results, the CA value for all constructs is above 0.8 (Table 7), which indicates substantial internal consistency of the measurement indicators within the constructs (Field, 2015).

Table 7: Indicators' loadings and reliability

Description		ATTIFS	IFKN	SCFD	CA
Attitudes towards Islamic financial services (ATTIFS)					0.904
FATT1	The information on certain Islamic financial products is sufficient and easily understood	.856			
FATT2	In my view, the service charges of Islamic financial services are cheaper than conventional financial services	.849			
FATT3	Islamic financial products/services are attractive to customers.	.873			
FATT4	Islamic financial transactions are more secure compared to conventional financial services.	.660			
FATT5	It is wise to take credit facilities from Islamic financial institutions.	.673			
FATT6	Islamic financial products are uniquely featured	.889			
FATT7	I consider using Islamic financial services more useful than conventional financial services.	.597			
Islamic financial literacy (IFKN)					0.896
IFL1	Preservation of wealth is one of the objectives of Islamic finance.		.572		
IFL2	Uncertainty (Gharar) is strictly prohibited in Islamic financial contracts		.724		
IFL3	I always make sure that there is no element of interest in all financial transactions that I make		.745		

IFL4	I am aware of the Islamic financial instruments in the financial markets		.690		
IFL8	Islamic financial institutions may invest with a customer according to the profit-sharing method (Mudarabah).		.657		
IFL9	Islamic financial institutions may provide interest-free loans (Qard al Hassan)		.757		
IFL10	Islamic financial institution provides lease contracts (Ijarah) to customers.		.743		
IFL11	Islamic financial institution provides trade financing (Murabahah)		.760		
Shari'ah-compliant financial behaviour (SCFD)					0.853
FB1	I prepare my spending plan and I stick to it			.689	
FB2	I monitor my financial issues closely			.745	
FB3	I keep my spending records			.771	
FB5	I borrow money to meet my financial needs			.771	
FB6	I use financial services to reduce my exposure to the unexpected			.755	
FB7	I pay attention to implementing religious principles in money-related issues.			.616	
Eigenvalues		7.594	3.763	1.647	
Variance explained		22.325	22.153	22.153	
Cumulative variance		22.325	44.479	61.928	

Source: Author

4.2.4 Confirmatory Factor Analysis (CFA)

CFA was performed to examine the relationship between the constructs proposed during the EFA. CFA was performed using SPSS-AMOS. During CFA, model fit was tested to examine the suitability of the model for the data. The fit indices were based on the goodness of fit index (GFI), normed fit index (NFI), Bantler's comparative fit index (CFI), standard root mean square residual (SRMR), root mean square error of approximation (RMSEA), and chi-squared (X^2). X^2 and GFI represent the absolute fit of the model, and NFI, CFI, and RAMSEA represent alternative fit indices. Accordingly, the model was fit if X^2 was insignificant ($p > 0.05$); GFI, CFI, and NFI were above 0.9; SRMR was below 0.08; RMSEA was between 0.0 and 0.08; and P-close was greater than 0.0 (Collier, 2020; Nam et al., 2018). Based on the results (Table 8), X^2 was insignificant; NFI, TLI, and CFI were above 0.95, SRMR was less than 0.08, RMSEA approached 0.06, and P-close was greater than 0.0. In general, the model fits the data.

Table 8: Model fits test indexes

Fit index	Value	DF	P	CMIN/DF
X^2	64.140	41	.012	1.564
NFI	0.925			
TLI(NNFI)	0.971			
CFI	0.971			
RMSEA	0.066			
P-close	0.188			
SRMR	0.0557			

Source: Author

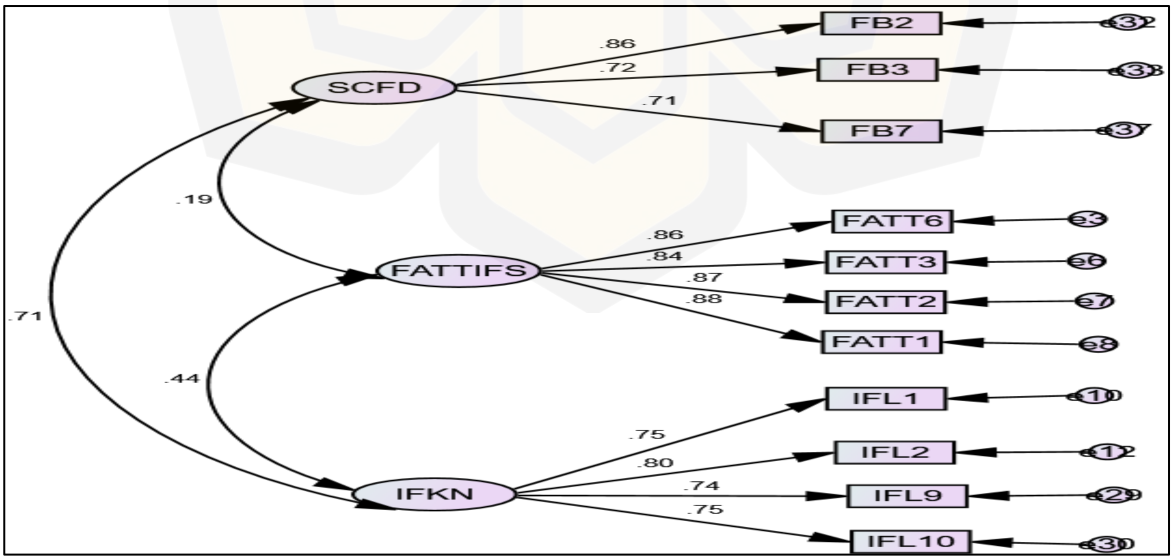
Accordingly, the CFA determined three constructs for measuring Islamic financial capability at the individual level. For the CFA, the required factor loading for each indicator was 0.7 (Hair et al., 2018). The results (Figure 1; Table 9) show that the three indicators of the SCFD had loadings above 0.7, the four indicators of the ATTIFS had loading values above 0.7, and the four indicators of the IFKN had loading values above 0.7. Additionally, the covariance between the indicators was sufficient, indicating the absence of collinearity between constructs. In addition, the regression weights confirmed the significance of the estimates for all the retained indicators.

Table 9: The regression weights for personal Islamic financial capabilities

Path	Unstandardized Estimates	Standard Error	Standardized Estimate	Significance
Attitudes towards Islamic financial services (ATTIFS)				
FATT6<---FATTIFS	.984	.075	.857	***
FATT3<---FATTIFS	.947	.074	.844	***
FATT2<---FATTIFS	.977	.073	.871	***
FATT1<---FATTIFS	1.000		.884	***
Islamic financial literacy (IFKN)				
IFL1<---IFKN	1.000		.753	***
IFL2<---IFKN	.905	.104	.804	***
IFL9<---IFKN	.797	.099	.740	***
IFL10<---IFKN	.795	.098	.748	***
Shari'ah compliant financial behaviour (SCFD)				
FB2<---SCFD	1.640	.205	.858	***
FB3<---SCFD	1.480	.204	.719	***
FB7<---SCFD	1.000		.713	***

Source: Author

Figure 1: The measurement model for personal Islamic financial capability



Source: Author

Based on the CFA results, personal Islamic financial capability was determined using three constructs comprising 11 measurement indicators. Table 10 presents the summary of the measurement indicators for all their constructs.

Table 10: The proposed measurement indicators based on CFA

Attitudes towards Islamic financial services (ATTIFS)	
FATT1	The information on certain Islamic financial products is sufficient and easily understood.
FATT2	In my view, the service charges of Islamic financial services are cheaper than conventional financial services.
FATT3	Islamic financial products/services are attractive to customers.
FATT6	Islamic financial products are uniquely featured
Islamic Financial Literacy (IFKN)	
IFL1	Preservation of wealth is one of the objectives of Islamic finance.
IFL2	Uncertainty (Gharar) is strictly prohibited in Islamic financial contracts.
IFL9	Islamic financial institutions may provide interest-free loans (Qard al Hassan).
IFL10	Islamic financial institution provides lease contracts (Ijarah) to customers.
Shari'ah compliant financial behaviour (SCFD)	
FB2	I monitor my financial issues closely
FB3	I keep my spending records
FB7	I pay attention to implementing religious principles in money-related issues.

Source: Author

5. Discussion of the Results

Existing literature lacks a comprehensive tool for assessing people's financial capabilities from an Islamic finance perspective. Instead, Islamic financial literacy is used synonymously with the financial capability in Islamic finance. However, most of the available measuring instruments are knowledge-based, rather than capable. Additionally, studies on financial capability have differentiated between financial capability and literacy. In financial capability models, financial literacy represents financial knowledge and skills. Thus, financial capability should capture financial attitudes and behaviour in addition to financial literacy. This study contributes to this knowledge by conceptualizing and validating measurement constructs and indicators for assessing personal financial capabilities from an Islamic finance perspective.

This study used two approaches to obtain the results. First, the study reviewed financial capability and financial literacy studies to conceptualize the measurement constructs and indicators of Islamic financial capability. Second, the study conducted a cross-sectional survey and performed exploratory and confirmatory factor analyses to validate the conceptualized constructs and indicators. The study confirmed three constructs to assess personal financial capability in Islamic finance: Islamic financial literacy (IFL), attitudes towards Islamic financial services (ATTIFS), and Shari'ah-compliant financial behaviour (SCFD). In addition, PCA proposed seven (7) indicators to measure ATTIFS, eight (8) indicators to measure IFL, and six (6) indicators to measure SCFD. After performing CFA, the study retained four indicators to measure ATTIFS, four to measure IFL, and three to measure SCFD. These results correspond with those of Mindra (2016), who measured financial attitudes and literacy using four indicators after performing a CFA. The results also corresponded with (Bünyamin and Mutlu, 2017), who used Shari'ah compliance indicators to measure financial behaviour. The results correspond with (Mindra, 2016) who measured financial attitudes and the results correspond with the study by Setyowati et al. (2018) who proposed three components for Islamic financial literacy attitudes, Islamic financial literacy and behaviour. However, Setyowati et al. (2018) did not provide a measurement instrument for their study.

6. Conclusion

The study suggests that from an Islamic finance perspective, a person who acquires basic knowledge and understanding of Islamic finance principles and products may have positive attitudes towards Islamic finance and focus on Shari'ah-compliant behaviour. A financially capable person should understand the economic and spiritual effects of uncertainty (Gharar) and interest (Riba) on financial transactions. In addition, a financially capable person in Islamic finance should plan his finances, taking into consideration the future life in this world and hereafter, knowing that he will be accountable to God. Therefore, individuals with Islamic financial capabilities should consider Islamic financial services an alternative and appropriate mode of financing, investing, saving, and conducting other financial transactions. Moreover, this study proposes that personal Islamic financial capabilities are subject to both positive and negative influences. These influences include personal and environmental circumstances such as the level of education, economic status, social influences, financial experiences, religion, and accessibility of Islamic financial services. The Islamic financial capability model may help researchers determine the interactions between personal capabilities and socioeconomic environments towards Shari'ah-compliant financial inclusion and well-being. Nonetheless, this study is limited to measurement constructs for internal personal Islamic financial capability. Future research in this area should broaden the scope by considering external financial circumstances that contribute to the personal capabilities in the measurement model.

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Factors Influencing Customers' Acceptance of Islamic Banks' Products and Services in Cote D'Ivoire (Ivory Coast)

Kone Moussa, Mahfooz Ahmed*, Habeebullah Zakariyah

Institute of Islamic Banking and Finance, International Islamic University, Malaysia

Corresponding author: almahfooz4real@gmail.com

Abstract

This study examines customers' acceptance of Islamic banking products offered by Islamic banks' windows in Ivory Coast and explores the relationship between product acceptance and factors such as knowledge, religion, and pricing. The study involved 201 participants using a structured questionnaire, and the data were analyzed using SPSS. The findings suggest that product knowledge, pricing, and religiosity significantly influence Islamic bank product acceptance. The study recommends further research to test the criticality of these factors and suggests improvising the study's content and expanding it to include more independent variables. This information is crucial for developing new Islamic products according to customer needs and perceptions and can inform the industry's marketing strategy.

Keywords: *Islamic banks, Banking products and services, Cote D'Ivoire (Ivory Coast), Banking knowledge, Religion, Pricing*

1. Introduction

Islamic banking has rapidly emerged worldwide in the last three decades, becoming a crucial sector in the Islamic finance industry, estimated to have exceeded USD 3 trillion at the end of 2021 (Islamic Financial Services Board, 2022). The industry's growth shows the demand and merit of Islamic banking, meeting the needs of Muslim society for an alternative financial institution. Initially, Islamic banking products and services were not as successful as conventional systems, but studies show that Islamic banks can compete with conventional banks. Islamic banking is governed by five major principles of prohibition of interest (Riba), risk sharing, prohibition of speculation (Gharar), asset-backed financing, and ethical investing that conventional banking does not (Sheikh, 2018). The Ivory Coast is emerging as a key player in West Africa's Islamic finance industry, with a population of nearly 29 million people, 45 percent of whom are Muslims (World Bank, 2021). Although Islamic finance is still in its infancy in the Ivory Coast, it has successfully launched two sovereign bonds, with proceeds used to fund the country's economic development. Private sector practice in Islamic finance is relatively restricted, with only a few active Islamic institutions (Islamic Finance News, 2022).

In 2016, the Islamic Corporation for the Development of the Private Sector ("ICD") collaborated with Afriland First Bank to establish the country's first Islamic banking window. The collaboration with ICD became self-evident proof of the bank's desire to broaden its operations and satisfy the requirements of some of its clients, especially a large Muslim community that is actively engaged in trading activities. As a result of this collaboration, they introduced a new financial system, an alternative financing concept distinct from conventional finance and aligned with Islamic values and principles (ZAWYA, 2016). This has been explored by Burkina Faso's Coris Bank, which launched Coris Bank Baraka in the Ivory Coast in 2018, an Islamic window that offers various Islamic finance products to people and enterprises. In recent years, supplementary Islamic microfinance products have been made available to Ivorians, such as the pilgrimage Savings Plan (Plan

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Épargne Pèlerinage) and the Al Baraka Mutual Fund sponsored by Raouda Finance: this is one of the first mutual funds in the UEMOA region to ensure investment compliance with Islamic finance regulations, including through an independent Shari'ah board.

The sector remains relatively unknown to the Ivorian general populace, accustomed to more traditional financing structures and banking products. The sector's slow development in the Ivory Coast is mainly caused by structural limitations such as laws and regulations difficulty. National and regional authorities have recognized these flaws and implemented measures to promote the Islamic segment more effectively.

It is essential to mention that the Francophone West Africa Central Bank (BCEAO) issued banking regulations in the first half of 2018 to support Islamic finance development across the UEMOA region, paving the way for financial institutions to establish themselves in this emerging market.

Thus, even though Islamic financial institutions strive for comprehensive marketing campaigns (in promoting Islamic banking products and services), the results are far from satisfactory given the marketing efforts invested (Haron et al., 2005). Ahmad and Haron (2002) states that Islamic banks have not done enough to market their products to the corporate sector. Given the preceding context, the primary goal of this research is to explore the factors that can influence the customers' acceptance of Islamic banking products and services in Cote d'Ivoire. The research question is "What factors significantly influence the adoption of Islamic banking products and services in Cote d'Ivoire?".

1.1 Islamic banking product development

Islamic banking is a system based on Islamic principles that adhere to Shari'ah compliance. Islamic banking products are modelled after traditional bank products, with an Islamic substitute for every conventional product that adheres to Shari'ah compliance. Islamic banking is founded on Qur'anic and Hadith rulings, and their management is based on Islamic principles of justice and fairness in the interests of society (Haron et al., 2005). The primary distinction between Islamic and conventional banks is that all transactions undertaken by Islamic banks are performed without Riba (interest), which is strictly prohibited in Islam. Islamic banking institutions can be classified into three categories: ordinary financial institutions, IFIs, and IFIs offering Islamic banking products and services (Abasimel, 2023). Malaysia has a dual banking system in which conventional and Islamic banking operate concurrently and hand in hand. Unlike conventional bank accounts, deposits into an Islamic bank account do not earn interest. In the case of financing mechanisms, the bank will purchase the property identified by the customer and resell it to them at a profit. The selling price is said to include the profit element permissible under Shari'ah and is thus recognized as profit by the bank (Ibrahim, 2016).

Islamic banking products are recognized based on contracts instead of commercial orientation. The current Islamic banking products can be categorized as shown in Table 1. below:

Table 1: Category of the Islamic banking products

Consumer Segment	*Product Name*	*Contract Used*
Deposit	Current account Saving account	Wadiah (safekeeping) Mudarabah (profit sharing)
	Staff deposit account	Qard Hassan(benevolent)
Credit	Credit card	Tawarruq (cost plus sale)
Financing	House financing	Bai Bithaman Ajil-BBA (deferred payment sale) Musharakah Mutanaqisah (diminishing partnership)
	Personal Financing	Murabahah (cost plus) BBA (deferred payment sale) Bai Inah (immediate cash)
	Vehicle Financing	BBA (deferred payment sale)
	Staff financing	Qard Hassan (benevolent)
Corporate Segment	*Product Type*	*Contract Used*
	Trade financing	Wakalah (agency) Mudarabah (profit sharing) Murabahah (cost plus)

	Asset-based financing	Ijarah (leasing) Istisna (purchase order)
	Corporate investment	BBA (deferred payment) Ijarah (leasing) Istisna (purchase order) Murabahah (cost plus) Mudarabah (profit sharing) Musharakah (profit and loss sharing)

Authors' compilation

The slow development of Islamic finance in the Ivory Coast is due to structural limitations such as laws and regulations, but efforts have been made to promote the sector. However, there are still barriers, such as taxation and a lack of product knowledge among the general populace (Islamic Finance News, 2022). Studies have shown that knowledge about Islamic finance products is essential for customer acceptance and that religion and competitive pricing are also the factors that influence customers' choice of banking products (Awan and Shahzad Bukhari, 2011). This study aims to identify mechanisms banks and financial institutions can use to attract customers to Islamic banking products and services to contribute to the sector's development.

The availability of Islamic banking products in Côte d'Ivoire will make them easily approachable, but several people in the country still have difficulty understanding the terms and product features. Religious motivation may not be a strong factor in choosing Islamic banking products, but some studies suggest it is still a determining factor (ElMassah and Abou-El-Sood, 2022). Additionally, competitive pricing is important for customer acceptance of Islamic banking products. Profit or interest rate is one of the primary reasons people choose Islamic banks, according to Awan and Shahzad Bukhari (2011).

This study aims to identify the factors influencing people's acceptance of Islamic banking products in the Ivory Coast. In response to the problem statement, the following research questions are proposed:

1. To what extent do people know about Islamic bank window products offered in the Ivory Coast?
2. To what level do Ivory Coast people accept Islamic bank window products?
3. What is the relationship between Islamic banks' product acceptance and factors such as knowledge, religion, and competitive pricing on Islamic bank window products in the Ivory Coast?

2. Literature Review

2.1 Introduction

Islamic banking has been present in the financial market of Cote d'Ivoire for nearly two decades, but it is still considered a developing market (ZAWYA, 2016). A lack of knowledge and misconceptions about Islamic banking have arisen, making it challenging to explain banking products to the public. Consumer awareness, product knowledge, and societal influence have not been studied to predict consumer attitudes toward Islamic banking in Cote d'Ivoire (Haque, 2010). This research examines the relationship between awareness among the population, Islamic product knowledge, and attitudes toward Islamic banking in Cote d'Ivoire, with an investigation conducted in Abidjan, the country's major urban centre.

2.2 Concept and theory of Islamic banking features

Islamic banking contributes significantly to socio-economic well-being by fulfilling Islamic law according to the Maqasid Shari'ah (Mergaliyev et al., 2021). Microfinance necessitates perspectives that go beyond the conventional financial institution. Building human capacity, for example, through social intermediation and designing group-based lending programs are effective tools for reducing transaction costs and lowering exposure to numerous financial risks associated with providing credit to rural dwellers. Soemitra (2017) described Islamic banking as a financial services system that complies with Shari'ah principles. The way the products and contracts are created emphasizes Shari'ah principles. As a result, Islamic banks offer financial services to customers that are free of prohibited elements such as interest (Riba), uncertainty (Gharar), and gambling (Maysir).

According to the Middle East and North African in Focus (MENA) (2019) Magazine, Islamic banks are profit-driven institutions that handle all their operations by Shari'ah principles. Notably, the first contemporary

Islamic banking concept occurred in Muslim intellectuals' response to the use of conventional banking in commerce between local business communities and imperial powers. The absence of interest is a key feature of Islamic banking. In addition, Islamic banking refers to Shari'ah-compliant mechanisms that substitute interest-free financial intermediation for interest-based financial intermediation. In contrast to conventional banks, Islamic banks are not permitted to offer a fixed and predetermined interest rate on deposits or to charge interest on loans. Respect for Shari'ah requirements alters the traditional banking intermediation scheme (Abasimel, 2023).

Islamic banking intermediation presents distinct aspects for fund mobilization and allocation, and thus the balance sheet structure differs significantly from that of conventional banks. According to Akkizidis and Khandelwal (2007), many Islamic financial instruments used in practice are trade financing instruments with a markup arrangement. Nevertheless, Islamic banks are subject to many of the same risks as conventional banks. Credit, market, and operational risks are heightened because the instruments are new (Fiennes, 2007). Moreover, Shari'ah-compliant banking activities expose Islamic banks to additional risks due to their balance sheets' unique asset and liability structure. Indeed, Islamic banks' management of profit-sharing investment accounts on behalf of investment account holders exposes them to unique risks such as fiduciary.

Furthermore, Islamic banking promotes the noble values of brotherhood and cooperation by using the Profit and Loss Sharing (PLS) contract to develop business activities (Dusuki, 2008). According to Kaakeh et al. (2018), PLS contracts compel all parties to the underlying contract to bear the profit and the risk of business activities such as Musharakah (profit and loss sharing), Mudarabah (profit sharing), and Muzara'a (output-sharing financing method). Hence, Islamic banking creates justice in which profit and loss in business are shared between the borrower and the bank as a lender.

However, analysing factors determining the customer's preference towards Islamic banking is part of the customer's behaviour in dealing with products and services. Consumer buying behaviour refers to a person's mental and physical activities when looking for, dealing with, purchasing, and utilising goods and services to meet their needs and desires (Echchabi and Nafiu, 2012).

Numerous studies have been conducted to determine why customers choose Islamic banking. These studies have also been conducted in certain countries where the Muslim population is a minority. Muslims' interactions with Islamic banks in Spain were probed. The findings indicated that perception, religiousness, and comprehension are the three most important factors influencing customers to select Islamic banking (Kaakeh et al., 2018).

Likewise, Ltifi et al. (2016), who conducted several more studies in Tunisia, also further emphasized that the essential factor of customers' satisfaction with Islamic banking are efficiency, confidence, and Shari'ah compliance perspective. Bizri (2014) identified existing and potential clients' perceptions. The study had two goals: to determine the important components that clients consider important when deciding whether to use an Islamic bank and to create a client profile for Islamic banks in Lebanon. According to the findings of his study on the determinants of guests' preference towards Islamic banks in the non-GCC MENA region, he discovered five significant variables in patronizing Islamic banking, which are trust towards Islamic banks, knowledge about Islamic modes of finance, cost and pricing, availability of Islamic banks, and quality services.

2.3 Concept and theory of Islamic banking product principle

According to Faruq (2021), the basic principle of Islamic banking products is to follow Shari'ah laws, known as Islamic rules in the transaction (Fiqh al-Muamalat). "Islamic banking" and "Shari'ah-compliant banking" are used interchangeably. The prohibition of usury, or the payment or collection of interest on funds, is the most prominent feature of these laws. This is referred to as 'Riba' in Islamic terminology. The Shari'ah also prohibits investment in financial unknowns, such as futures trading and businesses dealing with non-permissible (Haram) products contrary to Islamic law and values, such as alcohol, pork, entertainment, or pornography. Basraf (2021) states that collateral is permissible in Islamic law but not obligatory, and its purpose is to ensure compliance with contractual obligations. Afrianty (2018) highlights the role of collateral and fines in Islamic banking, with fines serving as a means to encourage customer discipline. In this case, the Islamic bank may charge a higher price for goods if payments are deferred or collected later because the transaction is considered a trade for goods rather than a collection of interests. Another way that banks operate by Islamic law is by attempting to profit by purchasing an item that the customer desires and then selling the item to the customer at a higher price (Ahmed, 2014). Among the Islamic banking contract are Mudarabah (profit sharing), Wadiah (safekeeping), Musharakah (joint venture), Murabahah (cost plus), Ijarah (leasing), and many others.

This study provides a descriptive discussion of the acceptance of Islamic banking products, with a particular emphasis on the three factors that determine the endorsement of Islamic banking products: product knowledge, religiosity, and competitive pricing.

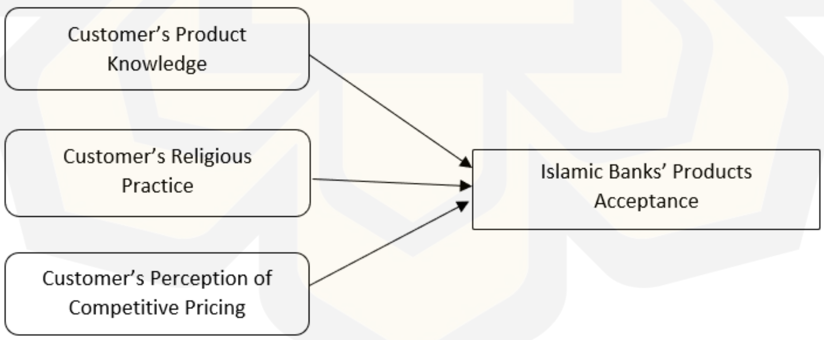
3. Conceptual Framework

The Theory of Reasoned Action (TRA), Theory of Planned Behaviour (TPB), and Social Identity Theory provide the foundation for analysing what inspires people to engage in Islamic banking. The Theory of Reasoned Action (TRA) is a framework for studying human behaviour. It focuses on attitudes, subjective norms, product intention to use, and actual product use. Significant beliefs are regarded as determining factors of attitude. It has also been discovered to exhibit human social behaviour (Mishra et al., 2014). According to the theory, an individual's attitude toward a particular behaviour influences their intentions to perform or not perform that behaviour (Bodibe et al., 2016).

TPB is an application of the TRA that includes performance expectancy. The TPB investigates circumstances in which people have some control over their behaviour (Bodibe et al., 2016). Internal and external obstacles to behavioral performance are perceived as behavioral control (Mishra et al., 2014). The control method explicates the planned behaviour's difficulty level. The theory seeks to establish the link between attitude and behaviour (Mishra, 2014). Behavioral intentions can be influenced by perceived behavioral control. The TRA model predicts purchase behaviour and measures a person's attitude toward performing those behaviours (Bodibe et al., 2016).

The theoretical framework underpinning this study's arguments is described in Figure 1. The study theory includes four fundamental variables: Islamic banking product knowledge, religious practice, competitive pricing perception, and acceptance of Islamic banking products. The independent variables (IV) are the customer's product knowledge, religious practice, and customer's perception of competitive pricing. The dependent variable (DV) is Islamic banking product acceptance. It must also be mentioned that Islamic banking awareness is an independent factor of Islamic banking knowledge, which is the dependent variable. The model was applied to investigate the factors influencing the reproductive success of Islamic banks or banking segments.

Figure 1: Conceptual framework



3.1 Islamic banking product knowledge

Product knowledge is derived from memory and is predicated on product awareness or comprehension (Lin and Chen, 2006). According to Wahyuni (2012), product knowledge influences people's purchasing intentions. Purchase intent is sometimes hampered by a customer who lacks product awareness. Product knowledge is essential when making decisions involving one's assets (Peredaryenko, 2019). Banking terminology can demotivate some bank customers, but some can interpret the terms to gain a better understanding. However, the term used in Islamic banking is Arabic, making it difficult for non-Arabic speakers to understand what a product offers (Ahmad et, al., 2015). The following information provides an overview of the most common transactions at an Islamic bank.

Islamic banking provides a diverse range of financial services. Interest rates, known as Riba, cannot be specified at a fixed amount during a financial transaction; profit-loss risk agreements are used (Vawda et al., 2013). Trading in financial risk products like derivatives is forbidden (Bodibe et al., 2016). Musharakah, Mudarabah, and Murabahah are common terms in Islamic financial transactions (Bley and Kuehn, 2004; Ahmad et al., 2015).

Musharakah is an investment collaboration in which profit distribution is agreed upon before the transaction begins. Private equity is identical to a conventional bank. Mudarabah is also an investment affiliation in which the bank provides capital while a third party manages the business. Murabahah is a type of credit that does not necessitate people to take out interest-bearing loans. As a result, it is possible to hypothesize:

H_1: Islamic banking product knowledge considerably influences customers' acceptance of Islamic banking products. It is also directly correlated to Islamic banking product acceptance.

3.2 Religious practice

Religious obligation refers to the role of religion in affecting one's choices and activities. An Islamic bank must adhere to Islamic principles, values, and goals when offering Islamic banking products. This adherence by the bank can affect one's decision to seek Islamic banking products. The greater the commitment to Shari'ah, the greater the possibility of an individual using Islamic banking products. This argument is consistent with previous studies on Islamic banking (Alam et al., 2021).

Ahmad et al. (2015) found that Muslim entrepreneurs have a good understanding of Islamic financing and the importance of practicing it in their businesses. Harun et al. (2015) elaborated that the understanding of underlying principles and training gained in Islamic banks positively influenced the knowledge of Islamic bankers. According to Muslichah and Sanusi (2019), religiosity and financial literacy have an impact on the intention to use Islamic banking products among business owners, and Rosli et al. (2023) revealed from their study that Halal knowledge and financial information disclosure are significant factors in the selection of Islamic banking products among Muslim students. Overall, all these suggest that religious practice, such as understanding underlying principles and having religious knowledge, plays a role in the knowledge and intention to use Islamic banking products. Based on these studies, the following hypothesis is proposed:

H_2: Religious obligation influences the acceptance of Islamic banking products.

3.3 Competitive pricing

In general, the act of an Islamic bank choosing the best price to offer the financing product and striking a balance between the bank and the customer's interests is referred to as the pricing of Islamic personal financing (Amin et al., 2011). Ben (2020) claimed that Islamic banks use profit and loss sharing when determining how much to charge for financial transaction services. However, Islamic banks are not permitted to use the idea of interest; nevertheless, they are allowed to use the notion of profit and loss sharing. The Islamic banking model also permits a markup for late payments and trade-financing commissions.

Billah (2019) emphasizes the importance of ensuring that Islamic banking products align with Shari'ah principles. Ahmad et al. (2015) highlights the significance of knowledge about Islamic banking products among Muslim entrepreneurs and the need for better understanding and promotion of these products. Kibibi (2011) discusses the strategies employed by Islamic banks to attract non-Muslim customers, including pricing and differentiation strategies. Hussain et al. (2019) suggests that Islamic banks in Pakistan should adopt differentiation strategies and focus on marketing tactics to gain a competitive advantage. In summary, these studies collectively suggest that competitive pricing and Islamic banking product knowledge are important factors for the success and growth of Islamic banking institutions. Hence, the following hypothesis is proposed:

H_3: Competitive Pricing of Islamic personal financing influences the acceptance of Islamic banking products.

4. Research Methodology

This study utilizes a descriptive survey design. Its sampling procedure is based on probability random sampling. The researcher used a structured and comprehensive questionnaire to collect the data to answer the research questions. The survey was conducted in French because it is the Ivory Coast's main language. Therefore, the researcher was obliged to translate the questionnaire into French so that respondents could understand and respond. However, original and translated questionnaires were provided. The questionnaire was constructed based on past research related to the researcher's topic and was adopted and further modified to suit the present study. Quantitative data analysis was carried out using descriptive and inferential statistics.

A survey was conducted in Abidjan in Cote d'Ivoire to gather data for the research objectives. The study targeted individuals over the age of 18, both male and female, from Muslim communities. The questionnaires were distributed to 201 respondents in the district of Abidjan, which was selected because it houses all the banking headquarters and has a competitive banking environment compared to other areas in the country. The survey was distributed online and through other means.

Questionnaires are a helpful tool for investigating patterns and trends in data, and for this research on attitudes toward Islamic banking in Cote d'Ivoire, a questionnaire was used. The questionnaire was divided into five sections and consisted of 25 closed-ended questions utilizing a Likert Scale. The questions covered demographic factors, customers' general and specific knowledge of Islamic banking products, the influence of religious factors on attitudes, and knowledge of competitive pricing. The questionnaire was designed based on past research and was modified to suit the present study (Váradi and Váradi, 2014).

The Statistical Package for Social Science (SPSS 25.0) was used for this study to program, calculate, and analyse the data. SPSS was chosen for its flexibility in supporting various analyses, data transformations, and output formats. It is constantly updated and widely used in academic and business circles, making it an ideal choice for the study's needs.

5. Results and Discussion

5.1 Descriptive analysis

Descriptive statistics and plots are frequently employed in the early stages of statistical analysis, mainly when presenting results. These tools assist researchers in identifying correlations in data and determining the best course of action for further investigation. Hence, descriptive data on respondents' demographics and the construct are presented in this part.

5.1.1 Demographic profiles

The following Table 2 depicts the demographic profiles of the respondents. The research has several variables in this part, including gender, age, location, and occupation. The table shows the results of the descriptive analysis. The respondents of the current research consisted of 150 males, or 74.6% of the total responses, while female respondents numbered only 51, which shows 25.4% of the remaining. This shows the male domination in the response rates. The reason could be that most of the respondents of this study who were students or people in the market were males in Africa, especially in the Ivory Coast, which resulted in a considerable gender disparity in terms of opportunities and employment sectors.

On the other hand, concerning the age range of the respondents, it was discovered that the highest rate of responses age came from the age group of 25 to 39 years old, with 123 (61.2%) respondents. This was followed by 40 to 55 years old with only 50 (24.9%) respondents, while 22 (10.9%) of the respondents were below 25 years old, the least of the respondents came from the over 55 years old with only 6 (3.0) respondents.

According to the occupation category of the respondents, 64 (31.8%) were students. Moreover, the highest number of participants in the questionnaire were employees, with a total number of 123 (38.3%) respondents. This shows that more respondents work in specific jobs and can probably contribute to promoting Islamic banking in the country. In addition, the remaining unemployed among the respondents were only 14 (7%).

Looking at the educational level of the participants, 92, or nearly half of the entire respondents (59%), had a degree or diploma certificate or were studying in an undergraduate or diploma level program, followed by 68 (33.8%) who had a master's or PhD certificate. Lastly, 41 (20.4%) who may not engage in western education had the lowest respondent rates.

The last part of the demographic analysis is to confirm if the respondent is an Islamic banking product user. Therefore, according to the respondents, it was noticed that most were not customers of any Islamic banking products since only 35 (17.4%) indicated they were Islamic banking product users. About 166 (86.6%) indicated that they are not an Islamic banking product user. This may be due to not many Islamic banks in the country, as the banking sector is still new.

Table 2: Results of demographic variables analysis

Demographics	Frequency	Percent (%)
Gender		
Male	150	74.6
Female	51	25.4
Age		
Below 25 Years Old	22	10.9
25 To 39 Years Old	123	61.2
40 To 55 Years Old	50	24.9
Over 55 Years Old	6	3.0
Occupation		
Student	64	31.8
Employed	123	61.2
Unemployed	14	7.0
Education		
Postgraduate	68	33.8
Degree / Diploma	92	45.8
Others	41	20.4
Islamic banking products user		
Yes	35	17.4
No	166	82.6

5.1.2 Descriptive statistics of all constructs

This section presents the descriptive statistics of independent variables such as Islamic banking product knowledge, religiosity, and competitive pricing, and the dependent variable, Islamic banking product acceptance. Every variable is given a different code to make it easier. Questions about Islamic banking product knowledge variables are IBPK1, IBPK2, IBPK3, IBPK4, and IBPK5, followed by Religiosity, were coded as follows; REL1, REL2, REL3, REL4, and REL5. and lastly, Competitive pricing variables were coded as; CP1, CP2, CP3, CP4, and CP5. The five questions of Islamic Banking Product Acceptance, which are dependent variables in this study, were coded as well: IBPA1, IBPA2, IBPA3, IBPA4 and IBPA5.

As shown in Table 3, the range of variables is between the lowest mean of 1.244 of REL2 and 3.43, the highest mean scored by CP1. On the other hand, the standard deviation of all variables is between 1.418 and 0.8033.

Table 3: Descriptive statistics of constructs

CODE	Minimum	Maximum	Mean	Std. Deviation	Sample Size (N)
IBPK1	1	5	2.13	1.201	201
IBPK2	1	5	1.56	1.113	201
IBPK3	1	5	1.88	1.347	201
IBPK4	1	5	1.46	.922	201
IBPK5	1	5	1.46	.894	201
REL1	1	5	1.31	.925	201
REL2	1	5	1.244	.8033	201
REL3	1	5	1.51	1.110	201
REL4	1	5	1.66	1.018	201
REL5	1	5	1.63	1.017	201
CP1	1	5	3.43	1.359	201
CP2	1	5	2.41	1.293	201
CP3	1	5	2.21	1.227	201
CP4	1	5	2.83	1.277	201
CP5	1	5	2.42	1.227	201

IBPA1	1	5	2.73	1.410	201
IBPA2	1	5	2.13	1.218	201
IBPA3	1	5	2.65	1.418	201
IBPA4	1	5	2.19	1.108	201
IBPA5	1	5	1.97	1.124	201

Reliability analysis

The reliability analysis was used in determining the consistency and suitability of the measurement instruments. Cronbach's alpha is a commonly used statistic to measure internal consistency in social science research, with a value of 0.6 or above considered reasonable (Hair et al., 2012). The reliability analysis results of this study presented in Table 4 indicate that all variables are reliable, with an alpha value above 0.6, and therefore acceptable for further analysis.

Table 4: Reliability test analysis

Variables	No. of Items	Cronbach's Alpha	Mean
Overall Variables	20	.852	2.040
Islamic banking product knowledge	5	.712	1.697
Religiosity	5	.843	1.471
Competitive Pricing	5	.670	2.661
Islamic banking product acceptance	5	.723	2.333

Correlation analysis

Correlation is simply a measure of the relationship between two or more variables (Rudy et al., 2020). This current study used Pearson's correlation to determine the construct validity. In addition, this research sought to discover the relationship between independent variables: Islamic banking product knowledge, religiosity, and Competitive pricing and the dependent variable: Islamic Banking Product Acceptance. Each of the variables contains five items. As shown in Table 5, Islamic banking product knowledge and Islamic Banking Product Acceptance have a moderately significant relationship $r(201) = 0.510$, $p < .001$, followed by Religiosity and Islamic Banking Product Acceptance, which also have a moderately significant relationship $r(201) = 0.372$, $p < .001$, and lastly Competitive pricing was also found that there is a moderate and positively significant relationship to intention as a coefficient of $r(201) = 0.420$, $p < .001$.

Table 5: Correlation analysis

	IBPK	REL	CP	IBPA
IBPK	1			
REL	.529**	1		
CP	.282**	.245**	1	
IBPA	.510**	.372**	.420**	1

**. Correlation is significant at the 0.01 level (2-tailed).

Regression analysis

Regression analysis is a technique for determining the significance of a relationship between two or more variables. Multi-regression analysis was used in this research to assess the strength of the relationship between the dependent and independent variables. The results from the regression analysis show that the Islamic Banking Product Acceptance of people in the Ivory Coast is just 35%, as explained by the independent variables of Islamic banking product knowledge, religiosity, and competitive pricing. This is supported and proven by the coefficient of determination, adjusted R square, a measure of the proportion of the variance in the dependent variable that is predictable from the independent variables.

Table 6: Model summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.593[a]	.351	.341	.70599
a. Predictors: (Constant), CP, REL, IBPK				

For the ANOVA, the results from the regression analysis show a p-value of .000, which is less than 0.05. Therefore, the overall model is significant and fit. Hence, the Islamic banking product knowledge, religiosity, and competitive pricing significantly explained the Ivory Coast people's Islamic banking product acceptance, as in table 7 below.

Table 7: ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	53.119	3	17.706	35.525	.000[b]
	Residual	98.188	197	.498		
	Total	151.307	200			
a. Dependent Variable: IBPA						
b. Predictors: (Constant), CP, REL, IBPK						

As indicated in Table 8, the coefficients show that Islamic banking product knowledge (IBPK) with a standardized coefficient of β 0.374, $p < 0.001$, has the most substantial influence on the Ivory Coast people's Islamic Banking Product Acceptance, followed by Competitive pricing (PC) with a standardized coefficient of β 0.290, $p < 0.001$. However, Religiosity (REL) is not significantly influencing Islamic Banking Product Acceptance with β 0.104, $p > 0.05$.

Table 8: Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	*t*	Sig.
		B	Std. Error	Beta		
1	(Constant)	.632	.182		3.464	.001
	IBPK	.430	.079	.374	5.433	.000
	REL	.117	.077	.104	1.522	.130
	CP	.301	.062	.290	4.812	.000
a. Dependent Variable: IBPA						

In a nutshell, it can be concluded that only the independent variables of Islamic banking product knowledge and competitive pricing significantly influence Islamic Banking Product Acceptance in Ivory Coast except for religiosity. Based on the regression analysis table, the conclusion of all hypotheses tested in the study is further presented in Table 9 below.

Table 9: Summary of hypothesis decisions

No.	Hypothesis Paths	Decision.
H_1	Islamic banking Product knowledge considerably influences customers' acceptance of Islamic banking products. It is also directly correlated to Islamic banking product acceptance.	Supported
H_2	The religious obligation will influence the acceptance of Islamic banking products.	Not Supported
H_3	Competitive Pricing of Islamic personal financing will influence the acceptance of Islamic banking products.	Supported

6. Conclusion and Recommendation

It can be concluded that the independent variables of Islamic banking product knowledge and competitive pricing significantly influence Islamic banking product acceptance in Ivory Coast. Moreover, many additional factors drive customers to engage with Islamic banking products, as previous studies indicated that many factors influence customers to patronize the Islamic banking system. For future research, some recommendations are suggested. It is recommended that the content of the study be improvised and expanded to include more independent variables. Future researchers may try to test how critical those factors are in influencing customers to accept Islamic bank products and services. This type of research is very important for the financial institutions' sector in Cote d'Ivoire since it provides information to develop new Islamic products according to customer's needs and perceptions. This information could also lead the marketing department to expand its marketing strategy. Finally, management teams can review customers' acceptance of Islamic banking products.

6.1 Recommendation for Islamic Banks to improve Islamic banking product acceptance

To allow the Islamic banking sector to have an audience among the population, some recommended measures to enhance population knowledge, religious practice, and competitive pricing on Islamic banking product acceptance should be highlighted. The recommended measures are:

Improving information delivery to enhance Islamic banking product knowledge

To encourage the population's acceptance of Islamic banking products by improving their information delivery to educate customers on what Islamic banking involves and how it works. Rosli et al. (2023) found that Muslim students lack knowledge about the contents and terms of Islamic banking products, highlighting the need for relevant and up-to-date courses on Islamic banking. Abubakar et al. (2022) revealed that a significant number of Islamic banking customers in Nigeria are not aware of unique Islamic banking products, emphasizing the importance of improving information dissemination to enhance consumer perception and adoption. Hence, Islamic banking management must raise awareness among employees about the importance of providing excellent services to existing customers, especially regarding information delivery. Excellent communication influences the customer's comprehension of Islamic banking operations. Other than that, communication is also important to enhance the confidence level among customers about the benefits of the Islamic banking system. This effort is important to attract more customers. At the same time, it may attract more diverse communities to become customers of the Islamic banking system. To implement this strategy, supervisors of Islamic banks should constantly monitor the performance of their workers so that the objectives of gaining more acceptance by Islamic banks can be achieved effectively.

Increasing promotional programs to enhance Islamic banking product knowledge

To improve the public's knowledge, Islamic banks should increase promotional programs. Mahajar and Yunus (2011) found that sales promotion and publicity had little impact on customer awareness of Islamic banking in Malaysia, while direct marketing, advertising, and personal selling did not contribute to customer awareness. Rusdianto and Marimin (2022) highlighted the low level of financial literacy regarding Islamic finance in Indonesia and aimed to analyse the variables influencing customer decisions in choosing Islamic banking products. Muhammad et al. (2020) focused on the UAE and found that promotional strategies adopted by Islamic banks had a significant impact on customer attitude towards Islamic banking products and services, with the use of social media predicted to enhance competitiveness. As'ad (2020) examined marketing communication strategies in Yogyakarta, Indonesia, and described the mapping of locations and socio-religious organizations as part of the marketing approach to increase brand awareness of Islamic banks. In summary, the studies collectively suggest that promotional programs play a crucial role in enhancing Islamic banking product knowledge, but their effectiveness may vary depending on the specific strategies employed and the cultural context.

Based on this observation, the media does not promote the Islamic banking system widely. In addition, these programs do not provide the public with enough opportunities to learn about Islamic banking products. This happens because the programs only focus on a certain segment of the community. Most of the seminars, conferences and other formal programs of Islamic banking were focused on educational institutions, such as religious leaders and bank staff. The management should limit these programs to a certain segment of society and include other parts of society. Therefore, bank institutions should extend their audiences' program participation to overcome this situation. As a result, this effort will improve knowledge and public awareness of Islamic banking in Cote d'Ivoire (Ivory Coast).

Recruiting new thinkers to enhance Islamic bank product price

Recruiting new thinkers is one way to improve customers' acceptance of Islamic banks. The growth of Islamic banking and finance has led many Shari'ah experts to participate in the system actively. There is a high demand for them because those trained in conventional economics, banking, and finance rarely have the necessary knowledge of Shari'ah. Those Shari'ah experts should grab this opportunity as a way of innovating the existing system without changing the originality of the concept of the products' principles.

Simplifying the transaction procedures to enhance Islamic bank product price

Improving the public's acceptance of Islamic banking products is simplifying the transaction procedures to lower prices. Purnomo et al. (2020) discusses the need to increase accessibility to Islamic banking using digital tools such as EDC machines and personal agents, which can enhance transaction efficiency and convenience. Delvina (2019) highlights the use of electronic signatures in the submission of financing based on Shari'ah principles to improve services and accommodate users' desire for convenience in banking transactions. Collectively, these studies suggest that by understanding Islamic transaction principles, integrating quality management and innovation, leveraging digital tools, and utilizing electronic signatures, Islamic banks can simplify transaction procedures and enhance their products. Some Islamic bank services have many procedures to complete and provide different prices for different documents. This situation might be one of the factors people switch to conventional banking. Therefore, to address this issue, a regulator should develop and distribute a speedy yet concise manual of transaction procedures to every Islamic bank. This effort will help improve complicated transactions, high prices claimed by customers, and the waiting period.

Providing quality services to enhance customers' religiosity practice

A customer's religious practice is subject to one's attitude and is unrelated to Islamic banking. However, Islamic banks could indirectly help promote a harmonious environment for growing religiosity. Hence, to improve a customer's religious practice is by providing quality services. Quality service may come from many aspects. This may include excellent customer service, an efficient monitoring system, good facilities, and adequate knowledge, expertise, material, and financial resources. Indirectly, an efficient service provided by an Islamic bank could result in one praying his Solah (prayer) on time while maintaining his faith in Allah (SWT) and improving his religious practices. Shahzad et al. (2019) found that service quality and product quality have a significant relationship with customer satisfaction and loyalty in Islamic banks. They also highlighted the need for proper information systems and brochures to improve customer satisfaction. Al Zaabi (2012) emphasized the importance of maintaining a high quality of service, diversifying banking products, and responding to customer needs to ensure customer loyalty in Islamic banks. Yusfiarto et al. (2022) found that service quality dimensions, such as tangibility, reliability, assurance, sincerity, personalization, and formality, play a crucial role in increasing customer satisfaction and loyalty in Indonesian Islamic banking. Finally, Abror et al. (2019) highlighted the moderating role of religiosity in the relationship between service quality and customer satisfaction in Islamic banks.

Therefore, to improve service quality, Islamic banks should update their training syllabus, provide more training to their staff, always monitor the customer feedback system and give monthly awards to staff who exemplify high-quality service performance when delivering quality services to their customers. In the long run, this effort will improve the quality of services and indirectly influence other people to commit sincerely to their religious practice. This situation may also result in a higher frequency of customers who want to subscribe to Islamic banking.

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The CSR of Islamic Banks and Halal Businesses in the Post Covid-19 Pandemic Era

Haruna Babatunde Jaiyeoba*, Md Siddique E Azam

International Institute for Halal Research and Training (INHART), International Islamic University Malaysia

**Corresponding author: harunjaiyebab@iium.edu.my*

Abstract

This chapter discusses the CSR activities of Islamic banks and Halal companies in this era. As the world begins to transition from the Covid-19 pandemic, there is a need for Islamic banks and Halal businesses to retrospect into what has been learned during this crisis and to understand that stakeholders are now more concerned about how businesses operate and contribute to the betterment of the community than ever before. To avoid running the risk of losing customers and employees, Islamic banks and Halal companies must genuinely make large efforts to further their CSR initiatives by committing and promoting the greater good in society. The CSR sphere in post-Covid-19 must minimise, if not eliminate, the existential threat of the widening gap between the haves and have nots created by the Covid-19 outbreak. To this end, the researchers intend to identify and expose Islamic banks and Halal companies to various CSR activities that could help enhance their reputation, gain a competitive edge, achieve cost savings and operational efficiency, reinforce their credibility among Halal consumers and communities, manage their regulatory compliance and mitigate associated risks, and improve their long-term resilience and adaptability in this era. Specifically, the CSR activities covered in this study include commitment to Halal best practices, Zakat and charitable donations, Halal economic responsibility, legal responsibility, environmental responsibility, employee welfare, and responsible dealing with clients. Following the discussion of these CSR activities, the implications, with respect to the practice and theory, of this study are explicated, and recommendation and limitations of this study are offered.

Keywords: *Halal, Zakat, Charitable donations, Environmental responsibility, Employee welfare, Corporate governance*

1. Introduction

The outbreak of Covid-19 pandemic, which threatened human lives, caused economic hardship, and affected businesses across the globe, was something that caught the world by surprise. The pandemic that started as a health crisis was later transformed into a global economic crisis (Rasul et al., 2021). While the socioeconomic impact of this pandemic was not the same across countries, evidence has it that Covid-19 has led to increased poverty rates and inequalities in the world, stymieing the achievement of SDGs (Ferreira, 2021; Laborde et al., 2021). Besides, the pandemic has exacerbated unemployment and loss of income due to the lockdowns and business closures, it triggered economic recession, disrupted education as school and university were temporary closed causing most students to move to remote learning, disrupted supply chains because of travel restrictions and lockdowns, and created mental health issues due to the social isolation and economic strain that contributed to increased rates of anxiety, depression, etc. Notwithstanding the negative side of Covid-19, its emergence has offered a unique opportunity for businesses, particularly Islamic banks and Halal businesses (the word "Halal" is an Arabic word, which means permissible or lawful according to the teachings of Islam), to rethink the best ways to give back to the stakeholders and society while at the same time, holding on to their values (Jaiyeoba et al., 2023).

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As the world begins to transition from the Covid-19 pandemic, there is a need for Islamic banks and Halal businesses (henceforth, Halal businesses) to retrospect into what has been learned during this crisis and to understand that stakeholders are now more concerned about how businesses operate and contribute to the betterment of the community in this era. This suggests that ethical dealing and corporate philanthropy must assume greater importance in post pandemic. In this case, Halal businesses must genuinely commit to the sustainability initiatives for the greater good of society, if they are to avoid the risk of losing customers and employees. Thus, Halal businesses must initiate and implement a series of initiatives that will not only benefit their internal stakeholders, but external stakeholders as well (Jaiyeoba et al., 2022). Such initiatives that aim to benefit all stakeholders, as noted by Adam Weinger, the president of "Double the Donation," underscore the importance of corporate social responsibility (CSR), defined as the ways in which businesses contribute to, and promote the greater good in society. In fact, businesses, whether Halal or otherwise, must realise that their competitiveness and the welfare of the general public in their localities are mutually dependent (El-Mallah et al., 2019).

While it is desirable for Halal businesses to actively engage in philanthropic activities, participate in community development, promote responsible business dealings, reduce environmental impacts, and support employee well-being; however, one critical and yet relevant question to be addressed to the appreciation of readers with respect to this issue is "how has pandemic moves CSR to the top priority of Halal businesses that is different from how it was before the emergence of Covid-19? It is no-brainer to notice how pandemic has exposed the inequalities in our societies around the world. Hence, Halal businesses have the responsibility to help in addressing this social challenge by supporting poverty alleviation, education, and healthcare in such a way that contributes positively to the well-being of communities (Ferreira, 2021). In one way or the other, the outbreak of pandemic has impacted public trust in businesses and as such, prioritising CSR by proving their commitment to ethical practices, social responsibility, and environmental sustainability can help to rebuild trust in such that improve their reputation and strengthen relationships with stakeholders (van der Cruijsen et al., 2022).

Furthermore, the pandemic has revealed the importance of building resilient systems as a preparation for possible occurrence of similar crises in future. Thus, proper integration of CSR activities, such as promoting responsible resource management and adopting sustainable practices, into the long-term strategies of Halal businesses can help them to become more resilient and sustainable (Hadjielias et al., 2022). Similarly, the pandemic has amplified stakeholders' expectations of Halal businesses to operate ethically and responsibly by prioritising social and environmental sustainability practices. Meeting these expectations required these businesses to embrace CSR, since such alignment will demonstrate their commitment to creating long-term value for their stakeholders (Zhao, 2021). Also, due to their access to information on businesses' social and environmental impacts, consumers are more conscious of their choices when making purchasing decisions in this era. By embracing CSR, Halal businesses will be able to differentiate themselves in the marketplace, thereby helping them to attract and retain top talent, socially responsible consumers, build strong partnerships, and gain a competitive advantage over their rivals (Jaiyeoba et al., 2023).

In line with foregoing discussion, this paper discusses the corporate social responsibility of Halal businesses in the post Covid-19 pandemic era, based on the existing studies of Jaiyeoba et al. (2022, 2023). These studies focus on the CSR as an effective promotional tool for the Halal businesses in Malaysia. According to these studies, the CSR of Halal businesses include commitment to Halal best practices, Zakat and charitable donations, Halal economic responsibility, legal responsibility, environmental responsibility, employee welfare, and responsible dealing with clients. Additionally, this study also discusses the corporate governance of Halal businesses in the post pandemic era. By integrating the CSR activities discusses in this study into the strategic direction of Halal businesses going forward, we believe that this will enhance their reputation, help them to gain a competitive edge in the marketplace, achieve cost savings and operational efficiency, reinforce their credibility among Halal consumers and communities, assist them to manage their regulatory compliance and mitigate associated risks, and improve their long-term resilience and adaptability in this era.

Meanwhile, this study is structured into four main sections. Beginning from this introductory section, section two discusses the CSR of Halal businesses in this era, section three explicates the implications of this study with respect to theory and practice, and the final section concludes and offers recommendation for future studies.

2. The CSR of Businesses in Halal Industry in the Post Pandemic Era

Historically, the CSR as a field of study has been marred by controversies and criticisms, including the claim that businesses cannot be said to have responsibilities, often associated with the classical economic perspective and its argument that the primary responsibility of businesses is to maximise profits for shareholders (Friedman, 2007). However, there has been a significant shift in recent years towards a broader understanding of corporate social responsibility. According to the European Union (EU), the term "CSR" refers to "a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis (Noti et al., 2020). In today's rapidly changing business world, businesses, particularly Halal businesses, must realise that being socially responsible is key for staying productive, competitive, and relevant.

As indicated, several factors, including increased awareness of environmental issues and social challenges, changing societal expectations, and understanding that responsible business practices are crucial for long-term success, are responsible for why businesses must be socially responsible in this era. Moreover, stakeholders, covering government, employees, customers, communities, investors, etc. are increasingly demanding that businesses act ethically, demonstrate good governance, and support in addressing social and environmental issues (Jaiyeoba et al., 2022). These factors and stakeholders' demands are pushing businesses, including Halal businesses, to adopt and display responsible practices as an essential aspect of their overall strategy and operations. Having exposed the readers to CSR and other related issues, the remainder of this section will specifically discuss the CSR of Halal businesses in this era, including environmental responsibility, employee welfare, responsible dealing with clients, corporate governance, Halal best practices, Zakat and charitable donations, Halal economic responsibility, and legal responsibility.

2.1 Environmental responsibility

Environmental responsibility refers to the ethical and sustainable approach taken by Halal businesses towards incorporating environmental concerns into their practices (Abdurrahman et al., 2022). This responsibility involves taking proactive measures to reduce negative effects on the environment by reducing greenhouse gas emissions, chemicals, waste, as well as increasing resources efficiency and productivity with respect to resources and processes. Beyond legal and regulatory requirements, Halal businesses need to recognise that they have a responsibility to the environment and take seriously to sustain the planet for future generations. Allah says to this effect in Qur'an 6:165, "*He is the One Who has placed you as successors on earth and elevated some of you in rank over others, so He may test you with what He has given you*." As such, Halal businesses must be committed to minimising their negative impact on the environment as part of their business strategy and operating methods (Jaiyeoba et al., 2023).

Meanwhile, the significant changes brought about by Covid-19 pandemic has renewed business focus on environmental responsibility. As we move into the post pandemic era, it is crucial for Halal businesses to prioritize sustainable practices in their everyday operations. In this era, Halal businesses need to prioritise the adoption of circular economy principles, embrace renewable energy sources, reduce energy consumption, optimise resource usage, implement efficient supply chain management, and minimise waste generation. Moreover, we have seen, during the pandemic, how reduced human activity can reduce pollution levels and positively affect the environment. Halal businesses have a responsibility to sustain this trend by promoting telecommuting and remote work options, investing in cleaner technologies, and incentivising eco-friendly transportation methods for employees in this era. Additionally, Halal businesses need to ensure the integrity and ethical practices in their supply chains for their sustainability. To achieve this, there will be a constant need to work with suppliers who prioritise environmental responsibility, adhere to fair labour practices, and use sustainable materials.

Furthermore, as Covid-19 amplified the importance of incorporating sustainability practices into business long-term strategic planning, there is a need for Halal businesses to develop measurable environmental sustainability goals, track the progress, and constantly report their performance with respect to environmental sustainability practices. In this way, they will be able to integrate environmental responsibility into their operations. Besides, Covid-19 has prompted consumers to reevaluate their consumption patterns to prioritise health, safety, and sustainability. Hence, Halal businesses need to play a significant role in promoting responsible consumption as well as educating consumers about sustainable choices in this era. This can be done by providing accurate information about their products, environmental impacts, and eco-labelling. Finally, there is a need for Halal businesses to prioritise collaborative efforts with stakeholders, including Nongovernmental Organisation (NGO), governments, and communities, particularly to drive environmental initiatives in this era.

2.2 Employee welfare

Employees are essential stakeholders who contribute significantly to the production and sustainability of Halal businesses. Employee's contributions in the areas of novel inventions, firm's success, and strengthening customer relationship have been noted in extant literature (Liang et al., 2023). Thus, taking care of employees has become necessary to boost employee engagement, which could eventually result in higher performance. In the context of CSR, employee welfare encompasses holistic well-being, initiatives, practices, policies, and various supports provided by Halal businesses with the aim of promoting employee physical health, mental health, emotional health, and satisfaction (Jaiyeoba et al., 2023). Initiatives toward employee welfare are an integral part of CSR, as they reflect the commitment of Halal businesses to the employee development and welfare beyond the legal requirements (Nishikawa et al., 2022). In fact, taking care of employees is in line with the teachings of Islam and specifically consistent with the Hadith that was narrated by Ma'rur who reported Prophet Muhammed (PBUH) to have said, *"Your employees are your brothers whom Allah has put under your authority. So, if Allah has put a person's brother under his authority, he should feed him with the same food he eats and dress him with the same clothes he wears* (Sahih al-Bukhari)."

Meanwhile, the outbreak of Covid-19 has highlighted the importance of taking employee welfare and well-being seriously. And as we transition to the post Covid-19 pandemic era, it is crucial for Halal businesses to prioritise the welfare and well-being of their employees. In this era, Halal businesses have the responsibility to continue prioritising the health and safety of their employees by establishing robust safety protocols and educating employees about their health and hygiene practices. Where and when necessary, these businesses should encourage flexibility in work arrangements, such as staggered shifts and remote work options, especially when doing so will contribute to employee safety. Moreover, the emergence of Covid-19 and different measures to curtail it has had impact on employee mental health and as such, Halal businesses must recognise the importance of mental health in this era by promoting work-life balance, providing access to counselling services, fostering a supportive work culture, and ensuring open communication channels.

Similarly, the pandemic has revealed why Halal businesses should invest more in the professional development of their employees through training and skill development. Therefore, offering relevant training programmes and providing opportunities for reskilling and upskilling will not only enhance the performance of employees, but also demonstrate organisation commitment to their growth and well-being, thereby fostering their loyalty and increasing the rate of retention. Finally, Halal businesses should prioritise effective communication and engagement with their employees in this era. In doing so, they should ensure regular communication about changes, updates, and future plans to build trust and alleviate uncertainty in the company. Additionally, they should conduct surveys regularly about employee well-being, encourage feedback, offer competitive salaries and benefits packages that will make employees feel valued, and actively involve employees in the decision-making process, essentially to enhance employee sense of belonging.

2.3 Responsible dealing with clients

When dealing with other stakeholders, Halal businesses must ensure that they follow Islamic prescriptions guiding business transactions (Jaiyeoba et al., 2023). As noted by Farook (2007), there are laid down rules and procedures in Islam that must be observed and respected under all circumstances when conducting businesses. Similarly, Mohammed (2013) notes that whatever dealings that lead to the welfare of others are morally good and whatever injurious dealings are morally bad. According to Jaiyeoba et al. (2023), fair treatment, dealing with justice, trustworthiness, truthfulness, mutual consent, etc. are ethical and core values that Islam strongly encourages to be practiced in Islamic society, including Halal businesses. Moreover, there are several Hadith that emphasise the responsibility of Muslims towards fellow believers and by extension, responsible dealings with stakeholders. As narrated by Abdullah bin Umar, Prophet Muhammed (PBUH) was reported to have said, "*A Muslim is the brother of another Muslim. He does not wrong him, nor does he leave him helpless. Whoever fulfils the needs of his brother, Allah will fulfil his needs* (Sahih al-Bukhari)."

While the above Hadith emphasises the responsibility of Halal businesses towards their stakeholders, the outbreak of Covid-19 has, in addition, exacerbated the need for these businesses to engage in responsible dealings with those that are directly or indirectly affected by their operations, including suppliers, distributors, customers, local communities, shareholders, government, and relevant others. Thus, responsible business practices in the post Covid-19 pandemic era are crucial for ensuring stakeholder satisfaction, sustaining growth, and supporting overall well-being of society. In the post pandemic era, Halal businesses must prioritise communication by providing timely and accurate information about their plans, operations, and changes that may affect their stakeholders or help them to make informed decisions. Additionally, Halal businesses should place more emphasis on customer safety and satisfaction by promptly and fairly addressing customer concerns, providing accurate information, and delivering high-quality products and services in this era. Also, these businesses must guarantee responsible practices throughout their supply chains by working with suppliers that prioritise environmental, ethical, fair labour practices, and social standards.

To build trust and enhance reputation in this era, Halal businesses need to actively offer support and engage with the communities in which they operate. They must invest in different initiatives that could contribute to local development and community well-being, such as engaging in community outreach programs and supporting charitable causes. It is equally important that Halal businesses remain accountable to their shareholders, including providing access to accurate financial reporting, fair treatment, promoting long-term sustainable growth, and respecting shareholder interests in decision-making processes. When dealing with their clients in this era, Halal businesses should be flexible and adaptable to align with evolving circumstances, changing client needs, and accommodate reasonable requests. Finally, these businesses must engage in ethical marketing and sales practices by avoiding false claims, deceptive advertising, and manipulative tactics. Their marketing efforts must be honest, transparent, and focused on providing accurate information that could assist their clients in making informed decisions.

2.4 Corporate governance

Corporate governance is related to the system of rules, practices, and processes through which Halal businesses are managed and controlled (Donaldson and Fafaliou, 2003). Several studies, both on Halal businesses and beyond, have demonstrated how good CSR practices are related to successful corporate governance (Aboud and Yang, 2022). In relation to CSR, corporate governance holds that a manager or anyone in-charge of business management is responsible for determining business social obligations and how best to fulfil them. In addition, literature has also suggested that a critical step towards improving CSR awareness among Halal businesses is to monitor and regulate managerial behaviour. Strong corporate governance is crucial for building trust, ensuring long-term sustainability, and mitigating risks; it can also help to stop corrupt managers from serving their own interests in such a way that is inimical or detrimental to the growth of businesses. In other words, when businesses make adequate investment in improving their corporate governance, doing so will be beneficial to all parties within the organisations and assist in improving their CSR of performance (Aboud and Yang, 2022). This argument is tantamount to the hadith narrated by Abdullah ibn Umar who reported Prophet Muhammed (PBUH) to have said, "*The leaders are the shepherds of their people and are responsible for their flock* (Sahih al-Bukhari)."

The above Hadith implies the need for leaders to act as caretakers who should prioritise the interests of stakeholders by fulfilling their responsibilities with integrity and accountability. Besides, the outbreak of Covid-19 has increased the responsibilities of those managing businesses to strongly uphold corporate governance practices moving forward. In this era, Halal businesses should prioritise transparency in their day-to-day operations by disclosing relevant information and providing transparent financial reporting. With respect to the board of directors, these businesses must promote ethical conduct and ensure the effectiveness of their board of directors. As pandemic has amplified the importance of robust risk management, Halal businesses must develop a strong risk management framework that can help to identify and address emerging risks, establish contingency plans, and maintain appropriate insurance coverage. Similarly, upholding high ethical conduct and compliance with laws and regulations are essential for strong corporate governance in this era. To this extent, Halal businesses need to have in place a code of conduct that will constantly guide the behaviour of management and employees.

Moreover, responsible Halal businesses must recognise the importance of engaging with stakeholders and consider their interests when making decisions, since such engagement can help to identify and address stakeholders' concerns, enhance reputation, identify emerging risks, and build mutually beneficial relationships which are crucial in this era. Also, the rights of shareholders of Halal businesses should be protected and respected by ensuring access to relevant information, fair treatment, and shareholder engagement. Finally, these businesses should adopt a culture of lifelong learning to improve corporate governance. This can be achieved through regular governance practices evaluation, implement necessary enhancements, benchmark against industry standards, learn from past experiences, be open to feedback, and be flexible enough to adapt to changes in regulatory and societal expectations.

2.5 Halal best practices

A company that is Halal-certified is committed to complying with the practises that align with the requirements of certain Halal standards and Shari'ah principles, ensuring the integrity and authenticity of its products and services. The company's commitment to sustaining Halal standards is seen in the fact that it adheres to best practises recommendations provided by Halal certificate providers or determined by the internal Halal committee (IHC) of the management team. Commitment to Halal best practises is one of the crucial components of CSR activities of Halal-certified companies, and it was found to have a significant positive relationship with CSR as a promotional tool for Halal-certified companies (Othman et al., 2016). As a result of such commitment, the image of the company becomes enhanced, and consumers and other stakeholders find the company more trustworthy. Positive word-of-mouth from satisfied customers also contributes to a rise in business.

Implementing rigorous quality control methods at every level of production is one way for a Halal-certified manufacturing firm to show its dedication to Halal best practices. For example, hygiene maintenance, comprehensive ingredient sourcing, Halal certification for suppliers, strict segregation of Halal and non-Halal ingredients, investment in training and development, the latest technology and tools to boost productivity, ongoing process evaluation and improvement, waste minimization, and regular audits to ensure compliance with Halal standards are all part of commitment to Halal best practices. Such quality management has become even more crucial in the post-Covid era. There are a few factors for why it is crucial. First and foremost, consumers have become more concerned about food safety, hygiene, and cleanliness. Simultaneously, the demand of consumers for sustainable and ethical practices by the companies has noticeably increased than before. Finally, such practice is essential for Halal-certified companies to enhance their brand image, preserve the market share, and sustain in the markets of the rapidly growing global Halal industry.

It is not only the imposed laws and requirements that influence Halal-certified companies to make such a commitment but also the Islamic principles that motivate them. The pursuit of excellence, or Ihsan, is an important tenet of Islamic management. This guiding philosophy stresses the value of continuous improvement in business and other spheres of life. In operations management, this might take the form of a relentless pursuit of perfection in the service of maximisation across different departments (Moghimi, 2019). Islam places greater emphasis on pursuing excellence in every aspect of life. This is supported by a number of verses in the Qur'an where Muslims are prescribed to seek out what is permissible (Halal) and good (Toyyib). Allah says in the Qur'an 2:168, "*O mankind, eat from whatever is on earth [that is] lawful and good and do not follow the footsteps of Satan.*" Similar emphasis on the significance of adopting Halal best practises can be realised from hadith: *".... Indeed, Allah has commanded excellence in everything*" (Sahih Muslim, 1955). Such emphasis on quality promotes Halal best practises that adhere to the strictest of guidelines all throughout a company's supply chain.

2.6 Zakat and charitable donations

One of the five pillars of Islam is Zakat, which is an obligatory form of charity. Such charity becomes mandatory for any Muslim upon acquiring a certain amount of property or wealth. However, Halal-certified companies are encouraged to give zakat as one of their philanthropic responsibilities beyond the obligatory amount. The emphasis on zakat is realised from its appearance in the Qur'an in no less than 30 occasions (Matin, 2021). For example, Allah says in the Qur'an 73:20, *".... And establish prayer and give Zakat and loan Allah a goodly loan. And whatever good you put forward for yourselves - you will find it with Allah....*" This verse is a motivation for Halal-certified companies to make charitable contributions by following the commandments of Allah. Similarly, the Prophet (PBUH) encourages us to give Zakat by practising it himself and by strongly recommending it. For example, the following Hadiths motivate Halal-certified businesses to fulfil the commandment of Allah by engaging themselves in charitable activities, believing that this will bring blessings and rewards from Allah. "*The believer's shade on the Day of Resurrection will be his charity.*" (Al-

Tirmidhi, 604); "*When a Muslim dies, his/her deeds come to an end except for three: ongoing charity, beneficial knowledge, and righteous offspring who prays for him.*" (Sahih Muslim, 1631).

It is not only the spiritual influence but also the worldly benefits that make the Halal-certified companies contribute charitable donations that reflect the Islamic value of generosity and social responsibility (Yusuf Owoyemi, 2020). It is a great way for businesses to give back to the community and help others, which in turn enhances the business performance of Halal-certified companies in many ways. For example, enhanced company image and customer perception, better employee morale and retention, and enhanced commitment to best Halal practices. Researchers (Ahinful et al., 2021; Salindal, 2018) found that firms benefited greatly from using these practices. In order to fulfil their religious obligation to give to charity, a Halal-certified business may opt to allocate a portion of its profits to CSR activities. For example, scholarship programs for needy students, free medical services for underprivileged people, investing in infrastructure in low-income communities or rural areas, and fund assistance to micro, small, and medium entrepreneurs (MSMEs) affected by Covid-19 pandemic.

MSMEs impacted by the Covid pandemic might benefit in several ways via Zakat and other charitable donations. Firstly, MSMEs who are having to recover the loss as a result of the epidemic might get financial aid in the form of Zakat and charity donations. This might allow them to pay for overhead expenses, compensate workers, or stock up on necessities. Secondly, with the support of Zakat and other philanthropic contributions, SMEs may expand into untapped areas. This can be achieved by aiding them in the marketing campaigns, introducing them to potential customers, or identifying new distributors for them. Additionally, through zakat and charity donations MSMEs might gain access to training and education programs they need. This may aid them in expanding their business knowledge, exploring emerging technology, and creating innovative new offerings. Finally, MSMEs can use Zakat and charity gifts to qualify for loans and grants. They may be able to use the money to invest in their business, expand existing activities, and enhance their overall business performance.

2.7 Halal economic responsibility

The economic activities of Halal-certified companies are expected to align with Shari'ah principles and specific Halal standards depending on the type of products or services provided by them. This reflects the company's responsible behaviour towards integrating ethical and Halal (lawful) aspects in all aspects. Such economic responsibilities allow Halal-certified companies to make a positive contribution to society, foster economic growth, and enhance sustainable development. Halal entrepreneurs are encouraged to demonstrate such responsible behaviour by both the Qur'an and Sunnah (the actions and sayings of the Prophet (PBUH). Allah says to this effect in the Qur'an 2:188, "*And do not consume one another's wealth unjustly or send it [in bribery] to the rulers in order that [they might aid] you [to] consume a portion of the wealth of the people in sin, while you know [it is unlawful].*" Simultaneously, the Hadith stresses honesty and transparency, which should be prioritised by Halal-certified companies in their economic responsibilities. "*The seller and the buyer have the right to keep or return goods as long as they have not parted or till, they part; and if both the parties spoke the truth and described the defects and qualities (of the goods), then they would be blessed in their transaction, and if they told lies or hid something, then the blessings of their transaction would be lost.*" (Sahih al-Bukhari, 2079)

This verse from the Quran and Hadith instructs Halal companies to comply with Shari'ah principles while making any business transaction. It encourages them to pursue economic activities that are beneficial for society and Halal. These responsibilities are the result of a greater responsibility of the human being, which is to become the vicegerent of Allah on this earth (Mohamed, 2019). Fulfilling Halal economic responsibilities encompasses various approaches, including ethical sourcing and production practices. This entails ensuring Halal suppliers, environmentally friendly ingredients, fair treatment of employees, and prioritizing local employment opportunities. Sustainable production practices are also crucial, involving investments in renewable energy sources, reducing carbon footprints, embracing the 3Rs (reuse, reduce, and recycle), and other strategies for sustainable development. Human resource development plays a pivotal role, encompassing support for educational and training programs, financial assistance for needy students, and mentoring initiatives for employees. Building robust relationships with stakeholders, including suppliers, consumers, and the local community, hinges on conducting business ethically and Halal. Moreover, aligning with sustainable development goals (SDGs) is pivotal; for example, SDG-8 emphasizes inclusive economic growth through job creation and environmental protection, while SDG-12 underscores responsible consumption and production achieved through quality offerings and adherence to aforementioned principles.

2.8 Legal responsibility

Halal-certified companies are both lawful and legal (Azam et al., 2019). Lawful because they provide products and services that are Halal (lawful in Islam). Simultaneously, legal in the sense that they abide by the legal requirements of the country where the business is operating. According to Carroll (1998), consumers, workers, community members, suppliers, the environment, and the government are all examples of major stakeholders whose relationship with Halal-certified companies must adhere to their legal responsibilities. Legal responsibilities include complying with certain acts and policies to ensure transparency, fairness, and accountability in all business activities. For example, in the context of Malaysia Standard (MS), existing different Halal standards are- MS 1500:2019 for Halal food and beverages, MS 2000:2008 for Halal cosmetics and personal care, MS 2400:2019 for Halal supply chain management, MS 2424:2012 for Halal pharmaceuticals MS 2565:2014 for Halal packaging, MS 2610:2015 for Muslim-friendly tourism, and more. Similar standards are available in other countries like Indonesia, Thailand, Singapore, Turkey, United Arab Emirates, Pakistan, and others (Azam and Abdullah, 2021). All these standards outline both the general and specific legal requirements for the Halal-certified companies. Fulfilling the legal requirements enhances the company's credibility and trustworthiness. Additionally, it reduces the likelihood of encountering legal issues, paying fines, and suffering reputational harm. The Qur'an encourages Halal entrepreneurs to follow the legal and contractual responsibilities that govern their relationships with the stakeholders. "*O you who have believed, fulfil [all] contracts.*" (Surah Al-Ma'idah, 5:1)

The legal responsibilities of Halal-certified companies are beyond just meeting the requirements of certain Halal standards prescribed by the Halal certificate providers. Additional obligations include ensuring the health and safety of employees and customers, accurately labelling Halal products and services, providing training to employees, and following legal requirements for employment practises. According to Malaysian Halal certification (JAKIM, 2020) mandates, Halal-certified enterprises bear distinct legal obligations. The formation of an Internal Halal Committee (IHC) by top management is pivotal, with at least four members, including two Muslims, assigned roles and responsibilities, alongside adequate funding. Enforcing the Halal Assurance Management System (HAMS) 2020 and additional certifications such as Hazard Analysis and Critical Control Points (HACCP), Good Hygiene Practise (GHP), and Good Manufacturing Practise (GMP) ensures food safety, operational security, and customer allegiance, impacting various stages from production to distribution. Maintaining comprehensive records is crucial, encompassing audits, product tests, goods handling, and employee Halal compliance training, accessible for review by certification bodies. Additionally, a robust traceability system must be in place to rectify non-compliance issues with Halal standards.

3. Methodology

This study extensively reviews extant literature on CSR within the context of Islamic banks and Halal businesses to discuss the CSR activities of Islamic banks and Halal companies in the post-Covid-19 pandemic era. To identify the core dimensions of CSR relevant to the study, academic journal articles from popular databases such as Scopus, Emerald, Elsevier, Taylor & Francis, etc., were comprehensively examined. Notable studies are consulted to determine the CSR activities for Islamic banks and Halal companies in this era include, but are not limited to, Tetrault Sirsly and Lvina (2019), Farook (2007), Jaiyeoba et al. (2018), Jaiyeoba et al. (2023), Jaiyeoba et al. (2023), García-Sánchez and García-Sánchez (2020), Koku and Savas (2014), etc. Ultimately, seven relevant dimensions of CSR activities were deemed worthy of inclusion in this study. As discussed earlier in the preceding section, these CSR activities encompass commitment to Halal best practices, Zakat and charitable donations, Halal economic responsibility, legal responsibility, environmental responsibility, employee welfare, and responsible dealings with clients.

4. Theoretical and Practical Implications

Theoretically, this study has shed light on the CSR of Halal businesses in the post Covid-19 pandemic era in a way that has never been witnessed before. With this study, we have revealed that the CSR of Halal businesses goes beyond mere complying with Halal certification standards. Thus, our discussion has expanded the theoretical boundaries of CSR to incorporate religious dimension. This study has emphasised the importance of stakeholder theory, which suggests that Halal businesses should always consider the interests of their various stakeholders beyond just shareholders. In this way, the present study has reiterated the need for Halal businesses to identify and manage the diverse shareholders' interests. Practically, this study also has several practical implications that can guide Halal businesses in the post Covid-19 pandemic era.

Specifically, these businesses should ensure that their supply chains adhere to ethical practices in this era. It has become crucial for these businesses to contribute to the well-being of their communities by supporting several initiatives, such as giving in charity, addressing community needs, and contributing to community development programmes. Similarly, Halal businesses need to prioritise the welfare of their employees in this era by promoting work-life balance, providing a safe working environment, and offering them opportunities for growth and development. Furthermore, there is a need for these businesses to embrace environmental responsibility by working hard to reduce their environmental footprint, implement waste management and recycling initiatives, and adopt renewable energy sources, particularly to contribute to a greener future. Besides, given the nature of these businesses, they are required to only involve in transparent and ethical marketing practices by complying with Halal certification standards, avoiding misleading claims, and providing accurate information about their products.

5. Conclusion

As we are moving to the post Covid-19 era, it is crucial for Halal businesses to retrospect and recount their experiences during the Covid-19. On this basis, the researchers drew on CSR literature to discuss the CSR of Halal businesses in the post Covid-19 pandemic era. To adequately cover this discussion, the present study was segmented into four main sections, beginning from the introductory section, another section was included to discuss the CSR of Halal businesses in this era, covering their responsibilities towards the environment, employees, other clients, corporate governance, Halal best practices, Zakat and charitable donations, economic, and legal. Moreover, the researchers also discuss the implications of this study with respect to the theory and practice; in this section, efforts were made to discuss the benefits of this study to theory and practice. This final section was included to conclude this study. Overall, the researchers have been able to identify and expose Halal businesses to various CSR activities that could help enhance their reputation, gain a competitive edge, achieve cost savings and operational efficiency, reinforce their credibility among Halal consumers and communities, manage their regulatory compliance and mitigate associated risks, and improve their long-term resilience and adaptability in this era. While we have merely discussed the CSR of Halal businesses in the post Covid-19 pandemic era, future studies that will employ quantitative or qualitative methods are highly encouraged.

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Floor-Pricing Without Put Options: Hedging by Trade Contracts in Islamic Finance as Exemplified in Agriculture Production

Imran-Firdauz Abu Bakar

Independent Researcher

Email: imranfirdauz.abubakar@gmail.com

Abstract

Conventional methods of hedging, such as the use of put options, have long existed in trade with their use being justified for managing price risk. However, many Shari'ah scholars find issues in their implementation on various grounds that are based on the principles of achieving economic equity. The method proposed here aims to achieve floor-pricing as a hedging tool for producers, using common accepted trade contracts. This aims to avoid existing contentions in hedging amongst differing scholarly views, while recognizing proper rights and obligations of stakeholders. This conceptual paper analyses the needs of hedging in the context of an agricultural production setting, touches on currently known hedging mechanisms together with their known issues and puts forth an alternative method. Implementation issues of this method is discussed and proposed ways to address them are included. This method does not address hedging for buyers and utilizes the Salam contract, which is not suitable for addressing hedging of currency exchange.

Keywords: *Islamic derivatives, Commodity, Salam, Options, Ju'alah*

1. Introduction

Goods of trade are always exposed to market price fluctuations. Traders will assess market conditions before undertaking a business venture to minimize risk exposure to it. This is harder if the endeavour takes a long time to get to market. Hence, hedging techniques are used to ensure price risks are reduced and trades are more viable.

Shari'ah (Islamic law) requires business transactions follow a rule of ethics, which not only encompasses the transaction objectives, but also the means leading to it. A simple comparison would be with regards to financing: Shari'ah has no issue with raising funds, but it clearly forbids usury. Similarly, while the act of hedging as a means to protect wealth is allowed, the means to do so still requires examination (Mohd Razif et al., 2012).

One of the main concerns in Shari'ah regarding hedging mechanisms is the possible existence of gambling characteristics (Al-Suwailem, 2006, p. 79). The zero-sum nature of gambling, whereby one can only benefit at the expense of others, creates a scenario where parties are motivated to go against one another. It creates negative incentives such as fraud and unrestricted speculation, which in turn leads to more, instead of less risk. As such, this paper proposes one method of hedging that considers Shari'ah by utilizing well-known accepted contracts in trade, and is demonstrated with regards to agricultural production. The reason for looking into this economic sector is due to its long market lead time, which highly exposes it to market price fluctuations. This sector is also the earliest documented to have hedging contracts applied (Malkawi, 2014, p. 43).

Section 2 starts by outlining market price risk faced by smallholder producers to establish context of the need for hedging in the actual economy. Section 3 introduces current price risk management instruments and

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some views of Islamic finance regarding issues in executing them. In Section 4, the basic mechanics of the proposed method are laid out, followed by in Section 5 with additional contractual features to ensure the desired goal of hedging. In Section 6, a brief discussion regarding operational details is included to highlight items which have Shari'ah consideration or execution implications. Research in this paper investigates literature of commonly known and discussed concepts in Islamic finance and is adapted to a case of an actual agricultural trading operation by a farmers' organisation. As Shari'ah interpretation may differ amongst various school of thoughts as well as individual jurists, the deliberation in this paper follows views which have greater consensus or minor opposition.

2. Market Price Risk in Agriculture

2.1 High market price risks faced by smallholder farmers

In agriculture, there are various risks facing producers such as production risks, ecological risks, market risks and institutional risks amongst others (Moreddu, 2000, p. 17). Amongst existing market risks is price risk, which is what a farmer gets from sales of his produce. From author's various discussions with farmers and officers in year 2022 at the Farmers' Organization (LPP) farm produce collection centre in Kuala Langat, Selangor, Malaysia, the main challenges raised were fluctuating market prices, logistical costs and farmhand labour.

In many cases, smallholder farmers have limited bargaining power, and so are essentially price-takers (George et al., 2008, p. 58). Thus, they are particularly affected by fluctuating market prices and have limited ways to counteract them. Given that there are a lot of items to be managed, it is too simplistic to assume that skilled smallholder producers are also inherently market-savvy, as they have to focus first on production matters. The long time-to-market nature of their work makes it tougher for these producers to react to price movements, compared with traders who have more market mobility (Dana and Gilbert, 2008, p. 11).

2.2 Indirectly coping with market price risk

The simplest way for a farmer to live with market price risk is by creating a savings fund to fill up during good periods and withdraw from during bad periods. The difficulty would be identifying the suitable time and amount to save and withdraw, aside from the discipline to follow through. Financial institutes could provide funds during shortfall, but there are not many which easily, and immediately, allow revolving credit for smallholders (George et al., 2008, p. 61).

Some address market price volatility by counter-productive reactions such as minimizing the use of agricultural inputs (i.e. fertiliser, pesticides, seeds, etc.) (Assouto et al., 2020, p. 4) or even increase production to meet revenue targets, which itself aggravates the condition of low prices (Assouto et al., 2020, p. 9). This could also cause loss of quality and in the long run, loss of customers.

Risk-coping and risk management strategies have costs, and sometimes indirect methods create very complex outcomes. For example, crop diversification can become less efficient especially when not planned properly, while disposal of properties during low income can jeopardise future well-being if resources being sold are from productive assets (Dana and Gilbert, 2008, p. 30).

3. Current Available Hedging Techniques

3.1 Conventional price risk management instruments

Currently, there are instruments used for managing market price risks. In forward contracts, fixed prices are contractually agreed upon in advance (Kang and Mahajan, 2006, p. 6). It relies on reputation of both buyer and seller to honour the contract. If market prices move away too much from the agreed price, it could tempt either party to break the contract. A few variations of these contracts are used for flexibility, such as 'Price-To-Be-Fixed' (PTBF) contracts or deferred pricing contracts.

Futures contracts are standardized forward contracts traded on an exchange. The contracts themselves can be traded several times before the date of delivery of the commodity. They operate in a financial market where most of the futures trades are financially settled. Actual sale or purchase of goods is not necessary, which is why typically less than 2% of traded volume ends in actual delivery (Kang and Mahajan, 2006, p. 11). Hedging occurs when producers sell a futures contract to lock-in current prices and then buy back futures at the time they are physically selling their produce. Any gain or loss in the futures market counteracts the market price movement of a similar physical sale, theoretically cancelling out financial effects.

Alternatively, call/put options are contracts which give the right to buy/sell commodity in the future at a specified price. Because there is no obligation for the contract holder to exercise them, they act as an insurance when prices later increase or fall beyond that which has been specified in the contract.

3.2 Some challenges of conventional price risk management instruments

However, there are barriers for smallholder farmers to utilize these instruments (Dana and Gilbert, 2008, p. 14). The trading volume sizes needed in futures markets will usually not match their hedging needs, as they are usually more suited to middlemen traders who move order in bulk. Futures markets also operate on an international scale, so, contracts may consider delivery only to major warehouses near designated ports. Prices quoted would also cater to the international community and would mean that currency exchange differences also have to be taken into account.

Divergences between local prices and futures prices due to the difference between local and global market conditions creates basis risk. This risk represents the imperfect correlation between price movements of these two markets and requires understanding by users who want to successfully utilize hedging, which is a challenge for wholesalers, let-alone smallholder farmers (Dana and Gilbert, 2008, p. 17).

3.3 Some Shari'ah views on conventional risk management instruments

While hedging is permitted (Abdul Rahman and Rahman, 2023, p. 83), the current use of futures and options run into opposition by many Fiqh (Islamic jurisprudence) councils (Al-Suwailem, 2006, p. 59). Similar to financing, risk management instruments are allowed when they are linked to real economic activities instead of being treated independently as a speculative instrument. However, this is mostly not the case in conventional economics. The separation of risk and assets or 'commoditization of risk' allows purely speculative activities which can distort asset prices (Al-Suwailem, 2006, p. 37). It could be noted here that decoupling risk from real economic activities has parallels to decoupling gain opportunities from real economic gains (or losses), which is similarly a key differentiator between profit from that of usury and that of asset-backed financing.

Islamic finance aims to uphold financial principles in Shari'ah, such as prohibiting Gharar (ambiguity/unnecessary risk), Maysir (gambling) and Riba (usury), with the aim of preventing harm to society (Dau-Schmidt, 2012, p. 539). It thus, considers the agreement details of trades to ensure proper rights and obligations are assigned to parties. This is because not all uncertainty simply equates to prohibited Gharar, not all risk taking leads to Maysir, and Riba is not just created by additional charges from payment due.

For example, a simple conventional forward sales would have the contract effective upon signing but both payment and delivery of goods exchanged later. This would be a "debt-for-debt exchange" (ba'i al-kali bil kali) which is not accepted by many Islamic scholars (Al Zaabi, 2010, p. 99), although it might not be apparent of having any of the prohibited elements earlier mentioned when taken at face value. In this case, a reason for such a prohibition would be prevention of purely speculative activities (Dau-Schmidt, 2012, p. 550).

3.4 Using promises to hedge market prices

In agreements for future sale and purchase, promises (Wa'd) can be added to hedge against market price fluctuations. One simple way would be to make an agreement to limit prices if market price varies to unwanted levels. However, mere promises in any arrangements to achieve hedging may run into problems to get them binding as strongly as contracts (Abozaid, 2022, p. 80). Even Shari'ah scholars differ on the rules for those reneging them (Abdullah, 2010, p. 86).

Promises are better suited to justify actions rather than trigger them to happen (Abdullah, 2010, p. 94). As such, issues such as compensation for breach of promises, as well as implementing the compensation still remain. From a Shari'ah viewpoint, promising to link a forward contract to future spot market prices is also unacceptable (Al Zaabi, 2010, p. 102). And using Wa'd as an object of sale itself is even more contentious (Firoozye, 2009, p. 7), which is also a concern with conventional options (Abozaid, 2022, p. 78). This is not to negate the use of Wa'd in transactions, but to seek stronger solutions in place of it.

3.5 Hedging with basic forward sales in Islamic finance

In Islamic finance, Salam is a forward sales contract which is accepted by Shari'ah (Al Zaabi, 2010, p. 95). It guarantees a fixed-price, so farmers would not have to worry of falling prices. Compared to conventional forward contracts, Salam requires full payment at contracting and is primarily used as a financing instrument.

Istisna' (manufacturing sales) is a similar type of forward sales contract but has more flexibility in payment. However, it is for items to be built to specifications and not agriculture produce (Kalimullina and Orlov, 2020, p. 11). And like Salam, Istisna' prices cannot be tied to future market prices (AAOIFI, 2017, p. 301).

Both contracts have the characteristics of executing a sales contract at a pre-determined price for a future delivery. Salam will tend towards lower prices, as the buyer has to make full payment upfront, and thus considers the effect of 'financing costs' (Malkawi, 2014, p. 50). This may put off buyers who do not want to incur delivery risk or farmers who have already secured capital and do not want unnecessary debt.

Salam works well when both buyer and seller are aspiring to hedge more or less equally against adverse markets. This is easier when a farmer is selling to someone who needs to directly use his produce (Dau-Schmidt, 2012, p. 536). However when dealing with other buyers such as traders, they may be less willing and when they do agree, many farmers, as mentioned in Section 2.1, will get very low price offers. Furthermore, they will also miss out on profit opportunities should spot market prices become higher at delivery time.

3.6 Hedging by conditional options of sales

There cannot be conflicting items in a sales contract, such as simply offering two prices as this leads to unwanted Gharar (Rahman and Osmani, 2021, p. 3). A conditional option to cancel a contract (Khiyar al-Shart) is allowed for resolving infringements in agreements, avoiding misunderstandings or rectifying reckless decisions (Obaidullah, 1998, p. 77). If there is an option to cancel in a future sales, the seller can simply choose to withdraw and then arrange a spot sales instead, if market prices become favourable to him. This, however, is not allowed in Salam contracts (Al Zaabi, 2010, p. 97). If both goods and payments were to be exchanged later, it would more likely be a promise to enter a sale in the future, which as mentioned in Section 3.4, needs to consider if it is binding.

Urbun refers to earnest money, which is paid by a buyer during contracting a purchase. Should the buyer refuse to proceed with the sale, it is retained by the seller. In retail sales, Urbun is used where immediate full exchange is not practical. For example, furniture bought may require shipment and inspection upon arrival, or purchase of a property may require prior legal processing. Urbun can cover transportation, documentation, legal and labour costs if the deal is abruptly cancelled unjustly. Some scholars may view indiscriminate retention of Urbun unacceptable. Thus, Hamish Jiddiyah, which retains only up to actual incurred costs, will be deemed more preferable, although it may not be deemed practical by others. In any case, while Urbun might be used by a buyer to counter increasing prices, legitimacy of sellers using it to manage decreasing prices is doubtful (Obaidullah, 1998, p. 81).

Istijrar is a contract for recurring sales between a supplier and a buyer (Obaidullah, 1998, p. 92). Historically, it is a relatively new Islamic trading instrument. It requires neither offer (Ijab), acceptance (Qabul) nor price to be set at each transaction. Prices benchmark market rate, so it can be used in cost-plus sales (Murabahah) with options for both seller and buyer in case market prices exceed certain lower- or upper-bounds. This option would be to follow average transacted market prices instead of a contractually specified price. Istijrar used in this manner is similar to Salam in a sense that it hedges both buyer and seller, but unlike in Salam, payment is deferred. It is more complex in analysis and implementation as well as the fact that both parties have to agree on the lower- and upper-bounds, apart from the specified price.

4. Proposed Third-Party Floor-Price Hedging on Real Transactions

4.1 Floor-pricing focus as the hedge objective

The rules brought forth in Islamic finance do not ignore real economic needs. However, in the pursuit of such goals, there are innovations which end up mimicking prohibited conventional instruments and may depart from their end objectives. Hence, we step back and look at the original problem. As agriculture produce takes significant time to grow, farmers can find it difficult to plan and project their venture when planting. They can be caught off guard and even fail to break-even when market prices crash later at harvest time.

Some would suggest introducing price stabilization techniques to mitigate wild price swings, but that would be a macro-economic intervention requiring policy structuring. To enable supply-chain participants deal on a micro-level, methods to protect prices can be considered instead. This would require a look at legal instruments such as trade contracts, which are handled between actors.

Floor-pricing creates a minimum pre-determined price to look forward to upon harvest time. In this way, farmers have a minimum guaranteed income regardless of market price movement. Hence, they can better plan beforehand without resorting to over-producing or being unnecessarily sparing on agricultural inputs (refer to Section 2.2). The additional feature of a floor-price compared to a simple Salam is that farmers can still benefit when market prices increase at delivery. And compared to cost-plus Istijrar mentioned earlier, there will also not be any cap on potential earnings. This more favourable outcome should address some concerns of losing out to uncontrollable market forces.

4.2 Including a risk absorber to facilitate hedging

If buyers in a market are more comfortable with following spot market prices, sellers cannot hedge prices with them. As mentioned in Section 3.5, a direct Salam agreement would be beneficial to only some buyers. Thus, farmers, as price-takers, cannot rely on getting their counterpart to aid their risk management. This is where a "Risk Absorber" who is willing to enable the hedge, can step in. The Risk Absorber as an independent third-party can facilitate services of hedging in the absence of supportive buyers. From a Shari'ah perspective, the permissibility of including this third-party would depend on the contract and relationship it would have with the existing actors. This would entail scrutiny over its legal form and substance (transaction objectives).

4.3 Third-party hedging with real transactions

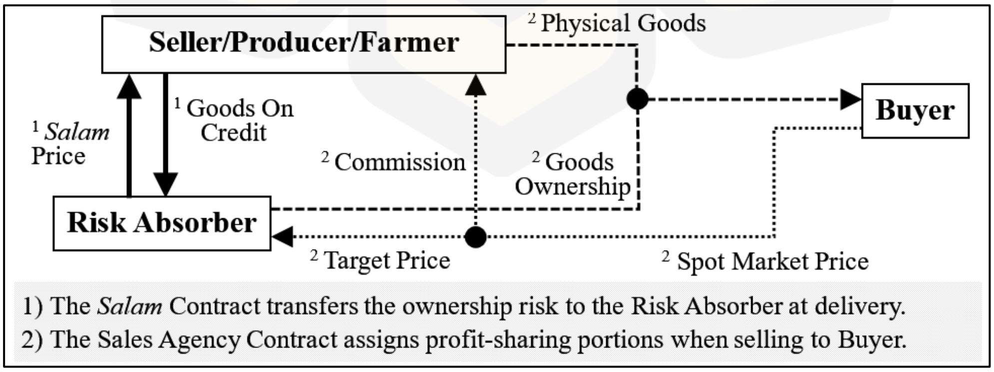
If the format of put options were to be followed, the option contract engaged between the seller and an option writer occurs in parallel with the trade to be hedged. This results in the option contract being independent to the trade, which allows pure speculation when actual trades do not occur. However, a Risk Absorber can create a hedge by entering directly into trade contracts between the seller and buyer. Although this increases the number of players in the supply chain, the buyer ultimately follows spot market price, and thus, should not lead to overall increase in market prices.

The seller should understand that even if his profit margins may decrease from hedging, but so too shall his cost of risks. Time, effort and money for risk handling could be spent by the seller without any financial hedging tools, or he could bear the consequences of some (or overall) losses. Hence, the role of the Risk Absorber should be regarded as value-adding, similarly with how third-party grading adds value to quality management or packaging adds value to transportation of goods, despite these benefits not being visible to consumers.

4.4 Salam and sales agency contracts to create floor-pricing

The hedging via trade proposed here is done with two independent contracts being made between a producer/seller and the Risk Absorber. A Salam sale between them fixes a price for future delivery. This creates the floor-price revenue for the producer, as any drop in market prices at delivery will not affect him. To enable the producer to gain from market price increases at harvest time, a sales agency contract to sell the produce is also made between the two parties. Here, the producer becomes the sales agent to the Risk Absorber and gets commission from selling this produce later at spot to a buyer, as shown in Figure 1.

Figure 1: Concept of the Salam contract with the sales agency contract



The sales agency contract should include a stipulation whereby the Risk Absorber has a specified target price to sell in the market, while the producer will earn surplus revenue as commission when sales surpasses the target price. Ju'alah (commission) only rewards the agent upon achieving an objective, hence, the Risk Absorber, keeps all sales proceeds if the target price is not met (Gojali et al., 2022, p. 237). So, the target selling price will be set at the Salam price plus a mark-up profit. The sum of all gained mark-up from trades covers the Risk Absorber's operational costs and losses from trades at lower spot prices. With regards to the validity of having the producer acting as a sales agent, it is a normal practise in Islamic finance and accepted by many scholars (Shah, 2022, p. 150), as long as it is a separate contract from the Salam contract.

Note that the sales agency contract is a Wakalah (agency) contract but is referred in this paper as quasi-Ju'alah, to highlight its compensation structure. Fees (Ujrah) usually refer to fixed payments (or wages) for labour, but remuneration in this case is performance-based. As a comparison, property agents may sell for their client at a target selling price, with any surplus above this being to the agent's benefit. Validity of a performance commission in this manner is in accordance with paragraph 15, specifically 15.6, of the Policy Document for Wakalah of the Central Bank of Malaysia (Bank Negara Malaysia, 2016). This also confirms with Item 4/2, particularly 4/2/5 of Shari'ah Standard No. 23 as well as Item 5, particularly 5/4 of Shari'ah Standard No. 46 of the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) (AAOIFI, 2017).

The basic operating structure is not entirely exceptional, as those similar to Figure 1 have been previously proposed regarding Salam financing with banks, such as by Muneeza et al. (2011, p. 143) as well as Ehsan and Shahzad (2015, p. 76). The main difference is with the sales agent compensation structure. In these other proposals, the objective is to enable financing, and hence, solving the producers' market price risk are not factored in. On the contrary, the financier would usually be the one shielded from this risk.

As adverse market price movements are a systemic risk, a concentration of hedges occurring at one harvest period can result in simultaneous losses. Hence, the Risk Absorber should aim to serve a steady volume of contracts over time. Plus, the floor-price offered would continuously shift with the progress of current market prices. 'Hard-selling' has to be avoided since it leads to this concentration of risks, in addition to encouraging over-production (refer to Section 2.2). Hence, the hedging concept here has some differences with the typical 'law of large numbers' used by insurers (Dana and Gilbert, 2008, p. 28). Offerings should focus on the producer's needs and the Risk Absorber's abilities to identify the appropriate take-up.

4.5 The Risk Absorber and Producer's Payoff

The overall outcome of the hedge can be represented mathematically, with Salam price, S_0, and the Risk Absorber's target selling price, P_1, as the following:

When spot price at delivery, M_1, is a decrease in price from Salam: $M_1 = S_0 - m_d$

The Risk Absorber's losses: $\Pi_{RA}^{-} = M_1 - S_0 = -m_d$ (Equation 1a)

and the Producer's takings: $\Pi_{P}^{-} = S_0$ (Equation 1b)

When spot price at delivery, M_1, is an increase in price from Salam: $M_1 = S_0 + m_i$

The Risk Absorber's takings: $\Pi_{RA}^{+} = P_1 - S_0$ (Equation 2a)

and the Producer's is: $\Pi_{P}^{+} = S_0 + (M_1 - P_1) = M_1 - (P_1 - S_0)$ (Equation 2b)

where $P_1 < M_1$ otherwise $P_1 = M_1$, since the commission cannot be negative.

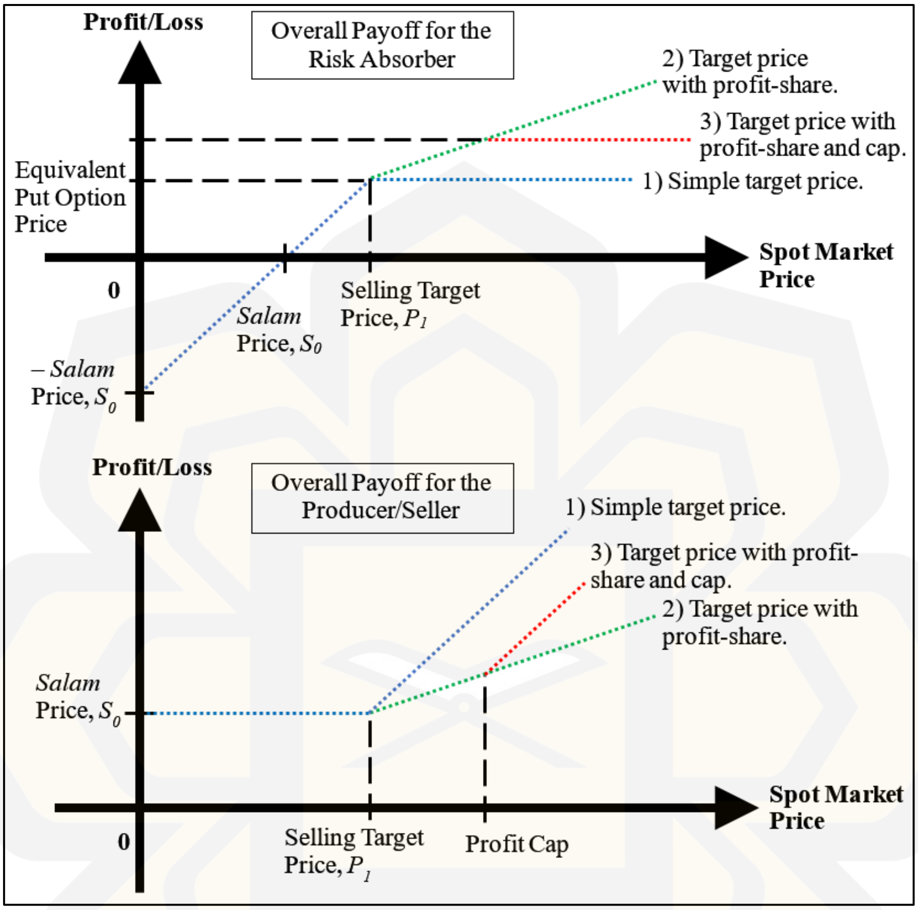
So, viability of the Risk Absorber (with C representing operational costs), is:

$$\sum(\Pi_{RA}^{+}) \geq \sum|\Pi_{RA}^{-}| + C \qquad \text{(Equation 3)}$$

This activity does not equate to a zero-sum game from the overall outcome since a drop in market price gives the result of a simple Salam trade, while a rise has more of a profit-sharing nature. Both parties benefit from increasing market prices.

The Risk Absorber has a payoff profile similar to a short put, where the selling target price can yield him a profit similar to a put option price as shown in Figure 2 (profile 1). This corresponds to Equation 2a. The equivalent put option may seem to give a better floor-price at first due to a higher strike price than the Salam price, but this is simply because the option price needs to be taken into account. The producer's payoff profile will not look like a long put as this is due to the sale of goods having to be taken into account of, instead of profit relying solely from the performance of an option purchase.

Figure 2: Possible overall payoff profiles



Additionally, the sales agency contract allows a variety of other compensation structures to be made. For example, the Risk Absorber may take a percentage of returns above the selling target price (profile 2), or he may also do this plus a cap to his profits (profile 3). Or he could simply share returns when the Salam cost is met, which would be similar to a Mudarabah (partnership). These additional modes may allow better Salam price offerings, to which some risk averse producers could be more receptive to (Assouto et al., p. 2). What should be considered by the Risk Absorber is whether these modes can appeal to producers, since complex or disadvantageous terms may put off potential takers or even discourage them from honouring contracts.

5. Ensuring Contractual Observance

5.1 Marketplace operations and management

In commodity exchanges, options transactions are publicly accessible, highly regulated and have many gatekeepers on various operations. Participants are vetted and processes are highly formal. Similarly, real trade transactions here require identification of the specific trading marketplace to allow proper operations, ensure clarity for contracting and avoid deceit. Otherwise, matters such as market prices, point of deliveries and trading customs would be open to differing interpretations and easily allow disputes.

Here, we consider operations of the farm produce collection centre studied in Section 2.1. Trading is managed by the marketplace manager (LPP), with the farmer delivering produce first. The marketplace manager acts as a grader and buyers will come to collect produce. No credit terms are used, so market prices here can be lower than direct deals with traders elsewhere. Payments are channelled to the buyer by the LPP who take a weight-based fee for services.

In the arrangement shown in Figure 1, the LPP can also play the role of a trustee. Deposits and collaterals to the hedge would be held-in-trust by them, and so would revenue payments to be distributed to the farmer and the Risk Absorber. Other marketplaces may not have the benefit of its manager closely overseeing sales such as the LPP does, but there are other ways to mitigate buyers and sellers from manipulating hedged produce, such as only allowing transactions to be bid in an open market, preferably with an automated platform, such as used by the London Metal Exchange, Chicago Mercantile Exchange or Bursa Suq Al-Sila'.

5.2 Salam without financing needs to secure future price

As a legal contract, Salam establishes the rights of parties to an agreed fixed price. Nevertheless, when compared to spot trading, it has counterparty risk. So, having a guarantor can ensure delivery occurs as agreed (Al Zaabi, 2010, p. 117). The guarantor could take collateral from the seller under a Kafalah (guarantee) contract. Using the Salam payment as this collateral can reduce the cost of counterparty risk to that of the difference between Salam price and spot market price at delivery. Note that from Hadith, Salam does not require that its price be used solely to fund production (Al Zaabi, 2010, p. 104).

This begs the question: if the guarantor asks for additional cash collateral from the producer for Salam contracting, would there be a limit? If it is considered oppressive for exceeding current spot market value, it should be remembered that Salam prices are usually lower to begin with (refer to Section 3.5). It may look odd that a seller is required to put money upfront instead of collecting payment, although it should just be viewed as securities pledged to a custodian to ensure contractual obligations.

Cash deposits as security (Hamish Jiddiyah) are already practised by Islamic Banks (Lawal, 2016, p. 114). What may be contested is the buyer himself taking security for Salam price, and not the guarantor taking security for Salam performance. As stated in Section 3.3, the full payment at contracting of Salam prevents pure speculation, and so, should not be undermined.

5.3 Integrity challenges to the contracts

Ideally, the two contracts of Salam and sales agency in the hedge are fully adhered to. If market price of produce drops at delivery, the producer keeps the Salam sale value; otherwise, he shares profit. However, there is possibility that parties avoid contractual responsibilities for their own benefit, and hence the need for mitigation strategies. Actions that can counter a party's breach of the contracts are depicted in Table 1.

Table 1: Mitigating defaulting of contracts

Price Movement	Contract	Breaching Party	Counterpart Mitigations
Rising	Salam	Risk Absorber	None needed, since price has been paid.
		Producer	Second quasi-Ju'alah takes place with Guarantor, whereby Producer can lose deposit.
	Quasi-Ju'alah	Risk Absorber	Compensation by retention of some goods according to contract.
		Producer	None needed, since Producer loses benefit.
Falling	Salam	Risk Absorber	None needed, since price has been paid.
		Producer	Cancelling contract allows Salam price recovery.
	Quasi-Ju'alah	Risk Absorber	None needed, no difference occurs.
		Producer	None needed, no difference occurs.

The first quasi-Ju'alah serves to benefit the producer when market prices rise, hence, he would not ignore it. The Risk Absorber on the other hand cannot unilaterally cancel it without proper justification. It could be stipulated in the contract that the Salam goods legally in the hands of the sales agent become a pledge: meaning that the producer could own back some of the goods with respect to spot market price values at delivery, to compensate for possible rewards denied from unlawful contract cancellation. However, this should not be referred to as a Salam sale and a pre-arranged sell-back (Bai' 'Inah) at a higher price (Usmani, 2001, p. 88).

A second quasi-Ju'alah involving the guarantor can be utilized should the producer fail to deliver when market prices rise. It protects the guarantor as will be explained in Section 5.4. Having already paid in full during contracting, the Risk Absorber has already committed payment to the Salam sale and is not considered a default risk.

5.4 Including a trusted intermediary as a performance guarantor

As mentioned in Section 5.2, the main purpose of the Salam contract that is being applied here is to get a fixed future price, and not necessarily for financing purposes. An independent intermediary and performance guarantor can handle deposits and purchase replacement of undelivered produce. With regards to the marketplace discussed in Section 5.1, the LPP would be suitable for this as they also handle other producers' sales transactions. When there is need to secure or sell commodity, the LPP has good connections to suppliers as well as buyers.

For incentive to contribute to the programme, banks would welcome the security deposits, especially when it already has a known fixed term. Likewise, as a marketplace manager, the LPP would welcome more transactions although they may be put off by the price risk exposure of guaranteeing performance. This can be mitigated by an arrangement to protect guarantors themselves from the effects of price fluctuations. The performance guarantor can be party to a separate sales agency contract with the Risk Absorber to sell the produce when needed. This contract is referred to in Table 1 as the second quasi-Ju'alah.

A producer may be tempted to look for better returns elsewhere when there is significant rise in market price, even though the Salam contract means he has already entered into a transaction. The guarantor will then have to acquire goods from the market at spot price, so he could utilize the Salam collateral to do so. A different selling target price in the quasi-Ju'alah contract with the guarantor can be used as shown in Table 2. This will effectively shield the guarantor from the effects of price increases. Where increasing market price ($S_0 + m_i$) exceeds the collaterals $S_0 + d_0$, the excess to be forked out by the guarantor to buy produce ($m_i - d_0$) can be recouped once he sells it back to the open market on behalf of the Risk Absorber.

Table 2: Guarantor ensuring performance at higher market price

Event	Risk Absorber	Producer	Guarantor	Note
Upon signing :	- S_0 (Salam price)	- d_0 (Deposit)	$S_0 + d_0$	Collateral held-in-trust by guarantor.
At delivery date :		(absconds)		
Goods substitution :			- ($S_0 + m_i$) (Market price)	Acquire goods from market.
Agency selling by guarantor :			($S_0 + m_i$) (Market price)	Selling on behalf of Risk Absorber.
Sales revenue distribution :	($S_0 + d_0$) (Sales target)		- ($S_0 + d_0$) (Transfer)	Transfer of sales revenue according to Quasi-Ju'alah 2.
Final outcome :	d_0	- d_0	0	

The Risk Absorber may set the target selling point to include the farmer's deposit (d_0) as shown in event 'Sales revenue distribution' of Table 2. This enables the Risk Absorber some justified compensation and act as a deterrence to reneging the Salam contract. The assumption made here is that goods acquired from the market can be sold back at the same price. This should be a negligible concern with marketplace managers, such as the LPP, who process transactions.

It should be noted that when the market price does not exceed total collateral, the excess ($d_0 - m_i$) will still belong to the producer – even if he never claims it. Hence, it is suggested that if market prices drop, the Risk Absorber will also withdraw from the Salam contract if the producer flees and fails to contact anyone, to save everyone's effort. Moral hazard of the producer abandoning Salam commitment can be mitigated by a high enough deposit, but it has to avoid becoming an entry barrier to hedging.

6. Discussion

There are a few items which could be studied in more detail regarding the proposed hedging technique to ensure smoother acceptance. For example, these would include the elements of contracting (its commencement, variations), the rights, responsibilities and risks of parties (Risk Absorber, sales agent, guarantor, marketplace manager), goods (ownership, physical transfer), payment methods as well as the handling of spot sales.

6.1 Sequencing of contracts

The sales agency contract should be separate from the Salam contract to avoid being deemed to lead to inconsistency of price or create conflicting rights (Rahman and Osmani, 2021, p. 11). Hence, it cannot be assumed that a party signing to one contract will automatically follow through on the other. As such, the effects of parties not signing all contracts accordingly have to be considered.

If the Risk Absorber and producer sign the Salam contract without finalizing the sales agency agreement, the producer can lose opportunity of gaining on rising market prices. Hence, how the arrangement is being executed can avoid deceit. This can be done by parties signing the sales agency contract first. Only after that do the parties initiate the Salam sale. If the sales agency needs to commence after Salam to assert independence of contracts, it is suggested here that the producer can begin straight away by advertising, right after an acceptance (Qabul) trigger which seals the Salam contract, such as the transfer of the security deposit to the guarantor. Note that getting the order of contracting wrong itself may not even be a Shari'ah non-compliance issue.

The sales agency contract can stipulate that the Risk Absorber's goods to be sold as what will be physically and legally in the agent's control at harvest time. This would mean that one agency contract can encompass several Salam contracts instead of multiple copies for different batches in one crop cycle, as long as details such as the quasi-Ju'alah remuneration is consistent. This can align to an Istijrar master contract applying the Salam sales.

6.2 Bundling hedging with financing

As the hedging scheme here uses a Salam contract, it can be directly embedded into a financing scheme. Payment for Salam price could directly go to the producer for immediate use while the sales agency contract performs as usual. In a way, it can appeal to potential Salam financing takers who are concerned on their future ability to settle their obligations. What might be debatable would be financing for the producer's refundable deposit in the hedge.

6.3 Sales agent remuneration and ownership rights and risk of goods

The producer is assured that the Risk Absorber cannot simply take advantage by cancelling the sales agency contract when market prices increase to deny rightful commission as the goods are already in the agent's hands. A Wa'd to protect the agent who wants to make the sale can be made (refer to Section 3.4). However, as the Risk Absorber has ownership of the goods, there could be allowance for him to retain it instead of forcing the spot sales to go through. This reinforces the idea of the Salam and sales agency contracts being independent, as well as the Risk Absorber being a bona fide owner.

Merely retaining goods would translate into loss of the agent's commission when market prices increase at delivery. As such, the sales agency contract could stipulate to still award remuneration for the agent as if the goods were sold at delivery. The basis of this could be as recognising the agent's imperceptible efforts, such as earlier done marketing and proper collection of goods. Hence, this justification may need more Shari'ah analysis.

Apart from this, the Risk Absorber as owner to the goods, should bear risk when the producer as the sales agent, cannot sell the goods despite his best efforts (Shah, 2022, p. 151). So, the Risk Absorber has to ascertain commodity liquidity before facilitating the hedge – which should actually be included in the fundamental objective, i.e. not just to hedge against price risk but including other market risks. This is one of the traits which sets this hedging method apart from conventional options.

Any transaction costs incurred due to the spot market sale is also rightfully borne by the Risk Absorber, although it could be simply computed into the Salam contract in advance by lowering the price correspondingly. This should be more transparent to the producer as he will know his minimum takings upfront, rather than having to calculate unseen hedging costs.

6.4 Salam performance guarantor fee
The guarantor who ensures that Salam goods are transacted can be compensated. However, the fees for him should only be for administrative costs (Malkawi, 2014, p. 51). Hence, it could be similar to how the LPP charges by weight as mentioned in Section 5.1, and not a fee based on the goods prices.

6.5 Having the marketplace manager as a risk absorber
The marketplace manager may prefer to directly play the role of the Risk Absorber as he has the data on market price movements, and hence, is able to judge price risk better than most actors. However, this would mean that his role will be less neutral as an intermediary and processes have to be put in place to mitigate bias. It should be noted that the sales agency contract can become conflicting unless goods sale are ultimately triggered by the producer as an agent. Thus, spot sales could be based on an automated trading programme to facilitate fair market price discovery, with the producer selling to the best bid he can get. Also, the marketplace manager will not be able to play the role of the performance guarantor and hence, a different agent or mechanism is needed to address the issue of Salam delivery default.

6.6 Detailing goods transfer and sales agent responsibilities in contracts
Direct hedging would involve the movement of goods ownership between parties. Hence, the question of who bears physical risks have to be discernible. For example, the Salam contract can clearly define how delivery happens for proper transfer. Without this, the Risk Absorber might end up having to deal with unwanted transportation and storage concerns. Notification processes should be available too, as the producer also plays the role of a sales agent and the transition is practically seamless.

The producer, as the agent, is liable to ensure correct goods are sold: he cannot legally pass on inferior items without having any responsibility. If the target marketplace is inaccessible for unforeseen circumstances, a secondary marketplace can be identified in the contract, or other arrangements specified. Otherwise, risk of collusion with potential buyers will become a major concern.

6.7 Delivery timing
Early delivery of produce has been agreed by scholars as acceptable, although this is not necessarily conducive in the current operations (Al Zaabi, 2010, p. 114). Past concerns could be more focused in securing material for buyers whereas now, buyers are also sensitive to logistical matters such as storage concerns (Kalimullina and Orlov, 2020, p. 10). Late delivery could be a problem, and any form of penalizing could become an issue (Al Zaabi, 2010, p. 119). As such, it would be easier to handle delays similar to a breach of contract as in Section 5.2. Agriculture harvest periods are quite accurate today, hence, a delivery window for Salam could be a few days' timeframe, allowing enough flexibility for the producer to seek the best time to sell, apart from the best time to harvest.

6.8 Cash collateral use
Where payment and deposits are used as collateral as mentioned in Section 5.4, ownership ultimately belongs to the producer. Hence, any benefit rightfully should belong to him, such as profit from being a fixed-term deposit in a bank. This avoids opportunity loss by the producer and can be viewed as an obligatory savings. The scenario where the producer defaults on delivery of goods does not allow his collateral (both deposit and its related profits) to be arbitrarily confiscated. Thus, we have the substitution and commission mechanism in Table 2 that rationalizes usage of collaterals without ignoring interests of parties. After completing obligations, where there is surplus unutilised collateral, the producer remains the correct owner to it.

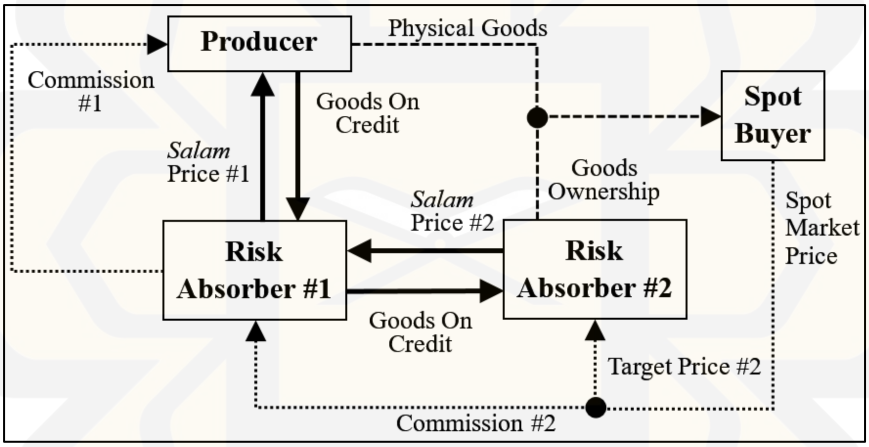
6.9 Avoiding perceived profiteering in enabling hedging
There could be concern that the Risk Absorber is perceived to be benefitting excessively from the whole arrangement. A 'willing buyer, willing seller' setting is already the trading nature of the Salam contract, but additional methods could be arranged to make it seem fairer. For example, a partnership with an investment vehicle can be made to share in financing the Salam contracts, with allocation for producers who have participated in hedging. Although this would give them opportunity to gain from the Risk Absorber's profits, it would also give them back some exposure to the price risks they had initially sought to avoid.

6.10 Parallel Salam and sales agency contracts in hedging

While the producer has initiated some control on price risks with the hedge, the Risk Absorber himself may want to take action as the market situation changes. Direct sales of the goods prior to delivery will introduce complications (Al Zaabi, 2010, p. 112), but there is no restriction which prevents an agreement for another Salam sale to be done in parallel with a new party before delivery, with the same features. This can be done with the sales agency agreement allowing the Risk Absorber to retain goods while being fair to the producer as mentioned in Section 6.3. Here, another party as a buyer, enters a parallel Salam contract and sales agency contract with the Risk Absorber as the seller and sales agent, as in Figure 3.

It could be stipulated in the original sales agency contract between the Risk Absorber and the producer that retention of goods would be allowed, as long as the producer is given opportunity to perform as a sales agent for a similar but entirely separate undertaking with the same compensation. So, at delivery, the Risk Absorber has to deliver goods to fulfil the second Salam, and will also be appointed as a sales agent. Under this second sales agency contract with the second Risk Absorber, it could be allowed that the first Risk Absorber appoint the producer as a sub-agent to collect and sell the goods in the market. With multiple overlapping agency roles of delivering, collecting and selling, the processes would need more scrutiny of Shari'ah-compliance.

Figure 3: Parallel Salam and sales agency contracts



The idea that multiple parallel contracts can be added along until delivery gives flexibility in the Risk Absorbers' handling of price risk themselves. Monetary gain is not necessarily the sole motivation for this: a selling Risk Absorber may be interested to wrap up contracts to clear up his accounts, manage his overall risk position or quickly prepare capital for other activities. The buying Risk Absorber may be entering to meet his portfolio of hedges at the delivery time.

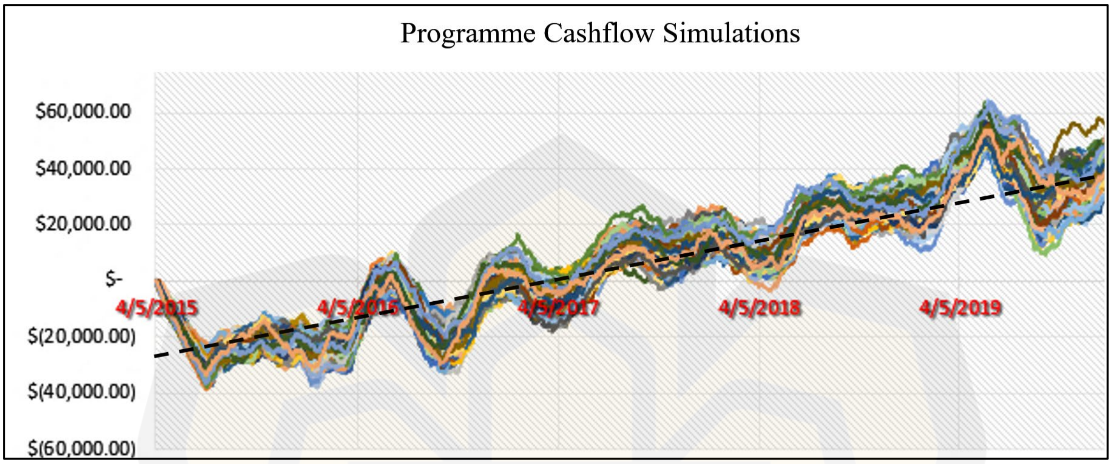
Whether subsequent parallel floor-pricing contracts could distort market prices should not be a great concern. Since only one spot sale of the goods occurs, it would follow market prices at delivery. The producer's hedge is also preserved as his commission is based on the agreement with the initial Risk Absorber.

6.11 The risk absorber's operational viability

Salam pricing, quasi-Ju'alah sales target and the producers' security deposit are parameters that can be structured to ensure the Risk Absorber's sustainability while not hindering potential hedgers. Fine-tuning this can be done by rigorous Monte Carlo simulations and backtesting to ensure the programme is robust enough as shown in a basic test example on a commodity in Figure 4. While exact future prices can only be projected, it is never an exclusively random object which only entails chance.

How operations are done could be another way Risk Absorbers facilitating hedging may be differentiated from pure speculators. Option writers may be able to offer their contract at any point in time they deem will lead to gain. In comparison, it can be stipulated that the Risk Absorber has to provide his services throughout a duration to achieve profitability defined by Equation 3, which is demonstrated by the long-term upward trend in the example. Hence, it can be required that Risk Absorbers have enough capital to offer hedging services throughout the year, quote daily floor-prices as well as their daily trade limits.

Figure 4: Example of simulations to confirm basic viability of operation parameters



6.12 Differences between the proposed hedge and put options

Creating a floor-price to aid producers sell at profitable prices need not follow conventional forms which are contended by Shari'ah scholars. The differences between the suggested floor-pricing method here and a typical conventional put option are outlined in Table 3. The first two items have been explained in Section 4.3 while the third item describes how the party enabling the hedge gets revenue. The Risk Absorber gets profit from the proposed method by sales of goods and not fees or sales of contracts. This has been described in Section 6.11.

Table 3: A brief comparison on the hedging methods

Item	Floor-Pricing by Trade Contracts	Put Options
1.	Real trade has to take place.	Pure speculation is allowed.
2.	Ownership risk is assigned by contracts.	No physical ownership concerns needed.
3.	Profit-sharing without ex ante premium.	Upfront premium charges.
4.	Full payment on contracting avoids speculation.	Margin calls are possible when leveraging on debt.
5.	Hedge cost determined by risk needs of sellers and Risk Absorber abilities.	Hedge cost determined by 'fair' probability of random price movement.
6.	Contracts bound to parties.	Tradeable contract.

Financial complications from unfulfilled obligations can be minimized as shown in the fourth item. Whereas external financing may be taken by writers of put options, the producer's risk mitigation efforts is ensured with the full payment of Salam. He should not have to bear burden from external snowballing credit defaults.

The fifth item concerns the cost of hedging to the producer: various theories of price movements, with one of the most popular being the Black-Scholes model, are used to price options. There is no explicit cost for the proposed method as it depends on profit-sharing, and so, it translates to opportunity cost of potentially getting more profit. This opportunity cost would be focused more on price trends of the commodity as well as the risk-reward tolerances of the contracting parties.

As for the sixth item, as mentioned in Section 3.4, tradability of contracts is controversial in Islamic finance. The trade contracts themselves are fixed between the parties. Hence, parallel contracting as mentioned in Section 6.10, could be an alternative when using the proposed hedging method.

7. Conclusion

This paper has demonstrated how the use of common contracts of trade can be used as a hedging tool for commodity sellers. The proposed method here aims to be more widely accepted amongst Shari'ah scholars compared with other debated solutions, whilst still being practical for execution.

Although it is based on an agricultural trade setting as a case study for execution, it can be adopted to other sectors. Industries which are expected to benefit directly from the proposed method here are those that have a long lead time. This could range from industries in heavy construction, electronics, pharmaceuticals or shipping where manufacturing, design, testing or transportation processes can be significantly long.

The challenges and proposed mitigation techniques have been deliberated in detail to suggest some suitable paths for application. However, discussion on a structured implementation such as its use on an exchange, as well as its governance, is excluded as it is beyond the scope of this paper. It is hoped that the various concepts used and applied here will spur other Shari'ah-compatible solutions to be developed to meet actual market needs. It is also hoped that as a risk-management tool, the method will allow more adoption of Islamic Financial trades.

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Developing Sukuk Parameters from Maqasid Al-Shari'ah of Wealth: Contextualising from The Perspective of Selected Contemporary Islamic Scholars

Melzatia Shinta[a], R. B. Radin Firdaus[b]*, Sorna Umme Saima[b], Andrew Ebekozien[c]

[a] *Fakultas Ekonomi dan Bisnis, Universitas Mercu Buana, Jakarta, Indonesia*
[b] *School of Social Sciences, Universiti Sains Malaysia, Pulau Pinang, Malaysia*
[c] *Department of Quantity Surveying, Auchi Polytechnic, Auchi, Nigeria*

**Corresponding author:* radin@usm.my

Abstract

Sukuk is an emerging instrument that matches savers and investors in the capital market. Over the years, Sukuk operations in the capital market worldwide have been subject to criticism because of their impotence to fully adopt Shari'ah principles. Establishing a Sukuk parameter could be the key to aligning Sukuk with Shari'ah principles, where the Maqasid al-Shari'ah of wealth could serve as a basis for developing the parameter. As such, this study identifies the wealth perspectives of Maqasid al-Shari'ah and contextualises the dimension of wealth according to Maqasid al-Shari'ah based on the perspective of renowned contemporary Islamic scholars. Using Maqasid al-Shari'ah of wealth as an underpinning framework, this study proposes a baseline for the Sukuk parameter. The finding suggests that the Sukuk parameters must be formulated based on the Maqasid al-Shari'ah of wealth (adequate level as an ideal level in wealth ownership). Apart from Maqasid al-Shari'ah of wealth ownership, the parameter encompasses Maqasid al-Shari'ah of wealth acquisition and Maqasid al-Shari'ah of wealth circulation/development. As part of the implications, the proposed parameters would provide a baseline for establishing the Sukuk parameter. This study implies that contextualising Sukuk and its issuance using the Maqasid al-Shari'ah approach would enable Sukuk to achieve its ultimate objective of promoting Maslahah (well-being).

Keywords: *Maqasid al-Shari'ah, Sukuk, Parameters, Wealth, Well-being*

1. Introduction

The financial industry supports the growth and development of the real industry. The functions of the financial industry include providing payment services, matching savers and investors, generating and distributing information, efficiently allocating credit, pricing, pooling, trading risks, and increasing asset liquidity (Todaro and Smith, 2020). These functions are essential at the micro and macro levels and can be performed using various financial instruments, such as mutual funds, leasing, factoring, and Sukuk. Sukuk is one of the emerging instruments in the financial industry and matches investors and savers in the capital market. However, Sukuk operations on the capital market worldwide are subject to criticism due to their failure to fully adopt Shari'ah principles (Abdelrahman, 2019; Mohamed Naim et al., 2013). Several studies recommended that Maqasid al-Shari'ah (the objectives of Shari'ah) can be used as a basis for the adoption and application of the Shari'ah principles comprehensively (Ahmad and Hanapi, 2018; Rosly, 2010; Siddiqi et al., 2019). Sukuk is one of the innovations in Islamic financial products. Islamic scholars suggest that combining Shari'ah principles with Maqasid al-Shari'ah could be part of the innovation process. This is because Shari'ah principles have always been embedded with a dual role, i.e., social control and social engineering (Mufid, 2014).

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From 2001 to 2022, Malaysia was the largest Sukuk issuing country, with a total disbursement of USD 877.4 billion and contributing 54.46% of the world Sukuk issuance, followed by Saudi Arabia (13.45%) and Indonesia (9.2%) (IIFM, 2022). Despite the increase in the number of Sukuk issued, several countries, particularly Indonesia, are currently facing several issues that would limit the role of Sukuk in achieving its full potential.

Sukuk in Indonesia, for instance, offer a fixed price equivalent to the nominal value for the Sukuk repurchase. This practice contradicts Shari'ah principles, which permit asset repurchase based on net asset value, market value, fair value, or the price agreed upon at the time of the actual purchase (CIMB Niaga, 2018). Sukuk represents proof of ownership of an asset or part of asset, along with the associated benefits. Shari'ah principles forbid the sale and lease back of an asset at a future date at a predetermined price, as it is deemed unjust and involves an element of unjustly consuming someone else's property (one party may suffer harm because the price does not align with the asset's condition at the time of the future sale).

Sukuk coupons in Indonesia are based on a conventional banking rate or a financial instrument rate for its benchmarking and have a financial default risk such as bonds (Endri, 2009; Mahomed et al., 2018). As a result, the Sukuk structure has been subject to heavy criticism from many scholars. This practice is against Islamic principles, where the underlying assets of Sukuk should be equivalent to legal ownership and shareholders, by which assets can be redeemed by investors should Sukuk issuers file for bankruptcy (Mohamed Naim et al., 2013). However, Sukuk issuances are still governed by dual law, common law, and Shari'ah principles (Hidayat, 2013).

This study opines that obedience to Shari'ah alone is not enough; still, it is necessary to harmonise the Shari'ah principles with Maqasid al-Shari'ah. The issuance of Sukuk is currently undertaken to meet the funding needs of companies, with an expectation of attracting investors interested in Shari'ah-based investment instruments. Nevertheless, there is still a misuse of Sukuk funds by issuing companies, where they are not optimised for the benefit of the wider community but, for instance, solely for refinancing maturing debts. These problems are the most critical current and future challenges facing Sukuk issuers and holders, especially in promoting Maqasid al-Shari'ah (Dusuki, 2010). Therefore, revisiting Islamic financial practices to uphold Islam and Maqasid al-Shari'ah is crucial in the case of Sukuk, where its development is vital for economic and social development (Yazid et al., 2015).

Therefore, the study aims to develop the Maqasid al-Shari'ah parameters for the Sukuk structure. The new parameters are required to allow Sukuk to fulfil its potential as an Islamic financial instrument, an investment and funding tool under Shari'ah, and, most importantly, to improve social well-being. There are a limited number of studies that focus on the Sukuk structure and contextualise it using the Maqasid al-Shari'ah approach. There is still no Maqasid al-Shari'ah-based parameter available for Sukuk that could be used as an underlying guidance for a practical application. Therefore, this study also attempts to develop a new parameter that would allow Sukuk to be used as an Islamic financial instrument to promote and improve social well-being and development.

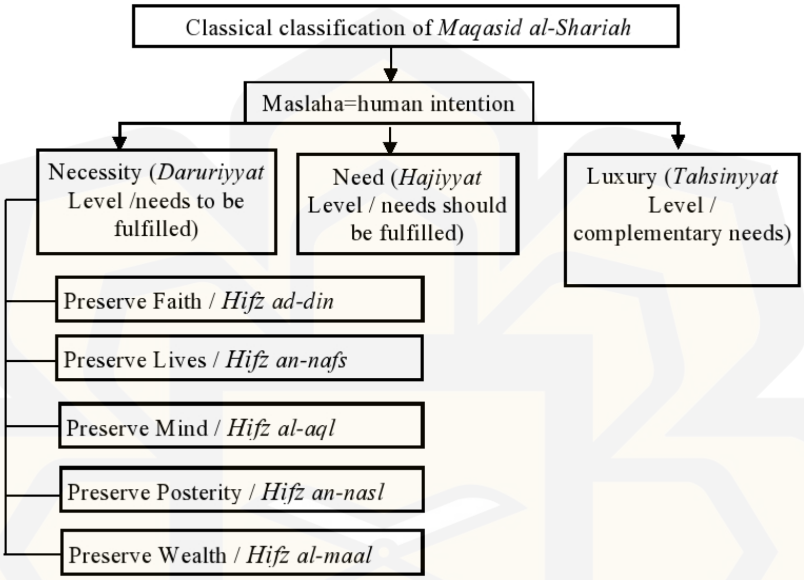
2. Overview of the Development of Maqasid al-Shari'ah

Sahroni and Karim (2017) organised the development phases of Maqasid al-Shari'ah's thoughts into two periods, the first period was when the Islamic scholars (Ulama) employed Maqasid in all types of law, and the second period was when scholars detailed the theory of Maqasid. Nizar divides Maqasid al-Shari'ah into three periods: the implicit, explicit, and contemporary periods (Nizar, 2016). Auda classified the theory of Maqasid al-Shari'ah based on the classical Maqasid al-Shari'ah and the contemporary Maqasid al-Shari'ah (Auda, 2008). In general, the discussion of Maqasid al-Shari'ah in the literature is mainly related to Ijtihad (methods) in Ushul Fiqh (the foundation of Islamic law or Shari'ah law).

Figure 1 shows the classical classification of Maqasid al-Shari'ah, in which higher levels of human well-being could be achieved when certain social and economic conditions are reached. The goal of the Islamic economic system not only focuses on materials but also emphasises human happiness (Falah) and good life (Hayatan Thayyibah), in which the aspects of brotherhood (Ukhuwah), socioeconomic justice, and the fulfilment of the spiritual needs of humankind play a central role.

Islam's commitment to brotherhood and justice has been the main thrust that formulates the concept of welfare for all human beings. As such, Islam does not allow resources to be used for activities that are morally prohibited and harmful to other creatures; therefore, welfare is another important goal of Islamic development approaches that matters for any social and economic activities; other important objectives in Islamic economics and development (Beik and Arsyianti, 2015) are divinity, ethics, the humanities, and middle attitudes; the preservation of wealth is one of the principal objectives of Shari'ah. Sahroni and Karim (2017) have detailed the application of general Maqasid (Maqasid 'Ammah) for business transactions, which also appears to be indispensable in the context of wealth preservation; according to them, the general purpose of a Shari'ah principle in any business activity is to perform Muamalah transactions following Shari'ah principles.

Figure 1: Classical classification of Maqasid al-Shari'ah



Sources: (Auda, 2015; Sahroni and Karim, 2017)

3. Research Methodology

We adopted a qualitative document analysis method to systematically review written documents to extract meaningful findings (Creswell and Creswell, 2022). This methodology works well for analysing written materials, such as texts, books, and other sources that offer significant theoretical knowledge. Therefore, in this method, we analysed documents to obtain themes/parameters within the scope of Maqasid al-Shari'ah of wealth from the perspectives of Islamic scholars, namely, Ashur (2006)[1], Qaradawi (2010)[2], and Auda (2008)[3]. The methodology of this study was structured according to the following steps.

Selection of Reading Material: Three important books were selected and analysed in this study. The books that mainly focus on Maqasid al-Shari'ah of wealth are Treatise on Maqasid al-Shari'ah by Ashur (2006); Maqasid Asy-Syariah Al-Muta'alliqah Bi Al-Maal by Qaradawi (2010); and Maqasid al-Shari'ah as Philosophy of Islamic Law A Systems Approach by Auda (2008). The selection of these books was based on their established reputation, academic rigour, and focus on the Maqasid al-Shari'ah of wealth. These materials were analysed using the content analysis technique to identify critical elements in the development of Maqasid al-Shari'ah parameters for the structure of Sukuk.

Data Collection: We conducted a meticulous examination of each book to establish a comprehensive understanding of the views of scholars on the Maqasid al-Shari'ah of wealth. We identified and extracted book

[1] Muhammad Al Tahir Ibn Ashur wrote a book titled 'Treatise on Maqasid Al-Shari'ah', recognising the independence of Maqasid al-Shari'ah as a separate discipline from Ushul Fiqh framework.
[2] Yusuf Qaradawi provides a comprehensive and contemporary perspective on the Maqasid al-Shari'ah of wealth, and his theory takes into account the modern environment.
[3] In his book 'Maqasid Al-Shari'ah as Philosophy of Islamic Law', Auda formulates a modern Fiqh concept based on Maqasid al-Shari'ah. In this concept, Maqasid al-Shari'ah serves as a principle that offers answers to questions about Islamic law, encompassing the wisdom behind various rulings.

sections that were relevant to the Maqasid al-Shari'ah principles related to wealth. We analysed the contents of each book with a specific focus on the authors' viewpoints, arguments, and theories relating to Maqasid al-Shari'ah parameters for the structure of Sukuk.

Categorisation: We conducted a comprehensive document analysis of the three important books to categorise wealth and the development of the Maqasid al-Shari'ah parameters. The key concepts and arguments from the books have been carefully collected and categorised based on their relevance to developing a new parameter. This process has been useful for effectively organising data and identifying key themes and findings. We analysed the three chosen literature to develop a framework for the Maqasid al-Shari'ah of wealth, dividing it into three themes: preserving wealth (Hifz al-Maal), socioeconomic status in wealth ownership, and wealth dimensions.

Data Analysis, Synthesis and Interpretation: The analysis was geared towards the importance of contextualising and analysing Sukuk, through the perspective of Maqasid al-Shari'ah in order to promote social well-being and sustainable development. The analysis of wealth perspectives and the development of Maqasid al-Shari'ah wealth parameters were deduced from three important sources of Maqasid al-Shari'ah. The thoughts, concepts, and framework of these books were used to guide the analysis and narrative discussion, as well as to identify the perspectives of wealth from Maqasid al-Shari'ah; contextualise the dimension of wealth according to Maqasid al-Shari'ah and; propose a baseline for the Sukuk parameter using Maqasid al-Shari'ah of wealth as an underpinning framework. We analysed their perspectives, identifying both similarities and differences and subsequently established appropriate parameters based on their findings. The synthesised texts underscored the importance of Maqasid al-Shari'ah in directing the perspectives, dimensions, and parameters of wealth. In addition, our findings contribute to a better understanding of Maqasid al-Shari'ah as a framework for shaping Islamic financial systems, particularly wealth and its use.

4. Results and Discussion

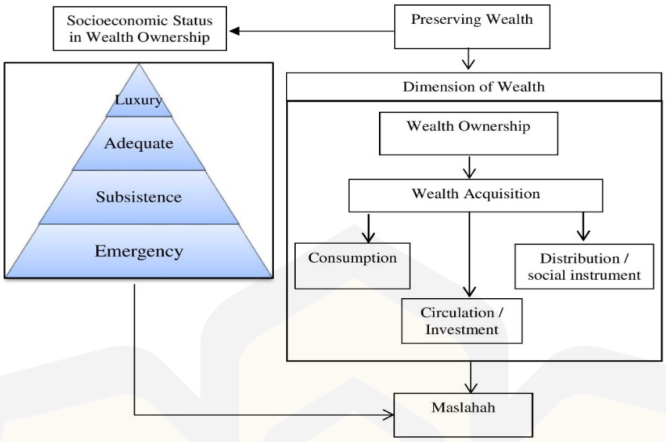
As mentioned in the preceding chapter, the discussion in this section is based on three Maqasid al-Shari'ah books written by Ashur (2006), Treatise on Maqasid Al-Shari'ah; Qaradawi (2010), Maqasid Asy-Syariah Al-Muta'alliqah Bi Al-Maal; and Auda (2008), Maqasid al-Shari'ah as Philosophy of Islamic Law. The three scholars do not differentiate between the five elements of Maqasid al-Shari'ah by assigning specific rankings; instead, they explore how the concept of Maqasid al-Shari'ah can yield benefits during the implementation stage.

4.1. Maqasid al-Shari'ah of wealth: Setting up the perspectives

A feasible way to identify Maqasid al-Shari'ah of wealth and its perspectives is to understand and describe it from a multidimensional perspective. These perspectives include the level of necessity, the scope of rules, the scope of people, and the degree of universality. Auda recommends these perspectives for the general Maqasid al-Shari'ah, and this study used these perspectives to understand the Maqasid al-Shari'ah of wealth and determine its parameters. Auda's perspective has allowed this study to deconstruct and revisit classical views and thus understand the position and purpose of wealth (wealth ownership).

Auda provides ways to understand Maqasid al-Shari'ah in general, and Ashur and Qaradawi, on the other hand, provide underlying principles for wealth. Based on the wealth principles described by Ashur and Qaradawi, this study categorises perspectives of Maqasid al-Shari'ah utilises Auda's framework, into three: i) Preservation of wealth (Hifz al-Maal); ii) Socioeconomic status in wealth ownership, and; iii) Wealth dimensions. The classification of Maqasid al-Shari'ah of wealth is summarised in Figure 2.

Figure 2: The relationship between socioeconomic status and Maqasid al Shari'ah of wealth in achieving Maslahah



Adopted from (Ashur, 2006; Auda, 2008; Qaradawi, 2010)

4.1.1. Preservation of wealth

As depicted in Figure 2, this study found that the preservation of wealth (Hifz al-Maal) is an underlying principle of Maqasid al-Shari'ah of wealth and the closest and most relevant principle of Maqasid al-Shari'ah for Sukuk. This is because wealth and economy cannot be separated from faith and divinity.[4] Allah ((SWT) reminds humanity of His flawless strength and authority to motivate them to obey and follow His Shari'ah law, as well as the assurance that whatever Allah wills, Allah will. Thus, the emergence of welfare because of the existence of wealth cannot be separated from the provision of Allah (SWT). Referring to these verses, the existence and preservation of wealth are intended not only for worldly matters, but also hereafter. As such, activities related to wealth creation, such as production, consumption, circulation, and distribution, involve faith and morals.

Therefore, the parameters of Maqasid al-Shari'ah Sukuk must be established based on the scope of wealth preservation. Furthermore, the al-Quran defines wealth as a breadth of sustenance and sufficiency over deficiency, which Allah (SWT) gives for his servants to be grateful Allah is the All-Powerful God, the Greatest, who possesses power, created the heavens and the earth, and sustains and favours His creatures. According to Ashur (2006) and Qaradawi (2010), a human must consider that wealth and fortune belong to Allah, which Allah entrusts to humans to manage. The purpose of wealth is to prosper humans and the environment in which they live. In the Islamic view, wealth also reflects an important status or characteristic, namely psychological virtue, and moral excellence. Referring to this argument, this study confirms that preserving wealth is an important means of achieving Maqasid al-Shari'ah either individually, among society or with the state.

4.1.2 Socioeconomic status in wealth ownership

Using wealth according to the purpose could facilitate the achievement of Maqasid al-Shari'ah. When Maqasid al-Shari'ah has been achieved, the Maslahah will be realised in the form of, the welfare of individuals, society, and the state. Furthermore, Maslahah can be achieved with individual hard work and effort. Ashur (2006) and Qaradawi (2010) emphasise that the wealth needed by humans has been provided by Allah (SWT) clearly in nature. In Sunatullah[5], humans are expected to work for prosperity. Humans must work either because they are forced or because they want to fulfil their needs. Even the ruler (Wali al-Amr) should force those who are not working (unemployed) to work to support their family[6]. Therefore, humans can obtain wealth by working,

[4] Surah At-Talaq 65:12; Surah Az-Zariyat 51: 56-58.
[5] Allah's way or decree.
[6] The fulfilment of basic needs and the endeavour to enhance the well-being of human life is an individual's responsibility, as outlined in Surah Al Mulk verse 15 and Al Jumuah verse 10, where Allah SWT emphasises the obligation to work. If an individual, who is obligated to work, actively seeks employment but is unable to secure a job despite being capable, it becomes the responsibility of the state to facilitate employment or provide various resources to enable the individual to earn a living. This underscores the role of the state in ensuring the well-being of its citizens.

either for themselves or for others. For instance, farmers cultivate the land to produce food. Food requires arable land with fertile soil and water resources which are wealth provided by Allah (SWT) in nature. A Quranic saying, in this regard, in Surah Yasin:

> *"A token unto them is the dead earth. We revive it, and We bring forth from it grain so that they eat thereof, And We have placed therein gardens of the date palm and grapes, and We have caused springs of water to gush forth therein, that they may eat of the fruit thereof, and their hands made it not. Will they not, then, give thanks?"*[7]

4.1.3 Wealth dimensions

A relationship was formed between socioeconomic status and Maqasid al-Shari'ah that preserves wealth (Hifz al-Maal) to promote Maslahah based on the views of Ashur (2006) and Qaradawi (2010), as depicted in Figure 2. Wealth can be classified into five dimensions: the dimension of wealth ownership (value, status, and faith in wealth), the dimension of wealth acquisition, the dimension of wealth consumption/expenditure, the dimension of wealth circulation/development, and the dimension of wealth distribution. Ownership of wealth through acquisition, circulation/development, and distribution, as well as how wealth is consumed, would allow humans of all socioeconomic statuses to achieve Maslahah (welfare). However, to achieve Maslahah, wealth utilisation must follow the Maqasid al-Shari'ah principles.

Wealth can be owned and used by humans of all socioeconomic status. However, based on economic capacity and capability, usually wealthy people (either at the luxury or adequate level), can distribute wealth or develop wealth through investment/circulation. Wealth distribution is a social scheme in which assets are distributed through Zakat and alms (Sadaqah) or grants (Hibah). Meanwhile, wealth development is an investment scheme in which wealth is invested in productive businesses for wealth accumulation. Wealth circulation allows wealth to be distributed from those at the luxury and adequate levels to those at the emergency and subsistence levels. The adequate level is the ideal level recommended by Islam for humans, which also explains the ideal concepts and approach of the Maqasid al-Shari'ah of wealth. Ashur (2006) asserts that the adequate level is the most important principle in wealth ownership, namely exclusive ownership. This is because civilised human beings will tend to fulfil basic needs to survive and thrive. Adapted from Qaradawi's (2010) thinking, the following are the criteria for the adequate level as presented in Table 1. Sukuk has a role to play, covering individuals, communities, and the state level. According to Auda, such a broader coverage would be made possible by adopting Maqasid al-Shari'ah.

Table 1: The role of sukuk in fulfilling criteria of the adequate level

Criteria	Role of Sukuk
1. Nutritious food	Humans require sufficient nutritious food so that the body remains strong in fulfilling obligations to Allah (SWT), carrying out the Sunnah of Prophet Muhammad (PBUH), and obligations to himself, his family and society. Developing food industries can be funded by Sukuk, for example, by promoting the expansion and revitalisation of rice fields (Ministry of Finance, 2021).
2. Clean water	Humans must have clean water to drink and cook, keep their bodies clean according to Islamic customs, and purify to eliminate large and small Hadats[8]. Sukuk can also finance the provision of clean water at an affordable price and improve the service of raw water for domestic consumption, and social and economic productivity (Mat Rahim and Mohamad, 2018).
3. Moderate clothing that covers the Aurah	Humans must be provided with modest clothing to protect themselves from heat and cold, as well as to represent a good representation of Islamic teachings. Through Sukuk, the fund is expected to be used to support clothing industries such as the yarn industry, the spinning industry, the garment industry and other related industries. To date, this study has only found bonds that finance the textile and garment industry,

[7] Surah Yasin 36: 33-35.

[8] Conditions that are deemed unholy and impede a person's ability to engage in legitimate worship.

	and Sot sukuk.
4. A decent place to stay	Humans need a decent place to stay for several reasons, among others, to prevent natural hazards such as rain, sun, storms, and others; to be independent and have a right to privacy so that Aurah[9] can be protected; 3) to have a sufficient area; 4) to enjoy a calm/serene, comfortable, and pleasant environment. The Sukuk funds will help housing developers build adequate places to live according to Maqasid al-Shari'ah, which can be accessed by all levels of society (Ministry of Finance, 2021).
5. Access to education	The provision of education is an obligation in Islam. Studying Islam, for instance, can improve and align one's faith and behaviour according to Shari'ah. According to Prophet Muhammad (PBUH) "*When a person dies, his deeds end except for three: recurring charity, beneficial knowledge, or a righteous child who prays for him*" (Sahih Muslim 1631). Through Sukuk, funds can be made available to develop educational facilities and infrastructure for society at large; for example, Sukuk in Nigeria was used for school facilities (Oladunjoye, 2014).
6. Access to health services	The search for a cure for a disease is mandatory in Islam. According to Ashur (2006), health care is the obligation of the authorities and those responsible for the interests of their people to pay special attention to public health. Sukuk can provide funds that can be used to develop health facilities and infrastructure, as well as industries related to healthcare (Badeeu et al., 2019).

4.2. Dimensions of wealth according to Maqasid al-Shari'ah

According to Shari'ah, every person has the right to maintain and grow wealth. As wealth accumulates and expands, it should be protected by rules that are formed to protect the wealth of individuals, societies, and states. Wealth owned by individuals must not only benefit its owner but also be shared with others, particularly the needy. This is because the benefits of wealth are not only limited to direct beneficiaries, as asserted by Maqasid al-Shari'ah of wealth. Ashur (2006) and Qaradawi (2010) opine that the five dimensions of wealth have their own Maqasid al-Shari'ah. This includes the following:

4.2.1. Wealth ownership

Qaradawi (2010) concludes that the purpose of wealth ownership as recommended in Islam is to achieve welfare. According to Maqasid al-Shari'ah, the purpose of wealth ownership can be classified into five (see Table 2). First, strengthen the faith of a Muslim. Beginning with the belief in the existence of Allah (SWT), who created and governs the universe and all its contents, humans should also believe that Allah (SWT) ensures the availability of things necessary for human survival in the world, including wealth. According to Islam, Allah (SWT) owns all wealth. Then Allah (SWT) establishes mankind as rulers over this wealth, empowering them to profit from them, administer, and grow them. Humans as economic agents are confined to 'Mustakhlif' (trustees), holders of God's trust because the treasure was previously not their own and suddenly became so. Because Allah (SWT) bestows authority and power, it becomes important for humans to manage and exercise them in line with Allah's precepts, as an act of submission to Allah (SWT).[10]

Second, it strengthens human life. Wealth is a trust as Allah (SWT) said in the al-Quran. Allah (SWT) establishes wealth for humans as the primary source of livelihood to ensure human needs and for the benefit of religions. The importance of wealth in human life is such that Allah (SWT) forbids Muslims from allowing those who are not mentally perfect to control and use assets. In Islam, people whose minds are not perfect (weak) are subject to Hajr (restrictions on the use of wealth). These restrictions are also imposed on small children who are unable to manage assets prudently, on people who have lost their minds, and on people who are Muflis (bankrupt).

Assets may also not be immediately transferred to those impacted by these limits, to prevent them from wasting assets, but rather their guardians arrange for their distribution according to their needs. If the guardian believes that they are eligible to preserve wealth, then the property may be transferred to them. Failure to manage and utilise assets effectively can result in running out of assets, depriving the owner of life and making

[9] The private parts of the body, for both men and women, must be covered with clothing according to Shari'ah provision.
[10] Surah Al-Hadid 57:7; Surah Al-Anfal 8:28; Surah At-Talaq 65:12; Surah At-Taubah 9:103; Surah Al Imran 3:186.

him a burden on the surrounding community. There are many prophets to whom Allah (SWT) gave wealth and power. Prophet Yusuf AS was given by Allah the land of Egypt and the power to occupy it according to his wishes. The al-Quran states that wealth is neither destruction nor something bad for humans, since religious and philosophical scholars guard their honour against bad things. Allah (SWT) glorifies wealth as He said: *"And spend in the cause of God, and do not throw yourself with your own hands into ruin and be charitable. God loves the charitable"*.[11]

Using wealth, society, and even a nation or state, can develop a sophisticated civilisation. With the assistance of enormous wealth, citizen education can be ensured, research can be conducted, and numerous physical facilities and infrastructure, including weaponry and national defence, can be developed. However, because wealth is negligent in nature, humans can become preoccupied with wealth and family matters alone, content with accumulating wealth and luxury, stingy, fearful of poverty, and afraid to spend their wealth in the way of Allah, leading them to abandon fighting in the way of Allah (SWT) and becoming weak. Storing and hoarding wealth results in the loss of wealth's benefits, denying the owner of the wealth both profit in this world and recompense in the afterlife. Table 2 summarises the parameters of each Maqasid al-Shari'ah of wealth of all dimensions except wealth distribution, with 20 parameters of Maqasid al-Shari'ah of wealth identified.

4.2.2. Wealth acquisition

Wealth can be obtained through several ways, either from working and earning wages, from one's wealth that is developed/circulated through business or investment, as well as from other people's wealth which is distributed to someone in the form of Zakat/alms, grants, or inheritances. Shari'ah's provisions regarding wealth acquisition are that humans acquire wealth in a decent way and the realisation of Maslahah (welfare). Referring to the views of Qaradawi (2010) and Ashur (2006), it can be outlined that Maqasid al-Shari'ah from the acquisition of wealth consists of four purposes (see Table 2 for the summary).

Humans work and walk on the back of the Earth to acquire wealth, not to laze around and to eat from good sustenance. As a favour for His creatures (especially humans), Allah (SWT) created the planet so that humanity could live on and explore its plains, mountains, and seas. Allah (SWT) designed it so that it would stand firm. Allah (SWT) commands His servants to walk or travel all over the world, even in remote areas, to do various jobs and various trades. Humans are encouraged to rule the earth, unveil its secrets, and consume the sustenance provided by Allah (SWT) in the form of plants, animals, water, and various other earthly treasures, specifically from what Allah (SWT) has declared permissible for humans.

4.2.3. Wealth expenditure/consumption

Consumption of wealth in Islam is an obligatory means for Muslims to help them worship Allah (SWT) and fulfil the purpose of their creation. As Allah (SWT) said in the Quran, *"I did not create the jinn and the humans except to worship Me"*.[12] From the discussion in the previous section (Dimension of Wealth Acquisition), it can be emphasised that the Maqasid al-Shari'ah of wealth consumption consists of two purposes. First, humans fulfil their main obligation by worshipping Allah (SWT). Allah (SWT) created humans from nothing, and fulfils their needs with good and abundant sustenance, so that this earth becomes a comfortable place for humans, and the sky for the earth is like a roof for a house. Humans are urged to accept the fact that Allah (SWT) has provided abundant resources on earth for this.

4.2.4. Wealth circulation/development

Wealth may be owned and kept but must adhere to Shari'ah provisions so that ownership of wealth does not fall into things that are prohibited. Ashur is of the view that what strengthens Maqasid al-Shari'ah of wealth circulation/development is upholding justice in the circulation of wealth into the hands of as many people as possible. Maqasid al-Shari'ah of wealth circulation/development is very important in financial activities, so it must be supported by a strong administration, recording, and reporting system for the transfer of wealth from one person to another. From the thoughts of Qaradawi, it can be emphasised that Maqasid al-Shari'ah from the circulation/development of wealth consists of four purposes (see Table 2).

[11] Surah Al-Baqarah 2:195.
[12] Surah Adh Dhariyat 51: 56

We must maintain a fair distribution of wealth in the hands of as many people as possible. The distribution of wealth is regulated in Islamic law by the word of Allah (SWT), which means: *"Whatever God restored to His Messenger from the inhabitants of the villages belongs to God and the Messenger, and the relatives, and the orphans, and to the poor and the wayfarer; so that it may not circulate solely between the wealthy among you. Whatever the Messenger gives you, accept it; and whatever he forbids you, abstain from it. And fear God. God is severe in punishment".*[13]

Referring to the above verse, wealth must be circulated and distributed so that wealth is not circulated only to the rich. Wealth is not to be hoarded and then harvested, but wealth must move from one hand to another. Wealth must be managed so that economic equality is achieved in all groups of society. Wealth circulation can be done in several ways, such as trading, giving wages, or renting out idle assets to be productive. Hoarding wealth to acquire a high price when there is scarcity is not following Maqasid al-Shari'ah of wealth circulation because it results in unfair behaviour and harm others.

4.2.5. Wealth distribution

Wealth distribution is the flow of wealth from its owner to others through social activities (Haq, 2013). Islam regulates the distribution of assets which are obligatory in the form of Zakat and inheritance law, while what is encouraged (Sunnah) is almsgiving. Another form of wealth distribution is a gift that is given based on affection. If it is tied to the economic pyramid of humans, not all levels have sufficient assets to invest in Sukuk. However, the advantages of issuing Sukuk are available to all levels. The existence of these distinct economic capacities produces variations in the fulfilment of the demands of Maqasid al-Shari'ah Daruriyat (necessity), Hajiyat (need) and Tahsiniyat (luxury). Distribution can be categorised as a social instrument within the pyramid.

4.3. Maqasid al-Shari'ah of wealth: a baseline for the sukuk parameter

As discussed in the first discussion section, the purpose of wealth is to prosper humans and the environment in which they live. Wealth can be owned and utilised by humans of all socioeconomic statuses. Among the four socioeconomic statuses based on wealth ownership, namely emergency, subsistence, adequate, and luxury (see Figure 2), the adequate level, representing sufficient possessions to live properly but not excessively, is believed to be the ideal and recommended by Islam. Nevertheless, based on economic capacity and competence, wealthy people (either at the luxury or adequate level) are typically able to distribute or develop wealth through investment/circulation, where wealth is invested in productive businesses. This is necessary to ensure that wealth would benefit not only the owners and their families but also those at the subsistence and emergency levels through the circulation governed by the Maqasid al-Shari'ah approach.

In the context of Sukuk, the ideal environment for Maslahah will be adequate, since Sukuk facilitates the circulation of wealth among all socioeconomic statuses. The funds obtained from the Sukuk issuance can be used to support needs at an adequate level. These needs include food industries that produce healthy food, clean water supply, modest clothing industries, housing and construction industries, educational infrastructure and facilities, and medical infrastructure and facilities.

As discussed in the second discussion section, the Maqasid al-Shari'ah of wealth consists of five dimensions. However, in the case of Sukuk, only three dimensions of Maqasid al-Shari'ah are applicable, i.e., ownership; acquisition, and circulation/development. The distribution of wealth refers to the transfer of wealth from its possessor to others via social engagements (Haq, 2013). Wealth distribution is excluded in this study, because Sukuk is a commercial investment instrument, not an instrument for wealth distribution for social aspects. Wealth acquisition is excluded because it is part of wealth circulation/development.

4.3.1. Maqasid al-Shari'ah of wealth ownership

The main purpose of wealth ownership, as recommended in Islam, is to achieve human welfare (Maqasid al-Shari'ah of wealth ownership) by strengthening the faith of a Muslim; strengthening human life; creating a sense of security from threats and hazards; freeing humans from slavery; and, achieve economic independence/self-sufficiency to avoid dependency on other nations. When Maqasid al-Shari'ah of wealth ownership can be fulfilled, human welfare (Maslahah) can be achieved. In short, the fulfilment of Maqasid al-

[13] Surah Al-Hasyr 59:7

Shari'ah' wealth ownership can be assessed based on the following parameters: (1) wealth owned (Tamalluk); (2) wealth earned (Takasub), and; (3) the existence of economic independence of a nation.

4.3.2. Maqasid al-Shari'ah of wealth acquisition

Wealth can be obtained in several ways, either through working and earning wages, from the wealth that is developed/circulated through business or investment, as well as the wealth of other people that is distributed to someone in the form of Zakat/alms, grants, or inheritances. Therefore, the purpose of wealth acquisition (Maqasid al-Shari'ah of wealth acquisition) is that humans decently acquire wealth, and that wealth can make them prosperous (Maslahah) by encouraging humans to work to acquire wealth, not lazing around, and eat from good sustenance; prosper on the earth and run the government; fulfil needs in a Shari'ah-compliant manner; and appreciate jobs. Also, when the Maqasid al-Shari'ah of wealth acquisition can be fulfilled, human welfare (Maslahah) can be achieved. The fulfilment of Maqasid al-Shari'ah of wealth acquisition can be assessed according to the following parameters/characteristics such as legally obtaining wealth according to the Shari'ah, which does not contain the elements of sin and doubt; do not commit bribery or corruption; the existence of a work process; and wealth is acquired from agriculture, industry, and trading activities.

4.3.3. Maqasid al-Shari'ah of wealth circulation/development

The purpose of wealth circulation/development, as desired in Islam, is to optimise human welfare (Maqasid al-Shari'ah of wealth circulation/development). This can be achieved by maintaining a fair distribution of wealth in the hands of as many people as possible; empowering unemployed human resources; upholding justice so that the strong do not oppress the weak, the rich do not oppress the poor; maintaining brotherhood (Ukhuwwah) and preventing fraud in a transaction; appreciating the blessings that Allah (SWT) gives. If the Maqasid al-Shari'ah of wealth circulation/development can be fulfilled, human welfare (Maslahah) can be achieved and the fulfilment of the Maqasid al-Shari'ah of wealth circulation/development can be assessed according to the following parameters (refer to Table 2).

Table 2. Parameters for Maqasid al-Shari'ah of wealth circulation/development

	Parameter for Maqasid al-Shari'ah of wealth circulation/development
1.	A clear measurement of wealth (Miqdar), where wealth is measurable to determine its quantity and quality.
2.	A reasonable retention period of wealth is not intended for hoarding (Iddikhar). Wealth can be stored (Iddikhar), but the storage period must be reasonable and not intended to hoard wealth so that the wealth increases by itself without circulation.
3.	Wealth is in circulation (Tadawul). Circulation can be in the form of wealth transfer by one person to another through trade, leasing, or cooperation in producing wealth by increasing money-based transactions as a way to encourage circulation (commodities and assets)
4.	Clear contracts (Aqad) in transactions.
5.	Systematic and detailed documentation of wealth.
6.	Transactions that are carried out carefully by the transacting parties.
7.	Transactions are transparent.
8.	Compensation for any damages in wealth and.
9.	The environment and its components are preserved.

Table 3 summarises the findings of the Maqasid al-Shari'ah parameters that can be used as a basis for developing the parameter for the Sukuk issuance. Overall, 18 parameters are developed based on three dimensions of wealth.

Table 3: Maqasid al-Shari'ah parameter of wealth for Sukuk

Dimension of Wealth	Maqasid al-Shari'ah of Wealth	Baseline for Sukuk Parameter based on Maqasid al-Shari'ah of Wealth
Wealth Ownership	1. Strengthening the faith of a Muslim. 2. Strengthening human life. 3. Creating a sense of security from threats and dangers.	1. Owned (Tamalluk) 2. Earned (Takasub)
	4. Freeing humans from slavery. 5. Achieving independence/self-sufficiency and true leadership of a nation to avoid dependency on other nations.	3. Independence of a nation
Wealth Acquisition	1. Humans work and walk on the back of the earth to acquire wealth, not lazing around, and eating from good sustenance. 2. Humans are encouraged to prosper on earth and run the government. 3. Humans should fulfil their needs in a Shari'ah-compliant manner.	4. Obtaining wealth in a way that is lawful and following the Shari'ah, which does not contain elements of sin and doubt. 5. Not committing bribery or corruption. 6. Acquisition of wealth from agriculture. 7. Acquisition of wealth from industry. 8. Acquisition of wealth from trade.
	4. Humans must appreciate jobs.	9. The existence of a work process: a) The existence of a written and non-verbal labour-based contract: b) Considering risk as a characteristic of a contract. Risk refers to what is difficult to assess such as the number of jobs duration, and various conditions that affect performance. c) Avoiding anything that overloads workers in contracts, to prevent investors from only seeking maximum profit by exploiting workers. d) Pay workers immediately upon completion of the work. e) Providing workers with the means necessary to get the job done. f) The effective duration of the work must be stated in the contract.
Wealth Circulation / Development	1. Maintaining a fair distribution of wealth 2. Empowering the unemployed human resources.	10. There is a reasonable retention period of wealth and is not intended for hoarding (Iddikhar). 11. There is wealth in circulation (Tadawul).
	3. Maintaining justice so that the strong do not oppress the weak and the rich do not oppress the poor.	12. There is a clear measure of wealth (Miqdar). 13. Clear contracts (Aqad) in transactions related to wealth. 14. Wealth transactions are carried out with care by the transacting parties.
	4. Maintaining brotherhood (Ukhuwwah) and preventing hostility	15. Thorough systemised documentation of wealth with solid foundations.

	from cheating when transacting.	16. Transparency on wealth transactions. 17. There is compensation for wealth damage.
	5. Humans can appreciate the blessings that Allah gives them.	18. Preserving the natural environment and its components

6. Conclusion

This study offered evidence on the perspective of Maqasid al-Shari'ah of wealth from the thoughts of Islamic scholars, which is used as a basis for developing the parameters for Maqasid al-Shari'ah of wealth. It summarises that the proposed Maqasid al-Shari'ah parameters for the Sukuk structure are to maximise the potential of Sukuk in promoting social well-being and development. In general, Sukuk must be contextualised and analysed using the Maqasid al-Shari'ah approach so that the objective of Sukuk in promoting Maslahah (well-being) can be attained. To achieve the objective, the study constructed and categorised Maqasid al-Shari'ah of wealth into three. This includes the preservation of wealth (Hifz al-Maal), the socioeconomic status in wealth ownership, and the dimensions of wealth. The purpose of wealth is to prosper humans and the environment in which they live. Wealth can be owned and used by humans of all socioeconomic statuses. Nevertheless, based on economic capacity and competence, wealthy people (either at the luxury or adequate level) are typically able to distribute or develop wealth through investment/circulation, where wealth is invested in productive businesses. This is necessary to ensure that wealth would benefit not only owners and their families but also those at the subsistence and emergency levels through the circulation governed by the Maqasid al-Shari'ah approach. Establishing and utilising parameters for the Maqasid al-Shari'ah of wealth in Sukuk issuance can serve as a guideline for ensuring Sukuk functions as an efficient component within the financial sector. This facilitates the transfer of wealth from individuals with excess resources to those at the subsistence level who might sometimes struggle to make ends meet.

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Waqf Management Through Fintech in Malaysia

Zaki Ahmad[a*], Mushtaq Ahmed[b], Mahvish Nawaz Mokal[c]

[a] *School of Economics, Finance and Banking, Universiti Utara Malaysia*
[b] *Hamdard University Pakistan & Islamic Business School, University Utara Malaysia*
[c] *School of Language, civilisation and Philosophy, University Utara Malaysia*

[*]*Corresponding author: 94zakiahmad@gmail.com*

Abstract

Cash Waqf has gained acceptability in Malaysia, with the Malaysian National Fatwa Council issuing a fatwa allowing cash Waqf in 2007. Waqf is seen as a strong instrument that could help Malaysia's poverty problems. Waqf management in Malaysia has to be strengthened and revitalized, nevertheless. The goal of this study to provide a technology-based model (FinTech) to modernise the administration and investment of Islamic charity endowments, known as Waqf as a solution for disadvantaged areas that were being suffocated by a lack of financial goods and services. The study concludes on the note that FinTech business is an alternative platform may be accessible at any time for the beneficiaries.

Keywords: *Fintech, Crowd Funding, Cash, Malaysia*

1. Introduction

Going back to the roots or originality, Waqf is an act of charity when a person allocates his assets for charitable use. A Waqf made will not form part of his estate. The properties will belong to the community will gain the benefit from the assets made into Waqf (Isa et al., 2011). Waqf is derived from the Arabic language, the term Waqf means; to stop (al-sukun) to prevent, (al-mana‘a) and to suppress, or to detain (alhabs) (Ayub, 2003). In the al-Quran, it means to retain property that is specific and owned (by the Waqif, as it is not valid to make an endowment out of something that is rented) whose ownership is transferrable and can be benefited from while the property itself remains and this is by suspending disposal of it, while the financial proceeds go towards something permissible and existent. This argument can be found in al-Quran in surah Al-Baqarah (2:177) explained that to give wealth to others, even though the person has a love for it is part of righteousness. And giving wealth can come in many forms and types either through Sadaqah, Hibah, or Waqf.

Sources of Waqf during their lifetime are as follows: "Narrated by ibn Umar: in the time of Prophet (PBUH) replied. "*Give it in charity with its land and trees will neither be sold, nor given as present nor bequeathed; but the fruits are to be spent in charity*," It does mean that during the life of the Prophet (PBUH), Waqf existed and the act of Umar for that endowment has been approved by Prophet Muhammad (PBUH) historically.

The presence of Waqf could be noticed since the time of the Prophet (PBUH) by building the first Waqf land for Quba's Mosque and the land of Khaibar by Umar that was devoted to the poor (Kamaruddin et al., 2018). Waqf is an endowment and a charity of Muslims where the benefits dedicated to the society for the intention of perpetuity and for the welfare of the founder and trustee to gain the merit and reward till Hereafter. Thus, the Waqf has become a custom to the leaders and rich Muslims in the middle of the centuries and Islam is widespread, especially in the Arab countries and central Asia. Regarding its impact, Arab countries set up a special ministry to manage the Waqf to prevent the Waqf from being unmanageable.

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By definition, Waqf is any property attached donor's rights over the property of any transaction such as inheritance, grant, and will, while maintaining its physical resources. Waqf is solely for charity intending to draw closer to Allah SWT. According to Maliki, the definition of Waqf is making the benefits its owner even if it's income by renting or using such money for the needy by way of Ijab and Qabul for a period determined for those who did Waqf. Therefore, the Maliki doctrine was concerned with the validity of ownership through legal possession of all types of properties, including the Waqf. Waqf in Al-Quran, Surah Al-Baqarah, and verse (261) means *"The example of those who spend their wealth in the way of Allah is like a seed [of grain] which grows seven spikes; in each spike is a hundred grains. And Allah multiplies [His reward] for whom He wills. And Allah is all-Encompassing and Knowing."* Waqf definition of Abu Hurairah RA. The Prophet Muhammad (PBUH) said that *"When the son of Adam dies, his practice will cut off except for three things: the deeds of charity, knowledge, and children who used the pious who pray for him."*. There are four pillars of Waqf, the founder (واقف), the Waqf asset (موقوف), Beneficiaries (موقوف عليه), Expression (صيغة) (Hassan et al., 2018).

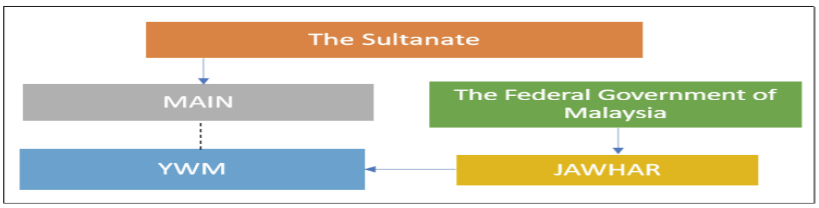
History has witnessed the glorious successful economy during the reign of Khalifah Umar and the Ottoman Empire, to the extent that there were no recipients of Zakat resulting from zero poverty. One of the attempts that led to the flourishment of the Islamic economy is the establishment of the institution of Waqf. At one point the Waqf institution during the Ottoman period, Waqf can be said to be in existence 'from cradle to grave'. It is being said that during that era "a person would have been born into a Waqf house, slept in a Waqf cradle, ate and drank from Waqf properties, read Waqf books, taught in Waqf schools, received his salary from Waqf administration and when he died, placed in a Waqf coffin and buried in Waqf cemetery". This shows that if we could manage the Waqf property properly from the stage of collection and distribution we can diminish poverty or at least mitigate them (Khamis and Salleh, 2018).

In the contemporary world now when the old traditional Waqf emerges with modern technology it could still act as the backbone of the Islamic economy. So, the online cash Waqf introduces a brand-new picture of cash Waqf and hopes to pull Waqifs to donate. An example is the Waqf Perak Ar-Ridzuan delivers the online platform for the donor to donate to Waqf project providing boats for the fisherman in Perak which is the agent of the collection is Maybank Islamic and the trustee is Waqf Perak Ar-Ridzuan. This could help the fisherman generate their income and it shows that Waqf can enhance the socio-Islamic economy. As a result, it would alleviate poverty and narrow the gap between the rich and the poor (Chowdhury et al., 2011).

The impacts that were concluded increasing the socio-economy and empowering the micro-economy to bridge the gap between the poor and the rich. Another impact is how Muslims can grow the economy without any loan or debt, for the donors they can get rewards in the Hereafter; it is a win-win situation for the Muslim community. Traditionally Waqf is centred on developing physical property such as building mosques, religious schools, or orphanages. However, with the growing poverty in the world especially in third-world Muslim countries, there is a huge need to complement the traditional Waqf model with the cash Waqf model as it gives numerous advantages in developing the Islamic economy. In Malaysia, cash Waqf has gained acceptance, with Malaysian National Fatwa Council passing the Fatwa that permits cash Waqf in 2007 (Ab Hasan et al., 2015).

As for the Waqf system in Malaysia, there is no federal law subjecting all Waqfs to the same rules and regulations. Instead, all Islamic religious matters are under the responsibility of the Malaysian Sultanate. Additionally, the Sultanate appointed State Islamic Religious Council (MAIN) to handle these matters including Waqf. MAIN acts as the sole trustee for Waqf while Malaysia Waqf Foundation (YWM) collaborates with MAIN to manage Waqf assets including collection, investment, development, marketing, and distribution of Waqf funds. Malaysia Waqf Foundation (YWM) is an agency established by JAWHAR, a department under the Federal Government, whose roles are to ensure that the management and administration of Waqf properties, Zakat, and Hajj are in order, systematic and effective (Ambrose et al., 2015).

Figure 1: Waqf Management Structure in Malaysia



Adapted from (Ambrose et al., 2015)

According to Schueffel (2016), the term Fintech was already used as early as 1972. According to Khayesi (2022), the Vice President of the bank; Mr. Abraham Leon Bettinger provided the following definition, “*FinTech is an abbreviation that stands for "financial technology," which refers to new technologies and innovations that aim to compete with conventional approaches to the provision of financial services. Technologies that attempt to make financial services more accessible to the general population include the use of smartphones for mobile banking, investment services, and crypto currency, to name a few examples. Startups and more established financial and technology companies are what make up enterprises that fall under the category of "financial technology." These businesses are in the process of either attempting to supplant or improve upon the use of financial services offered by traditional financial institutions.*”

With the help of using technology is to modernize the management and investments of Islamic charitable endowments, called Waqf which would assess mismanagement of Waqf properties or assets across the Muslim world. It is said that necessity is the mother of all inventions and so is the revolution of FinTech. There has been dire need of a solution for the underserved communities that were being stifled with the lack of financial products and services to meet their needs. FinTech comes with innovative techniques to unclog the blockages that are within the traditional financial service industry and promises better solutions for the masses. With internet connectivity and a computing device, the FinTech business platform can be accessed by all at any time. For instance, the financial technology company Finterra, based in Singapore, has built a crowd funding platform that makes use of digital ledger technology, also known as blockchain, to generate "smart contracts" that are associated with particular Waqf projects. Waqf are organisations that receive donations from Muslims to conduct social projects including mosques, schools, and welfare schemes. The company expects that this will give a more effective way to raise money, manage Waqf, and transfer ownership of Waqf properties. The company is trying to change the financial terrain in its approach to crowd funding and development of Waqf (Mokal et al. 2023; Zulaikha and Rusmita, 2018).

The plans that Finterra has in place are reflective of the interest that a number of other fintech companies have in expanding their reach to cover core Islamic finance markets in the Middle East and Southeast Asian countries. Since October 2017, the organisation has been working on the development of its own blockchain platform, and there are presently pilot projects being evaluated from endowments located in Singapore, Malaysia, and Indonesia. By June 2018, they hope to have the product fully up and running and ready to start on boarding clients. They also aim to promote it to global Waqf boards and to regulators (Ahmad et al., 2020; Vizcaino, 2018).

According to Finterra, Islamic endowments are believed to hold large portfolios of real estate, commercial businesses and other assets, with an estimate of as much as $1 trillion of assets held in Waqf globally. The Waqf concept dates back more than a thousand years, reaching its peak during the Ottoman Empire. However, the assets in many Waqf are underutilized and earn low returns due to ineffective management, with some Waqf requiring further donations to keep running. Donations must be pledged to specific goals making it difficult to repurpose a Waqf, limiting fundraising from banks which can find it difficult to liquidate such assets (Alharthi, 2021).

Finterra founder and Chief Executive Officer Hamid Rashid believe the utilisation of blockchain technology could provide a solution to this problem by enabling the electronic tracking of each contract during the duration of the investment. He went on to say that the transformation of a school in Jakarta, Indonesia, into a property with potential for financial gain is one of the potential Waqf projects that is presently being investigated (Ahmad et al., 2023; Vizcaino, 2018). To achieve our Muslim vision to have a sustainable and healthy economic some issues occur in terms of Waqf management. According to Puad et al. (2014), before the establishment of MAIS, most Waqf properties in Selangor had been handled by religious persons, such as Imams without having any proper administration or documentation. Hence this will cause problems for MAIS to identify properly the Waqf properties that are not registered especially when both the Waqif and Mutawalis are deceased. This has caused delays in the documentation for years due to difficulties that are faced by MAIS in ensuring all the family members able to present and be available during the court hearing. There are also cases of misuse of Waqf's properties for personal interest. This is caused by a lack of interest or being neglected by the family members. Also, there is no surprise that most of the Waqf properties have been misused and had illegal transfers due to insufficient staff who are appointed to handle the Waqf properties (Ismail et al., 2015; Ahmad et al., 2023).

In certain instances, the administration of Waqf lands is entrusted to non-Muslim individuals who may lack the requisite expertise, understanding, and commitment to effectively oversee these endowments. This circumstance can result in a loss of confidence and trust in the authority overseeing the Waqf properties. Across various Muslim nations, there exists a substantial reservoir of both historical and contemporary Waqf assets. However, many of them are left idle and underutilized and earn low returns due to delay and ineffective management process that impedes the ecosystem of Waqf management the main factor that leads to the issue of delay consists of properties given out without any registration and documentation, and accounting practices that does not comply with Shari'ah principles standards. Moreover, difficulty in owning land property makes sale and purchase restricted in the market, while in leasing and rental markets these are often rented below the market price (Mokal and Ahmad, 2023; Chowdhury et al., 2012). Another hindrance towards cash Waqf is the perception of a lack of transparency over the distribution of cash Waqf to the intended Waqf projects or beneficiaries.

Waqf is considered a powerful instrument that could resolve poverty issues in Malaysia. However, with much room for improvement to revitalize and strengthen Waqf management in Malaysia, achieving such a goal while addressing the above challenges are not possible for the government to handle on its own and that collaboration and embracing new technology are the keys to moving forward.

Today, plenty of Waqf institutions are contributing to society through Waqf by doing great work of collecting funds from various communities to help improve poverty and provide relief. Even though, there are problems with Waqf management itself about how the management has laid off their accountability in managing Waqf. This study will encompass the roles of Waqf institutions as being the caretaker of Waqf projects providing efficient management and what impact can it give on the society and economy by using Waqf to grow investment through the assistance of fintech. Now in today's era where everything is digitalizing and made easy with the help of technology, institutions ought to move forward to provide e-commerce for Waqf where people can choose the project that they want to contribute to and improve the efficiency in the management of Waqf properties.

The focus of this research paper is mainly to suggest ways of improvement of Waqf institutions with regards to its management with the assistance of FinTech that will contribute to sustainable Waqf. Additionally, the objectives of this paper are to identify the structure of Waqf management in Malaysia and its issues, to evaluate the needs for the establishment of Waqf funds in key sectors and examine how fintech can contribute to the better management of Waqf assets. Furthermore, to propose recommendations to Waqf institutions, fintech firms, and regulators to strengthen and broaden the application of fintech in the Waqf management ecosystem.

2. Research Methodology

In order to reach these objectives and describe the overview and current development, this study adopts a qualitative method. The data collection procedure involved secondary data collection methods. The secondary data is obtained through a systematic review of existing literature on the topic. The literature search is conducted using academic databases such as Google Scholar and Scopus, and the selection criteria include relevance, quality, and recency. The authors referred to 33 research papers that were published in 25 different journals. In addition to this, four conference proceedings, seven internet sources, and one doctoral dissertation were also used to collect the relevant information on FinTech and the management of Waqf assets. The sources to which the authors referred to get the appropriate information were published between 2011 and 2023. After collecting the relevant information, the authors analysed the information based on the objectives of the study and aligned the information in order to achieve the purpose of the study.

2.1 Impact of Waqf

History has witnessed the glorious successful economy during the reign of Khalifah Umar and the Ottoman Empire, to the extent that there were no recipients of Zakat resulting from zero poverty. One of the attempts that led to the flourishment of the Islamic economy is the establishment of the institution of Waqf. At one point the Waqf institution during the Ottoman period, Waqf can be said to be in existence 'from cradle to grave'. It is being said that during that era "a person would have been born into a Waqf house, slept in a Waqf cradle, ate and drank from Waqf properties, read Waqf books, taught in Waqf schools, received his salary from Waqf administration and when he died, placed in a Waqf coffin and buried in Waqf cemetery". This shows that if we could manage the Waqf property properly from the stage of collection and distribution we can diminish poverty or at least mitigate them (Ahmad et al., 2023; Kamaruddin et al., 2022).

In the contemporary world now when the old traditional Waqf emerges with modern technology it could still act as the backbone of the Islamic economy. So, the online cash Waqf introduces a brand new picture of cash Waqf and hopes to pull Waqifs to donate. An example is the Waqf Perak Ar-Ridzuan delivers the online platform for the donor to donate to Waqf project providing boats for the fisherman in Perak which is the agent of the collection is Maybank Islamic and the trustee is Waqf Perak Ar-Ridzuan. This could help the fisherman generate their income and it shows that Waqf can enhance the socio-Islamic economy. As a result, it would alleviate poverty and narrow the gap between the rich and the poor (Fauzi et al., 2019).

The impacts that were concluded are increasing the socio-economy and empowering the micro-economy to bridge the gap between the poor and the rich. Another impact is how Muslims can grow the economy without any loan or debt, for the donors they can get rewards in the Hereafter; it is a win-win situation for the Muslim community. Waqf can be considered as an effective means due to its long-lasting form and perpetuity in nature will help to sustain the well-being of society.

The following key sectors are identified as the beneficiaries and rationale are discussed below (Ali et al., 2015).

Economic empowerment

Waqf can serve as a crucial instrument for advancing economic development, as it relies entirely on funds derived from charitable acts. Government doesn't have to spend any expenditure for enhancing economy as a result government expenditure could be reduced. Through making use of cash Waqf from Waqif could be the easiest way because of the liquidity to use that money for any project (Effendi et al., 2022). With all funds that were collected from banks (as a collecting agent) goes to Mutawalli (trustee) to develop any activities or project. For instance, Majlis Agama Islam Johor authorized WanCorp to manage corporate Waqf An-Nur and Majlis Agama Islam Perak authorized the collaboration with Maybank for Waqf projects such as cash Waqf and purchase of boats for fishermen in the state. Another project has been proposed is the Training centre for agriculture also combine for Mualaf centre in Karak, Pahang (Pusat Latihan dan Projek Pertanian Atas Tanah Waqf at Jambu Rias, Karak, Bentong).

Our economic would be empowered if each citizen is capable to earn their income without any deficiency. Current problems are citizen has skills but doesn't owned machineries. For example, as above are Waqf Boat and Waqf Business Centre (WBC) with the facilities and infrastructure were given to beneficiaries they will generate their own income and become active members in the society later it will help to increase the economy of the country. These examples correspondence to Harun et al. (2016) stated that a notion associated with community empowerment is the concept of collective action and further that community empowerment is about improving community capabilities so that can meaningfully influence and control the decision-making processes in relation to their lives.

Education

The importance of education or the quest to gain knowledge in Islam is emphasized by the very first word of the first verse revealed in the Quran 'Iqra' which means read. This command from Allah (SWT) is for mankind to seek knowledge or be educated. Islam has always promoted knowledge and these manifests in many revelations in the Quran. Among the examples in the Quran are, "*Are those who have knowledge equal to those who do not have knowledge?*" [al-Zumar 39:9]. *"Allah grants wisdom to whom He pleases and to whom wisdom is granted indeed he receives an overflowing benefit*" [Al-Baqarah 2:269]. Research has shown that illiteracy leads to crime in which people who commit crime are most likely people with poor education. Hence, it is the responsibility of each leaser to ensure that education is easily accessible to all and not only for the elites. During the Golden Age of Islamic History, Baytul Hikmah the library played an important role in becoming the centre for Education for the public. It was through education that the Muslims became so progressive and successful (Mujani et al., 2016).

In Malaysia, primary and secondary school education is not entirely free but heavily subsidized. However, there are still many things that parents have to fork out in order for children to be able to go to school. School uniforms, books, stationaries, club fees are still paid by parents. This is why in many rural areas where some parents cannot afford to buy shoes and school uniforms for children, or cannot afford to send their children due to the difficulty in transportation, some children do not make it to go to school. Tertiary education in Malaysia while still subsidized is in fact still very expensive and many students take the PTPTN loan to cover their expenses. Books are also not easily attainable as they are expensive to buy. Students will have to pay back their PTPTN loan when they work and this leaves many Malaysians in debt on top of other loans for cars and houses (Amuda et al., 2016).

Waqf in Malaysia has helped many students and organizations to alleviate this financial burden. One such example done by JAWHAR is the building and maintenance of Maahad Al-Mashoor Al-Islami Education Complex in Balik Pulau, Penang. This is an integrated development comprising academic, administration and hostel (both for male and female students) facilities in addition to additional facilities such as assembly and dining halls, security guard house, covered parking and recreational components, all built to accommodate 1,000 students and provide a conducive environment for its students. The development cost was RM42 million. Other examples include scholarships and financial assistances given to university students across the country as well as overseas (Saifuddin et al., 2014).

Healthcare

Healthcare is the act of taking preventive or necessary medical procedures to preserve, improve and ensure a person's well-being whether it is physical or mental health. OCED Observer strengthens the idea of how the economy depends on a strong healthcare system. Through the data they collected, they state a 10% increase in life expectancy creates an economic growth of around 0.3%-0.4% a year (Association of MBAs, n.d.). This is being said that a good healthcare system is vital for economic development. Health is a necessity of a human being. In Islam, it is called Daruriyyah which without it, mankind will suffer (Saad et al., 2017).

Nevertheless, it is worth noting that there exist healthcare services offered at subsidized rates. This is where Waqf can play a pivotal role. While it is not a requisite for Waqf to exclusively deliver goods or services at reduced prices, it can nonetheless serve as a means to bridge the healthcare accessibility gap for the underprivileged who cannot afford such services. Waqf can also be utilized to provide healthcare services to middle-class and upper-class individuals, with revenue distribution directed towards those in need of life improvement. Notably, only a select few healthcare institutions are dedicated to the practice of Waqf, one such example being the establishment of Klinik Waqf An-Nur (KWAN) by KPJ Healthcare Berhad (KPJ) in 1998, situated in Kotaraya, the state of Johor, Malaysia. KWAN clinics charge people only RM5 for treatment and medication to those incomes are less than RM800 per month. As of now, KWAN clinics and dialysis centres are open nationwide and have treated more than 520,000 patients and have provided more than 150 kidney patients life-saving treatment (Gwadabe and Ab Rahman, 2020).

Additionally, banks also have been working to contribute to health sector by using Waqf. Several banks such as Bank Islam and Maybank Islamic have contributed to haemodialysis clinics to provide affordable prices for the poor one. Also, banks also have been helping clinics and hospitals for critical medical treatment and analysis in terms of capital and funds (Sulaiman et al., 2022).

Investment

Waqf can be employed in a multitude of ways, particularly in the allocation and management of funds for entities primarily dedicated to social welfare objectives, as opposed to profit generation. Managing the availability of funds in such organizations presents a formidable challenge. The primary sources of funding for these entities typically consist of donations from governments or affluent individuals. However, with the help of modern IT technologies there are some other ways out as well. Crowd funding is one of the ways, which helps the Waqf manager to collect huge quantity of funds but in lower denominations (Hasan et al., 2018).

3. Findings of Existing Waqf Models

3.1 Crowd funding and Waqf

Crowd funding is defined as a mode of collective funding activities which was originally rooted in a broader concept of crowdsourcing and microfinancing, but crowd funding gives access to people in a larger group who network and pool their money using an online platform (Mohd Thas Thaker and Pitchay, 2018). Crowd funding is defined as a mode of collective funding activities. Internet crowd funding is poised to play an essential part in fundraising for many different types of rising requirements for Waqf within and across many nations, thanks to recent awareness on Waqf-based charity. Waqf is an Islamic charitable organisation that provides aid to those in need. As a result, there is a requirement for an increased level of professionalism in the process of fundraising for Waqf. Examples of Waqf crowd funding platforms which are currently available are WaqfWorld and EthisVentures. WaqfWorld.org is said to combine Waqf with the dynamism of crowd funding. WaqfWorld.org does not charge beneficiaries or users any fees. The platform is completely free during the initial phase. Operational costs will be partially borne by voluntary contributions, and other resources provided by Ethis Ventures (Hansari et al., 2022).

3.2 Waqf fund strategic collaboration agreements

On 8th September 2017, six banks in Malaysia made a collaboration to develop a Waqf fund revolving around economic empowerment, education, health and investment, in an effort to develop the Muslim economy. Those six banks are Affin Islamic Bank Berhad, Bank Islam Malaysia Berhad, Bank Muamalat Malaysia Berhad, Bank Kerjasama Rakyat Malaysia Berhad, Maybank Islamic Berhad and RHB Islamic Bank Berhad. The objectives of this agreement are to help improve Muslim economy as well as State Islamic Religious Councils (SIRC) in developing Waqf land (Awqaf). There is abundance of Waqf lands that are not cultivated in Malaysia due to lack of capital. Therefore, these banks will help develop it by offering their services to raise the funds for Waqf land and give it to SIRC through this agreement. Banks role in this agreement is to act as agent of collection while SIRC acts as trustee (Mutawalli). Banks will collect the funds for SIRC and do promotions of Waqf projects for SIRC. These funds will be used for four major economic pillars which are economic empowerment, education, health and investment (Alma'amun et al., 2018).

There are two documents involved in this agreement. One is document among the six banks, and another is Joint Management Committee. The first document is about discussion on initiatives of these banks together with Bank Negara and the Association of Islamic Banking Institutions Malaysia (AIBIM) to improve the Waqf development. In this document, they agreed to not compete with the other banks in developing Waqf lands. They should help each other in promoting Waqf and raising funds to develop it. They also agreed that one of the banks should be the leader and the other five should be the participant in each project. An instance, Maybank Islamic is raising funds for Perak Waqf projects which is Waqf Boat and the other five banks will promote it to their customers to help Maybank Islamic in raising funds. So, for this project Maybank Islamic will be the Banks' leader and the other five would be the participants (Salleh et al., 2021).

The other document is Joint Management Committee which entitled people to change their name on the land when they start to announce it as Waqf land. This is done to ensure there is no confusion and discontinued of Waqf land. Previously, when they declare their projects or land as Waqf, they did not change the title and the owner of the land. In this agreement, they urge for people to change the owner's name once it has been Waqf as to avoid confusion and disputes in the future (Azganin, 2019).

Credibility and trusteeship

Ensuring transparency in the allocation of invested funds is a pivotal concern for all investors, and similarly, when individuals wish to donate their assets as Waqf, they must ascertain that the benefits reach the intended beneficiaries. Consequently, Muhammad (2012) underscores the importance of Waqf institutions in establishing trust with potential donors, with a particular emphasis on the ethical and moral character (Akhlaq) of the Mutawallis. Additionally, Dafterdar and Bank (2009) assert that the effective management of Waqf is contingent upon the prudent and efficient stewardship of Mutawallis. In the contemporary context, India serves as an illustrative case, where instances of corruption and land fraud within Waqf organizations have been reported. These corrupt practices have been attributed to executive members of Waqf boards, resulting in the sale of over 70% of Waqf estates across India over the past decade (Jalil, 2020).

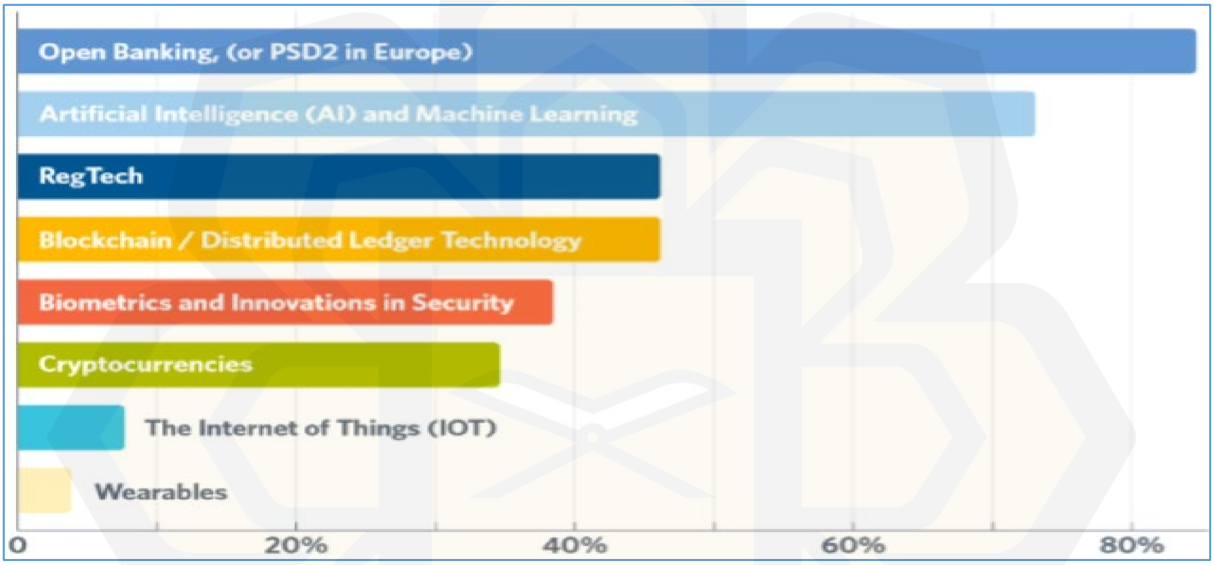
Awareness, education and accessibility

Despite the undeniable ease that technology has brought into our lives, there remains a deficiency in awareness regarding online Waqf. A surge in data usage related to this concept is noticeable only during the month of Ramadan, owing to promotional efforts on television during that period. This raises the concern that media outlets may not consistently prioritize the promotion of Waqf. Furthermore, in rural areas, obstacles persist as potential Waqifs are hesitant to invest their funds due to limited familiarity with this form of Waqf. Additionally, the lack of internet literacy among rural villagers contributes to their preference for traditional over the counter Waqf donations. Notably, Maybank Islamic's records indicate that they received RM 1 million through over-the-counter methods, compared to a considerably lower range of RM 300,000 to RM 600,000 via online bank transfers. This discrepancy underscores the limited awareness among Malaysians regarding online Waqf and online cash-Waqf (Laila et al., 2022).

3.3 Fintech and Waqf

In the rapidly evolving landscape of fintech, experts anticipate that significant advancements in financial technology will stem from online banking, artificial intelligence, and blockchain. This projection is supported by a global survey conducted by Fleishman Hillard (2018), a prominent global public relations and marketing agency, suggesting that these emerging technologies are poised to have a tangible impact in the year 2018 and beyond.

Figure 1: Impact of emerging financial technologies in 2018



Source: Fleishman (2018)

Today, where internet and mobile usage have become ubiquitous, fundraising initiatives for Waqf projects should strategically harness this digital environment to expand their donor outreach. One illustrative approach is the utilization of crowdfunding, a method characterized by the aggregation of modest contributions from a wide array of individuals to fund a specific project. Crowdfunding has been gaining popularity in recent years as it facilitates 'target donating' where individuals and corporations donate to specific cause. Financial institutions can collaborate with fintech partner who offered donation-based crowdfunding for this purpose. The behaviour of doing charity and spreading the good cause using crowdfunding can give impact to the Waqf landscape (Kahn et al., 2021). According to Yoshid (2019) crowdfunding manifests the act of doing charity for longstanding Muslim brotherhood.

The web technology enabled crowdfunding to be operated either on live crowdfunding and online crowdfunding. Crowdfunding has opened a new source of funding for Waqf entities apart from doing it traditionally. In this perspective, crowdfunding can be a good tool to connect the people with the causes to do Waqf. It is not only a low-cost way of accessing funding according to its set up, but it can also attract the emotional interest of people. People contribute and donate to crowdfunding irrespective of geography which Waqf entities should take this as an advantage (Zakariyah et al., 2022; Mokal and Abd Halim, 2023).

Blockchain uses digital ledger technology to create "smart contracts", that is a computer protocol underpinned by blockchain technology, would be tied to specific Waqf projects. Unlike traditional contracts which require a third party to hold, manage and execute contractual terms, smart contracts are designed to be independent and self-executing. This means that contractual terms can be translated in logical functions which trigger automatically when set conditions are met. For instance, charity-minded business owners might build clauses into smart contracts which stipulate that a percentage of all payments go to charity (Davies, 2016).

The potential advantage for Waqf lies in the potential reduction of transaction costs associated with contracts of this nature, as they do not necessitate costly third-party intermediaries. Another advantage would be the enhanced transparency whereby contracts are put on a public ledger where payments are open to be viewed by anyone. Hence, blockchain potentially provides a more efficient way to raise money, manage and transfer ownership of Waqf. This is facilitated by tracking each contract electronically across the lifespan of the Waqf project. Despite blockchain technology is very new and its future remains to be uncertain, it still warrants a mention as it is already attracting billions of investments. Therefore, blockchain technology certainly presents the opportunity to modernize Waqf management globally. This evidence can be found during the International Waqf Blockchain Forum 2018 which the official signing of five key Memorandum of Understanding (MoU) agreements between Finterra Technologies and IIUM, the Haj Committee of Rajasthan, CLMV Holding (Cambodia) Co LTD, Myashi and NanoMalaysia Bhd (Finterra, 2019).

4. Conclusion

Waqf is a powerful instrument for sustainable community development, especially among Muslims. However, for Waqf to sustain and to be relevant it needs to remain viable in the contemporary world. Therefore, fundraising for Waqf must be supported with a sophisticated and reliable platform that is able to connect communities (fundraisers and donors) through fintech.

Fintech on the other hand, has the potential to play a greater role in the Islamic finance industry specifically to improve process efficiencies, cost effectiveness, increase distribution, Shari'ah and other compliances and promote financial inclusion. Fintech and digital technology could allow Waqf institutions to reach out further and quicker (and possibly cheaper) without having to build a physical presence and distribution channels.

This paper has discussed the concept of crowdfunding and possible application of technologies to achieve a more effective Waqf fundraising, with focus on blockchain technology. Without a doubt, there is much potential for various type of fintech to be embedded into Waqf management in Malaysia. Crowdfunding technology as a fundraising tool is becoming popular that Waqf entities should embrace it. As making technology investment can be very capital intensive, hence, the most feasible and scalable way is to create partnership. Waqf institution, financial institution and fintech partnership will innovate the ecosystem of Waqf management, where the benefits extend to better efficiency in Waqf fundraising, increase public awareness and enhance public experience.

5. Recommendations

In light of the growing awareness surrounding Waqf-based charitable initiatives, internet crowdfunding is positioned to assume a pivotal role in fundraising efforts catering to a diverse range of emerging Waqf needs, both domestically and internationally. Consequently, there is a pressing demand for an enhanced level of professionalism in Waqf fundraising, particularly when it pertains to the establishment of the financial mechanisms required for such endeavours (Yoshida, 2019). By establishing Waqf based crowdfunding, some basic features about the element of Shari'ah compliance must be first considered in design parameter (Suhaili and Palil, 2016).

Among the scope which falls into the concerns are:

i. The Halal intentions of the projects
ii. The Shari'ah non-compliant issues which relate to usury (Riba), gambling (Maysir), and speculation (Gharar)
iii. The existence of Shari'ah supervisory board.

In addition, to enhance the confidence of donors and uphold integrity of Waqf management, a proper security, legal and governance frameworks, reporting and enforcement are necessary to ensure contribution through crowdfunding platform complies with regulation, for example due diligence process e.g. Know Your Client (KYC) and Anti-Money Laundering (AML); what steps the regulatory body can take when rules are breached etc.

On another note, application of blockchain technology is not only limited to fundraising stage, but it can also be applied in the distribution of funds to the intended beneficiary, especially the unbanked segment. For example, this was made possible in Finland where the government able to solve refugee identity by providing asylum-seekers a blockchain-enabled prepaid debit cards instead of cash (William, 2017).

Another area that can be explored further is analytics high-impact Waqf projects. This may be possible by embedding relevant conditions in the smart contract. However, the challenge may involve analysing large amounts of data to assess the most pressing areas of Waqf projects that deliver maximum impact and distribution Waqf funds accordingly automated via a smart contract. As for Waqf institution, this will also impact them in terms of data collection and sharing of data, measurement and reporting of impact collection (Davies, 2015).

It is hoped that similar research in the future can follow through the outcome of the pilot project on Waqf crowdfunding using blockchain technology in Malaysia including the effectiveness, regulatory and governance process development as well as how public perception has evolved.

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Role of Institutional Support in Economic Development: Investor Perspective. A Case of Government of Pakistan (GOP) Ijarah Sukuk

Uzma Kashif[a*], Ahmed Ali Sidiqui[b], Hafiz Saad[c], Shahzad Ali[d]

[a,d] *Department of Management Sciences, Superior University, Lahore, Pakistan*
[b] *CEIF-IBA(Karachi), Pakistan*
[c] *Shariah Compliance Department, Meezan Bank, Pakistan*

[*] *Corresponding author: uzma.kashif@superior.edu.pk;uzmanoor1979@gmail.com*

Abstract

The study aims to investigate the role of Ijarah Sukuk in the economic development of the Pakistani business environment an initiative taken by the Government of Pakistan (GOP) by issuing Shari'ah-compliant investments at a national level during a period of deep financial crisis in the country. A modified questionnaire was used in this study to answer research questions and test the evolving hypothesis. Questionnaires containing 30 items were distributed and collected from 379 respondents as representative of Sukuk investors. The data collected was analyzed using Smart PLS. The findings suggest that within the recently reorganized Islamic Market of Pakistan, the variable with the greatest influence and strongest predictive power is Shari'ah Compliance. It is followed by market structure and subsequently the quality of underlying assets. However, once Shari'ah-compliant securities are introduced, investors are anticipated to seek the advantages offered by well-structured markets, such as yields, market liquidity, and the balance of Islamic Securities in both long and short-term Sukuk. This study represents a pioneering effort in Pakistan, as it examines the impact of fundamental investor characteristics and Shari'ah compliance on investment decision-making in the nascent Islamic Market. The findings of this study hold potential value for countries at the early stages of establishing Islamic banking cultures. Moreover, the results will prove beneficial for policymakers as they seek to expand the range of Islamic instruments available to investors through the utilization of Islamic modes of financing. Additionally, the study sheds light on how the market environment, regulatory measures, and other investor-oriented factors can be optimized to create a more viable and attractive environment for investors.

Keywords: *Shari'ah compliance, Institutional support, Market structure, Quality of underlying asset, Investment decision*

1. Introduction

1.1 Background

The global Sukuk market, also known as the Islamic bond market, has witnessed significant growth and evolution in recent years, offering Shari'ah-compliant financial instruments that adhere to principles prohibiting interest and emphasizing risk-sharing (Nouman and Ullah, 2023). It has become a crucial part of the global financial landscape, attracting both Islamic and non-Islamic investors (Sairally and Rassool, 2022). This expansion is driven by increasing demand for Shari'ah-compliant investment options, with governments, corporations, and financial institutions in Muslim-majority countries issuing Sukuk for diverse projects (Juisin et al., 2023). This market's diversity, including sovereign, corporate, and green Sukuk, has gained momentum due to improved regulatory standards, enhancing investor confidence and enabling cross-border transactions

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(Uddin, 2022). The Sukuk market's adaptability, resilience, and potential for innovation have made it an integral component of the global financial system, promoting diversity and stability while adhering to Islamic principles and contributing to financial inclusivity (Skjøtt et al., 2021). Pakistan has strategically embraced Sukuk issuance, to mobilize capital for developmental projects in accordance with Islamic finance principles, making it a significant player in the global Sukuk market. Pioneering sovereign Sukuk issuance in 2005, Pakistan has diversified its Sukuk portfolio, including Ijarah Sukuk, Musharakah Sukuk, and green Sukuk, attracting a diverse investor base. The competitive yields offered have made Pakistan's Sukuk appealing to both domestic and international investors, contributing to the nation's capital generation. Foreign investment has been integral, diversifying the investor base and supporting economic development through funding critical infrastructure projects such as road development and energy initiatives. Pakistan's Sukuk initiatives have proven instrumental in enhancing the market's appeal and improving living standards.

The issuance of Ijarah Sukuk in Pakistan is primarily driven by several key objectives, including funding large-scale infrastructure projects, stimulating economic growth, and aligning financial transactions with Islamic Shari'ah principles (Nawaz et al., 2019). However, this practice has not been without its challenges. One of the prominent issues faced is the lack of standardization in the structures of Ijarah Sukuk, which can lead to confusion and inconsistency for both issuers and investors (Hussain and Khalil, 2019). Additionally, the pricing of Ijarah Sukuk can be complex, with the profit rate being determined by multiple factors, making it challenging to achieve a uniform and transparent pricing mechanism (Aman et al., 2022). To address these issues, there have been efforts to establish a more standardized framework for Ijarah Sukuk in Pakistan, providing greater clarity in terms of structure and pricing (Hussain and Khalil, 2019). The State Bank of Pakistan and the Securities and Exchange Commission of Pakistan have also been active in introducing and refining regulations to govern the issuance of Ijarah Sukuk (Nawaz et al., 2019).

In a predominantly conventional market, issuing Ijarah Sukuk faces substantial challenges from the investor perspective. One of the most significant issues is the lack of familiarity and understanding of Islamic finance principles among conventional investors (Iqbal and Mirakhor, 2011). The unique nature of Ijarah Sukuk, which complies with Shari'ah-compliant principles, may be unfamiliar to investors accustomed to conventional interest-based instruments. This knowledge gap can create uncertainty and reluctance to invest in Ijarah Sukuk. Furthermore, the perceived complexity of Ijarah Sukuk structures compared to conventional bonds can deter investors. The requirement for asset backing and rental income arrangements, which differ from the straightforward interest-based structure of conventional bonds, may be seen as intricate and less transparent (Iqbal and Mirakhor, 2011). This complexity can lead to concerns about investment risks and returns. Market liquidity is another significant challenge. Ijarah Sukuk offerings in a predominantly conventional market may have limited liquidity due to a smaller pool of potential investors who are familiar with and willing to trade these instruments (Aman et al., 2022). Investors might be concerned about the ability to buy or sell Ijarah Sukuk easily.

1.2 Objective

Investors are increasingly favouring Ijarah Sukuk as a valuable Islamic investment tool, recognized for its potential to alleviate the debt burden of public institutions and providing an alternative to conventional bonds. However, the financial market's heterogeneity, including secular-oriented investors, poses challenges for broad acceptance of Islamic financial instruments. Scholars emphasize exploring investor behaviour dynamics, especially in predominantly secular contexts within Islamic countries. The research aims to uncover critical factors attracting investors to Islamic financial products like Ijarah Sukuk, establishing a foundation for enhancing investor attention and promoting Islamic financial markets. Acknowledging Sukuk as a driving force in the Pakistani stock exchange, the study investigates the distinctive attributes of conventional and Islamic bonds, aiming to discern pivotal factors shaping the national Ijarah Sukuk market. It employs an exploratory approach, utilizing a case study technique and semi-structured interviews, contributing to Islamic finance literature and empowering policymakers to encourage acceptance of Islamic values. The study addresses a shift towards prioritizing Halal earnings in financial decision-making and emphasizes not only high returns but also alignment with religious principles. The decision to use Ijarah financing aims to lower borrowing costs for national institutions and share risks associated with underlying assets, contributing to continuous improvement in the Sukuk market on both national and international levels.

2. Literature Review

2.1 Background theory

The Theory of Islamic Planned Behavior (TIPB) is a specialized conceptual framework aimed at understanding and predicting individuals' behaviour in the realm of Islamic entrepreneurship, particularly their intention to engage in worshipful activities intertwined with financial transactions, such as acquiring Sukuk. TIPB integrates established theories while adapting them to the distinctive context of Islamic values and beliefs. Key variables within the model include Empathy (EMP), Niyyah, Internal Behavioral Control Factors (ICFs), External Behavioral Control Factors (ECFs), and Islamic Moral Values. EMP serves as a proxy-variable for attitude, influencing intentions, especially Niyyah related to Sukuk purchase. ICFs mirror Bandura's self-efficacy, representing internal factors influencing behaviour, encompassing personal abilities and contextual factors. ECFs capture societal support from various sources, impacting personal beliefs and attitudes. Lastly, Islamic Moral Values, drawn from the Quran and Hadiths, guide adherents' behaviour, influencing attitude, personal efficacy, and societal support. In the Theory of Islamic Planned Behaviour, the fusion of "Shari'ah compliance behaviour" and "moral values" underscores individuals' deep commitment to Shari'ah principles and ethical conduct, shaped by Islamic values from the Quran and Hadiths. This integration significantly influences their intentions and actions in Islamic entrepreneurship, particularly in Sukuk purchases, highlighting the impact of religious and ethical convictions on decision-making processes. Additionally, the connection between "market structure" and "external behaviour control" reveals that the prevailing market environment plays a substantial role in shaping external support for decision-making in Islamic entrepreneurship, notably in Sukuk purchases. Within the Theory of Planned Islamic Behaviour, the interaction among "Shari'ah compliance behaviour," "market structure," and the "quality of underlying assets" collectively moulds individuals' "Niyyah to invest in Sukuk." This dynamic interplay reinforces intentions to engage in Sukuk investments aligned with Shari'ah principles, a conducive market structure, and high-quality underlying assets, fostering an environment of trust, ethical alignment, and financial soundness that motivates resolute investment in Sukuk in adherence to Islamic financial principles.

2.2. Previous studies and hypotheses development

2.2.1. Shari'ah-compliant investments

Shari'ah-Compliance judgement involves a great deal of subjectivity. Delle Foglie and Keshminder (2022) conducted research on the effect of Shari'ah-compliant stocks on Malaysian stock market performance They discovered that stocks that adhered to Shari'ah had a favourable and significant impact on market returns, demonstrating that investors view these investments as advantageous choices (Ridwan and Barokah, 2023). Gundogdu (2023) compared the financial success of Islamic banks to those of conventional banks. They discovered that Islamic banks had higher levels of stability and profitability, indicating that adhering to Shari'ah principles may help businesses perform better financially. Fitrah and Soemitra (2022) looked into the connection between Pakistan's stock market performance and adherence to Shari'ah. The study found a positive and significant correlation between Shari'ah-compliant stocks and returns on markets, indicating that investments that adhere to Islamic law can provide investors with favourable returns.

2.2.2. Shari'ah compliant and institutional support

Two interrelated ideas that are important in the framework of Islamic finance and governance are Shari'ah compliance and support from institutions (Juisin et al., 2023). To draw and keep clients committed to Islamic finance, Islamic financial institutions (IFIs) must adhere to Shari'ah law. IFIs, however, also require strong institutional backing in order to properly manage the risks related to Shari'ah compliance (Sairally and Rassool, 2022). Institutional support can assist IFIs in a number of ways to attain Shari'ah compliance. First, institutional backing may guarantee that IFIs have the ability to access the knowledge and materials needed to put Shari'ah compliance adheres into practice (Nouman and Ullah, 2023). Second, institutional support might contribute to the development of a compliance culture inside IFIs, hence reducing the likelihood of unintended Shari'ah law transgressions.

Hypotheses 1(H1): The Shari'ah Compliance has positive effect on Institutional Support.

2.2.3. Quality of underlying asset and institutional support

An essential component in evaluating the risk and profit potential of an Ijarah Sukuk investment is the calibre of the underlying asset (Romadhon and Mutmainah, 2023). A high-quality asset is likely to produce a consistent flow of payment of rent, which will in turn give the Sukuk holders a regular income stream (Sayyid et al., 2023). On the other side, a low-quality asset might not yield enough rent payments to recover the Sukuk owners' investment, which could result in losses. Another crucial element in deciding the threat and reward of an Ijarah Sukuk transaction is institutional backing (Ibrahim and Sanusi, 2022). The likelihood that an Islamic financial institution (IFI) with a solid track record can successfully handle the risks involved with Ijarah Sukuk investments is high.

Hypotheses 2(H2): The Quality of underlying asset has positive effect on Institutional Support.

2.2.4 Market structure and institutional support

A climate that is well-supportive encourages issuers to enter the Ijarah Sukuk marketplace, bringing in more investors and boosting market liquidity (Khan, 2023). An atmosphere that is favourable to effective transactions and market operations is produced by a well-structured market with well-established rules, regulations, and marketplace infrastructure (Keshminder et al., 2022). This increases investor trust and draws institutional backing in the form of frameworks and regulatory organisations that guarantee compliance, openness, and investment protection (Khan, 2023). The Ijarah Sukuk market has a more vibrant and varied participant base, which boosts trading activity and liquidity. Market makers, brokers, and other facilitators who enable trading and market liquidity then lend institutional support in response to this (Hasan et al., 2022). To encourage effective and liquid markets, institutional support may take the shape of market-making services, liquidity-improving measures, and trading platforms.

Hypotheses 3(H3): The Market Structure has positive effect on Institutional Support.

2.2.5. Shari'ah compliance and investment decision

Shari'ah compliance has a favourable impact on investment choices, especially for people and organisations looking to make investments that adhere to Islamic principles (Khan, 2022). Investment activities must comply with Shari'ah to uphold Islamic values and principles. Investors are more likely to select Shari'ah-compliant investments if religious and ethical factors are given priority in the decision-making process (Muhammad and Haruna, 2022). Shari'ah compliance gives investors the reassurance that their investments are consistent with their values and beliefs, which has a favourable impact on their investment choices. Shari'ah compliance boosts trust and confidence among investors. Knowing that their financial decisions are being closely analysed and governed by Shari'ah gives investors a greater sense of security (Sani et al., 2022).

Hypotheses 4(H4) The Shari'ah Compliance has positive effect on investment decision.

2.2.6. Quality of underlying asset and investment decision

The quality of the underlying assets influences investing choices favourably (Duku, 2023). Investors frequently evaluate the quality of the underlying assets when contemplating investment possibilities to determine the potential risks and returns (Romadhon and Mutmainah, 2023). Underlying assets of greater calibre are more likely to produce favourable returns. Strong fundamentals, such as consistent financial performance, reliable cash flows, and promising growth prospects, increase the likelihood that an asset will generate profitable returns over the course of an investment (Harahap et al., 2022).

Hypotheses 5(H5): The Quality of underlying asset has positive effect on Investment Decision.

2.2.7. Market structure and investment decision

In fact, the market framework can influence investment choices for the better. The term "market structure" refers to a market's organizational features, such as the quantity and size of enterprises, the level of rivalry, and the obstacles to entry and exit (Bin-Nashwan et al., 2022). Competition tends to push businesses to be more inventive and efficient in a highly competitive marketplace system with lots of buyers and sellers. As a result, costs are reduced, goods are of higher quality, and productivity is raised (Bin-Nashwan and Muneeza, 2023). A competitive market layout can be advantageous for investors since it shows that businesses must always work to increase their performance to stay competitive, which could result in higher returns on

investment (Harahap et al., 2022). Financial accounts, trends in the market, and industry analysis are all included.
Hypotheses 6(H6): The Market Structure has positive effect on Investment Decision.

2.2.8. Relationship among perceives investor characteristics, cognitive biases and institutional support
The positive correlation between perceived investor traits, Shari'ah compliance, quality of underlying assets, market structure, and institutional backing can be moderated by investor cognitive biases. Cognitive biases are systematic thinking flaws that can affect how decisions are made. Here is how cognitive biases may affect how these variables interact: Investors' perceptions of the traits of other traders in the market can be influenced by cognitive biases (Yandra and Wijayanti, 2022). Confirmation bias, for instance, might cause investors to selectively perceive data in a way that supports their preexisting opinions of other investors (Duku, 2023).
Hypotheses 7(H7): Investor cognitive biases moderate the positive relationship between perceived investor characteristics Shari'ah compliance (H7a), quality of underlying asset (H7b), market structure (H7c) and institutional support.

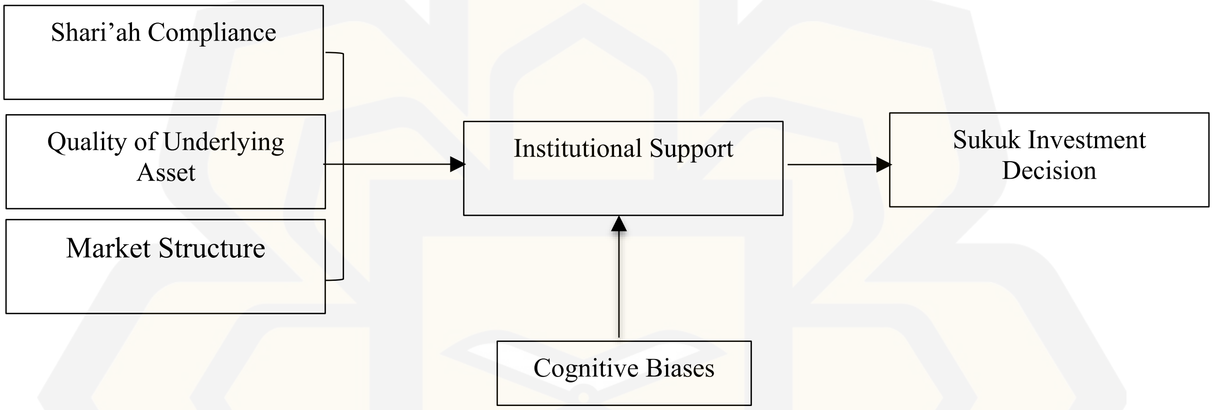
2.2.9. Institutional support and investment decision
Institutional backing can, in fact, help with investing decisions. The term "institutional support" describes the help, direction, and materials offered by numerous organisations, including governmental entities, regulatory authorities, financial institutions, and trade groups (Hariyani, 2023). Providing accurate and current information on investment opportunities, market trends, and legislative changes is a common component of institutional support (Kiaee, 2022). By lowering uncertainty and deepening their comprehension of the financial environment, this knowledge can assist investors in making well-informed decisions (Kiaee, 2022). To assess risks and prospective returns and make better investing decisions, one needs access to thorough and reliable information (Seth et al., 2022).
Hypotheses 8(H8): Institutional Support has positive effect on Investment Decision.

2.2.10. Relationship among perceived investor characteristics, institutional support and investment decision
When institutional support functions as a mediator, it aids in explaining or transmitting the impacts of the independent factors (as perceived investor characteristics, Shari'ah compliance, quality of underlying assets, and market structure) on the dependent variable (investment decisions). Institutional support plays the role of a mediating element in this situation that affects the relationship between these independent variables and investment choices (Hasan et al., 2022). Investor traits and attitudes, such as risk tolerance, financial knowledge, and biases in decision-making, might influence the investments they make (Nasir et al., 2023). By offering advice, educational opportunities, or mentoring, institutional assistance might affect how investor's view and assess their own traits.
Hypotheses 9(H9): Institutional Support mediates the positive relationship between perceived investor characteristics Shari'ah compliance (H9a), quality of underlying asset(H9b), market structure(H9c) and investment decision.

3. Methodology
This section outlines the methodology, instrument, data collection tool, and sampling strategies employed in the study, which investigates the relationships between investor characteristics (such as Shari'ah compliance, quality of underlying assets, and market structure), institutional support, and investment decisions, with cognitive biases as a moderator variable in the context of Ijarah Sukuk investors in Pakistan. The research adopts a positivistic methodology to address the study's unbiased nature, following expert advice i.e., Ascarya (2022) for contemporary methods in Islamic eco-finance, the study adheres to positivism's ontological and epistemological viewpoints, maintaining an objective and detached stance to examine variable relationships. Positivist theory guides the researcher in an objective role, adhering to predetermined rules and exploring how different variables relate to one another within the study (Nagano, 2022). The instrument used to obtain the data is one of the study's most vital and important elements. A closed-ended questionnaire was employed to gather the data for this investigation. The closed-ended questionnaire, aligned with the study paradigm, aimed to ensure honest participant feedback, utilizing a five-point Likert scale for responses. The survey underwent contextual adjustments based on expert advice and pilot study results, involving 50 individuals to assess the

instrument's appropriateness. Random sampling was employed for the pilot study group selection, and subsequent research and data collection were conducted with the same individuals to affirm the instrument's reliability. The pilot study, utilizing a random sample selection approach, concluded the assessment of research procedures and the instrument's suitability for the study. The Investor Portfolio Securities (IPS) account is essential for GOP Ijarah Sukuk investments, with primary dealers holding these Sukuk in IPS accounts on behalf of their customers. A purposive sampling strategy targeted Islamic investors, particularly those with at least two years of experience, chosen through primary dealers to ensure representation. Using Rao-soft software to determine an adequate sample size, the study received correctly completed questionnaires from 379 respondents, including top management (45%), corporate investors (30%), and SME entrepreneurs (15%). The survey was conducted over 55 days, with participants demonstrating familiarity with similar systems or instruments, affirming their understanding and ability to engage with the survey effectively.

Figure 1: Research model



4. Results and Analysis

In order to evaluate the measurement approaches and the structural equations of modelling, this study used the Smart-PLS-3 structural modelling (SEM) software. Through structural equation modelling, both the measurement model and the structural model may be evaluated using algorithms and bootstrapping. The decision to use SMART-PLS was made because it has some benefits over other software, including the ability to handle complex models, the ability to handle tiny amounts of data, and the lack of a consistency requirement. The majority of investigators prefer to utilise Smart-PLS over alternative software since it is convenient and user-friendly.

4.1. Descriptive statistics of respondents

Table 1 provides a demographic overview of the participants, with 63% men and 37% women. Age distribution indicates 30% under 30, 15% between 31 and 40, 45% between 41 and 50, and 10% over 50. Regarding education, 42% hold master's degrees, 43% have M.Phil.'s, and 15% possess doctorates. In terms of organizational roles, 20% are executives, 25% entrepreneurs, 10% non-team leads, 35% portfolio managers, 15% directors, and 10% non-team leads. Work experience shows 35% with less than 5 years, 35% with 6 to 10 years, and 30% with over 10 years. Additionally, 80% identify as practicing Muslims, 15% as non-practicing Muslims, and 5% as converted Muslims.

Table 1: Descriptive statistics of respondents

Items	Description	Percentage
	Male	63%
Gender	Female	37%

Items	Description	Percentage
	Less than 30	30%
Age	31-40	15%
	41-50	45%
	Above 50	10%
	Masters	42%
Education Level	M.Phil.	43%
	Doctoral.	15%
Investment Experience	Beginner	28%
	Intermediate	31%
	Experienced	41%
	Practicing Muslim	80%
Religious Affiliation	Non-Practicing Muslim	15%
	Converted Muslim	5%
	Executive	20%
Levels in Organization	Entrepreneur.	25%
	Non-Team Lead	10%
	Portfolio Manager	35%
Work Experience	Less than 5 Years	35%
	6 to 10 Years	35%
	Above 10 Years	30%

4.2. *Assessment of measurement model*

The measuring model's validity, including content validity, discriminant reliability, and convergent validity, was rigorously examined. Various statistics, such as cumulative reliability, Average Variance Extracted (AVE), and factor loadings, were considered to ensure convergent dependability. Emphasis was placed on factor loadings, with values above 0.70 deemed crucial for validity. Up to 20% of items could be discarded if AVE values fell below the threshold, and a minimum threshold of 0.50 was considered acceptable. Composite reliability (CR) numbers exceeded the acceptable cutoff of 0.70, and AVE values surpassing 0.50 were deemed acceptable. Convergent validity was further supported by Cronbach's Alpha exceeding 0.70, confirming the model's sufficiency. Details of convergent validity are presented in Table 2.

Table 2: Reliability and convergent validity

	Cronbach's alpha	(rho_a)	Composite reliability.	AVE
Cognitive Biases	0.820	0.841	0.875	0.586
Investment Decision	0.855	0.864	0.896	0.634
Institutional Structure	0.876	0.878	0.910	0.670
Market Structure	0.820	0.825	0.875	0.585
Quality of Underlying Asset	0.887	0.901	0.924	0.753
Shariah Compliance	0.710	0.732	0.810	0.463

4.3. *Factor loadings*

The values of factor loadings depict how much the construct contributed to the primary variables. The factor loadings' values must all be larger than or equally equal to 0.60. The numbers show that every value is higher than the cutoff point of 0.60. The minimum value in the variable ‘Cognitive Biases’ is 0.585, and the maximum value is 0.779. Similarly, the maximum value of the ‘Shariah Compliance’ is 0.749, and the minimum value is 0.754. Moreover, the values of the 'Market Structure' fall between 0.789 and 0.793. Similarly, the values of 'Investment Decision' are between 0.778 and 0.725. Additionally, the values of "Market Structure" and "Quality of Underlying Asset" are both in the range of 0.62 and 0.88. Due to their undesirable contributions, two elements are removed from the loadings because we have a 20% margin to do so. Cb6, Id3, and MS7 were the items that were eliminated because their values fell below the cutoff (Details are to be provided upon request).

4.4. Discriminant validity

The Fornel-Larcker criteria and cross-loading assessment were commonly used methods for assessing discriminant reliability; however, Janadari et al. (2018) noted shortcomings in the Fornel-Larcker technique. In this study, additional approaches, including the multitrait-multimethod matrix and Heterotrait-Monotrait correlation ratio (HTMT), were employed for discriminant validity assessment. Following Ringle et al. (2014), which suggests an HTMT value below 0.85 to indicate discriminant validity, all values in Table 3 meet this criterion, affirming unaffected discriminant validity. It is emphasized that assessing discriminant reliability is crucial for estimating measurement error size and determining the connection between two notions, necessitating consideration of audio signal attenuation in this context.

Table 3: Fornell–Larcker Criterion

		1	**2**	**3**	**4**	**5**	**6**
Cognitive Biases	1	**0.766**					
Investment Decision	2	0.667	**0.796**				
Institutional Structure	3	0.605	0.589	**0.818**			
Market Structure	4	0.538	0.576	0.762	**0.765**		
Quality of Underlying Asset	5	0.506	0.455	0.593	0.656	**0.868**	
Shariah Compliance	6	0.462	0.479	0.640	0.675	0.531	**0.681**

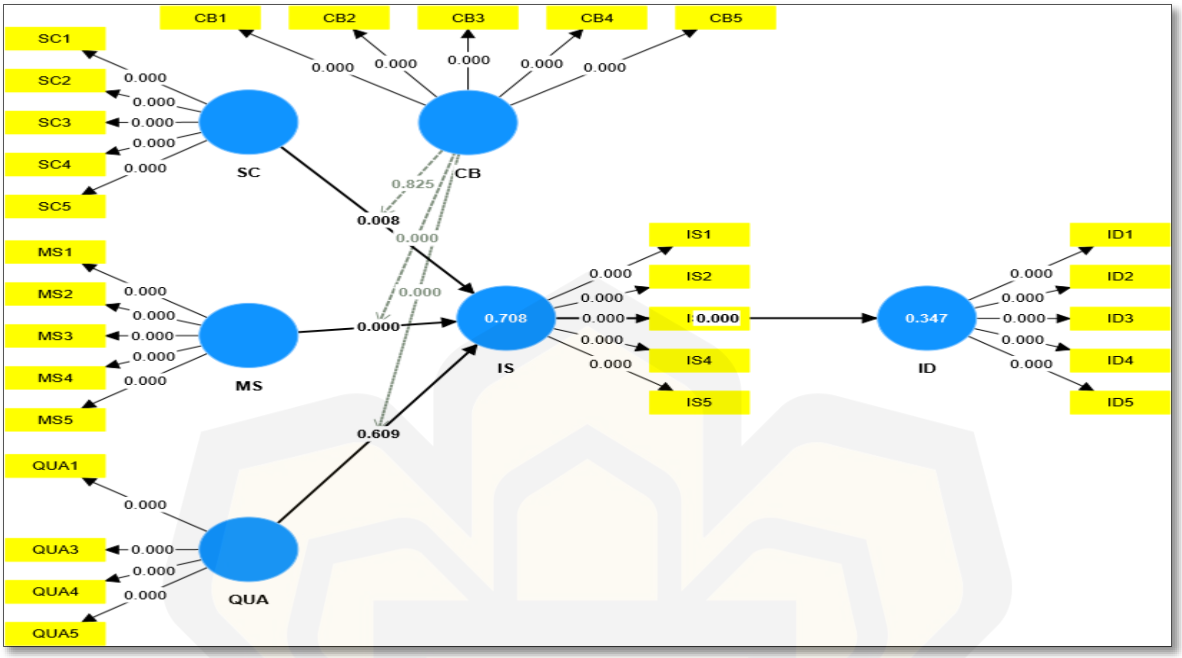
The HTMT ratio was employed in this study alongside to the Farnell and Larcker criterion to determine the discriminant validity. Ringle et al. (2015) state that the values should be smaller than 0.90.

Table 4. HTMT matrix

		1	**2**	**3**	**4**	**5**	**6**
Cognitive Biases	1						
Investment Decision	2	0.667					
Institutional Structure	3	0.605	0.589				
Market Structure	4	0.538	0.576	0.762			
Quality of Underlying Asset	5	0.506	0.455	0.593	0.656		
Shariah Compliance	6	0.462	0.479	0.640	0.675	0.531	

4.5. Model fit indices

In Smart-PLS, the measure of fit is indicated by the values of SRMR, NFI, d-ULS, and chi-square. The values of SRMR should be less than 0.08. d-ULS can be indicated in inferential statistics for assessment. All the values of the model fit indices are in the threshold values.



4.6. Regression analysis

The structural model assessment (SEM) of the research project, utilizing path coefficients () and t-statistics (Table 5) through bootstrapping, revealed various outcomes (Table 6). Hypotheses were considered accepted if the two-tailed t-value exceeded 1.96 at a 5% significance level. 'Institutional Support -> Investment Decision' (p = 0.001, t = 3.380) supports H1. However, 'Shariah Compliance -> Cognitive Biases & Institutional Support' (p = 0.825, t = 0.221) indicates a weak association. 'Market Structure -> Institutional Support' (p = 0.000, t = 11.436) is accepted, while the relationship between 'Quality of Underlying Asset' and outcomes is statistically insignificant (p = 0.609, t = 0.159). 'Market Structure -> Cognitive Biases & Institutional Support' (p = 0.000, t = 3.579) is positively connected, and 'Quality of Underlying Asset -> Cognitive Biases & Institutional Support' (p=0.000, t =3.522) demonstrates a significant relationship, leading to the acceptance of the corresponding hypothesis.

Table 5. Model fit indices

Test	Saturated model	Estimated model
SRMR	0.069	0.088
d_ULS	2.091	3.333
d_G	119.628	119.719
Chi-Square	1761.112	1761.112
NFI	0.82	0.87

Table 6. Hypothesis testing

	Path Analysis	Beta	Std. Dev	T-Stat	P-Value	Decision
H1	Cognitive Biases → Institutional Structure	0.237	0.070	3.380	0.001	Supported
H2	Institutional Structure→ Investment Decision	0.589	0.052	11.436	0.000	Supported
H3	Market Structure → Institutional Structure	0.538	0.077	6.956	0.000	Supported
H4	Quality of Underlying Asset →Institutional Structure	-0.035	0.069	0.512	0.609	Supported
H5	Shariah Compliance→Institutional Structure	0.150	0.057	2.660	0.008	Supported

H6	Cognitive Biases*Shariah Compliance→Institutional Structure	-0.013	0.058	0.221	0.825	Supported
H7	Cognitive Biases*Market Structure -→ Institutional Structure	0.265	0.074	3.579	0.000	Supported
H8	Cognitive Biases*Quality of Underlying Asset →Institutional Structure	-0.210	0.060	3.522	0.000	Supported

4.7. Mediation effect

Table 7 indicates the mediating effect of the variables. In this study, Cognitive Biases and Institutional Support is the mediating variable between Shariah Compliance and Investment Decision. The existence of mediation explains the relationship between the other variables.

Table 7: Mediation effect

	Path Analysis	Beta	Std.Dev	T stat	P values	Decision
H9	Quality of Underlying Asset → Institutional Structure → Investment Decision	-0.021	0.041	0.506	0.613	Not Supported
H10	Market Structure → Institutional Structure → Investment Decision	0.317	0.050	6.390	0.000	Supported
H11	Shariah Compliance → Institutional Structure→Investment Decision	0.089	0.035	2.541	0.011	Supported
H12	Cognitive Biases → Institutional Structure → Investment Decision	0.140	0.047	3.003	0.003	Supported

The following Tables indicate that the indirect effect is positive in the five variables; Market Structure -> Institutional Support & Investment Decision, Cognitive Biases & Quality of Underlying Asset -> Institutional Support -> Investment Decision. Cognitive Biases and Market Structure -> Institutional Support -> Investment Decision, Shariah Compliance -> Institutional Support -> Investment Decision as their values are significant at level > 0.05 it indicates that a mediation relationship exists. Additionally, the variables; Cognitive Biases & Shariah Compliance -> Institutional Support -> Investment Decision and Quality of Underlying Asset -> Institutional Support-> Investment Decision explains no mediation effect, as their values are above the significant values.

4.8 Assessment of unobserved heterogeneity

Following the systematic approach outlined by Sarstedt et al. (2020) for identifying and, if necessary, addressing unobserved heterogeneity in PLS path models, we conducted the FIMIX-PLS procedure on the dataset. As recommended by Matthews et al. (2016), we commenced the procedure by assuming a one-segment solution, utilizing default settings for the stop criterion (1010¼1.0E10), maximum iterations (5000), and repetitions (10). To determine the optimal number of segments to extract, we initially calculated the minimum sample size needed to estimate each segment, as suggested by Sarstedt et al. (2020). A subsequent post hoc power analysis, assuming an effect size of 0.15 and a power level of 80%, indicated a minimum sample size requirement of 85, allowing for the extraction of up to five segments. Consequently, we performed additional runs of FIMIX-PLS for two to five segments, maintaining the same settings as in the initial analysis.

Table 8: Assessment of endogeneity test using the Gaussian Copula Approach

Tests		Construct	Co-efficient	P value
Gaussian copula of model	1	SC	-0.069	0.004
		MS	1.136	0.008
		QUA	-0.769	0.002
		IS	-1.28	0.027
		^{C}SC	0.883	0.096

Tests		Construct	Co-efficient	P value
Gaussian copula of model Model	2	SC	-1.99	0.243
		MS	-0.055	0.678
		QUA	-0.193	0.189
		IS	0.7	0.965
		MS	0.323	0.074
				0.027
Gaussian Copula of Model.	3	SC	-0.691	0.428
		MS	-0.691	0.074
		QUA	-0.346	0.094
		IS	-0.428	0.069
		QUA	0.266	0.538
				1.826
Gaussian Copula of Model.	4	SC	-0.42	0.074
		MS	-0.074	0.368
		QUA	-0.074	0.538
		IS	0.782	1.565
		IS	-0.094	0.074
				0.074
				0.286
Gaussian Copula of Model.	5	SC	-0.074	0.074
		MS	0.109	0.109
		QUA	-1.032	0.437
		IS	-0.074	0.176
		SC	0.437	0.523
		MS	-0.157	1.321
Gaussian Copula of Model.	6	SC	0.027	0.78
		MS	-0.074	0.534
		QUA	0.178	1.656
		IS	0.523	0.074
		SC	-0.157	0.074
		QUA	0.279	0.178
Gaussian Copula of Model.	7	SC	0.536	0.78
		MS	0.008	0.521
		QUA	-0.074	2.842
		IS	0.102	2.08
		SC	0.184	0.074
		IS	0.109	0.109
Gaussian Copula of Model.	8	SC	-0.074	0.074
		MS	0.027	0.055

Tests		Construct	Co-efficient	P value
		QUA	-0.157	0.176
		IS	1.047	0.074
		MS	-0.176	0.096
		QUA	-0.157	0.074
Gaussian Copula of Model.	9	SC	0.279	0.008
		MS	0.279	-0.176
		QUA	0.355	0.008
		IS	0.178	0.178
		MS	-0.678	0.074
		IS	-2.242	0.008
Gaussian Copula of Model.	10	SC	-0.074	0.178
		MS	0.027	0.012
		QUA	-0.157	0.277
		IS	0.027	0.42
		QUA	0.538	0.074
		IS	-0.055	0.43
Gaussian Copula of Model.	11	SC	-0.074	0.353
		MS	1.14	0.698
		QUA	-1.999	0.521
		IS	-0.157	2.76
		SC	0.178	0.931
		MS	-0.157	1.998
		QUA	0.027	0.074
Gaussian Copula of Model.	12	SC	-0.157	0.004
		MS	0.197	0.046
		QUA	-0.176	0.005
		IS	-0.176	0.064
		SC	-0.881	0.855
		MS	1.306	0.055
		IS	0.437	0.094
Gaussian Copula of Model.	13	SC	-2.45	0.018
		MS	0.008	0.008
		QUA	-0.055	0.024
		IS	-1.386	0.074
		MS	0.178	0.054
		QUA	-0.773	0.167
		IS	0.008	0.279
				0

Tests		Construct	Co-efficient	P value
Gaussian Copula of Model.	14	SC	0.09	0.094
		MS	0.027	0.074
		QUA	-0.074	0.178
		IS	0.178	0.074
		SC	0.096	0.349
		MS	-0.176	0.074
		QUA	-0.258	0.074
		IS	0.184	0.26

The fit indices for one- to five-segment solutions present a nuanced perspective, with AIC3 suggesting a five-segment solution while CAIC favours a two-segment solution. Despite AIC4 and BIC advocating for a two-segment solution, aligning with dense clustering observed by the EN criterion, MDL5 also supports this, although it tends to underestimate segment numbers. The analyses do not converge on a specific segmentation solution due to the discrepancy between AIC3 and CAIC and MDL5 aligning with AIC4 and BIC. While not reaching unanimous agreement, the overall findings suggest that unobserved heterogeneity is not at a critical level, emphasizing the robustness of the dataset analysis.

Tabe 9: Fit Indices for the one-to five-segment solutions

Information Criteria	1	2	3	4	5
AIC (Akaike's Information Criterion)	6678.62	3337.02	2248.12	2088.21	**1485.77**
AIC3 (Modified AIC with Factor 3)	6685.62	3352.02	2271.12	2119.21	**1524.77**
AIC4 (Modified AIC with Factor 4)	6692.62	3367.02	2294.12	2150.21	**1563.77**
BIC (Bayesian Information Criteria)	6716.00	3417.14	2370.96	2253.78	**1694.06**
CAIC (Consistent AIC)	6723.00	3432.14	2393.96	2284.78	**1733.06**
HQ (Hannan Quinn Criterion)	6692.53	3366.83	2293.82	2149.81	**1563.26**
MDL5 (Minimum Description Length with Factor 5)	6921.55	3857.59	3046.32	3164.04	**2839.23**
LnL (LogLikelihood)	-3332.31	-1653.51	-1101.06	-1013.11	-703.88
EN (Entropy Statistic (Normed))		0.91	0.88	0.87	0.86
NFI (Non-Fuzzy Index)		0.94	0.90	0.87	0.84
NEC (Normalized Entropy Criterion)		141.14	184.88	202.84	222.54

Notes: AIC: Akaike's information criterion; AIC3: modified AIC with factor 3; AIC4: modified AIC with factor 4; BIC: Bayesian information criteria; CAIC: consistent AIC; HQ: Hannan Quinn criterion; MDL5: minimum description length with factor 5; LnL: Log Likelihood; EN: entropy statistic; NFI: non-fuzzy index; NEC: normalized entropy criterion; na: not available; numbers in bold indicate the best outcome per segment retention criterion.

4.9 Analysis

In this study, we explored the impact of investor characteristics on Ijarah Sukuk investment decisions in the context of Islamic banking. Our findings reveal a positive association between Shari'ah-compliant attitudes of investors and their inclination towards Ijarah Sukuk investments (H1). Importantly, Shari'ah-compliant features strongly correlate with Institutional Support, affirming the influence of institutional backing on investor characteristics (H2). Investors, particularly those valuing Islamic investments, warmly acknowledge the efforts of state banks, even with lower returns compared to conventional options (H2). A robust market structure is crucial for investors, as affirmed by the acceptance of H3, underscoring the significance of a comprehensive market structure for successful Islamic securities (Surachman et al., 2023). Contrarily, the rejection of H4 indicates that investors prioritize institutional support and market structure over the quality of underlying assets in their decision-making processes (Naeem et al., 2023). H5 is accepted, highlighting a strong association between Shari'ah Compliance and Institutional Support (Delle Foglie and Keshminder, 2022), emphasizing the pivotal role of institutional backing for Shari'ah-compliant products. However, H6 and H7, concerning the mediation of cognitive biases and institutional support in certain relationships, are rejected. Notably, H8 is accepted, revealing that cognitive biases consistently strengthen the relationships between market structure, Shari'ah compliance, institutional support, and investment decision. The Theory of Planned Behavior (TPB) elucidates the connection between an individual's attitude, subjective norms, perceived behavioral control, and their intention to perform a behaviour, applicable to diverse contexts like health, finance, and the environment. In the context of the COVID-19 pandemic, TPB could elucidate why some countries implemented financial measures to alleviate economic challenges while others did not. Nations adopting such measures likely exhibit a positive attitude towards government intervention, perceiving it as necessary for economic control and equity enhancement. In contrast, countries refraining from such measures may have negative views, fearing ineffectiveness or harm, and expressing concerns about increased national debt and inflation. This highlights how TPB can be employed to understand the underlying attitudes shaping economic responses during a crisis.

The theory could also be used to explain why the problem of concentration of wealth has not been solved by the financial measures that have been implemented (Ibrahim et al., 2022). The theory suggests that intention is not the only factor that determines behaviour. Perceived behavioral control is also important, and it is possible that individuals and businesses do not believe that they have the control to change their financial situation (Ali et al., 2023). This could be due to several factors, such as the lack of access to credit, the high cost of living, or the lack of job opportunities. The ITPB is a useful tool for understanding the factors that influence individual behaviour (Ramdhani et al., 2022). It could be used to help countries develop more effective financial policies to address the economic problems that have been exacerbated by the COVID-19 pandemic.

5. Conclusion and Recommendation

The success of Meezan Bank's 2002 Ijarah Sukuk issuance in Pakistan has significantly heightened awareness of Islamic finance, leading to a surge in demand for Shari'ah-compliant investment products and subsequent issuances of similar instruments. The bank's strong track record played a pivotal role in building investor confidence and contributing to the overall success of the sukuk issuance. In the context of economic development in Pakistan, a study focusing on the GoP Ijarah Sukuk initiated by Meezan Bank reveals valuable insights into the driving factors behind investor decision-making and economic growth. The research emphasizes the paramount importance of Shari'ah compliance, followed by market structure and the quality of underlying assets in the recently reorganized Islamic market of Pakistan. The study, a pioneering effort in the country, holds potential value for nations establishing Islamic banking cultures, offering beneficial insights for policymakers aiming to broaden the range of Islamic instruments available to investors. The research contributes to the theoretical understanding of how institutional support influences economic development, specifically in the context of GoP Ijarah Sukuk. By examining the specific mechanisms through which institutional support drives economic development, the study shed light on the importance of supportive structures such as Institutional Support, Market Structure and quality of underlying asset fostering economic growth. Islamic Economic System focuses on social well-being rather individual benefit. The countries where the culture is founded on strong religious basis, people prefer lessor benefit rather than Haram benefit. State is responsible to develop such structures, economic policies which cater each person living in society. So, every person can work and enjoy what he or she strives for. It will also help the economy to maintain the balance of wealth. The study also provide theoretical insights into how supportive structures, resources, and networks can spur economic growth, job creation, and sustainable development.

The practical implications of this study involves actionable recommendations to enhance institutional support and drive economic development. These include establishing dedicated support units, providing tailored assistance, educational programs, investment guides, and networking opportunities. Strengthening communication and transparency about the types of support, eligibility criteria, and expected outcomes is crucial to building trust and confidence among investors. Collaborative partnerships with regulatory bodies, industry associations, financial institutions, and government agencies are recommended to leverage resources and networks for comprehensive support. Capacity-building programs focusing on investment literacy, risk management, financial analysis, and Shari'ah compliance can empower investors and contribute to informed decisions. Establishing practical feedback mechanisms, such as surveys and consultations, allows institutions to gather input, address concerns, and enhance the effectiveness of support programs.

The study acknowledges several limitations that may guide future research. Firstly, it concentrated on Ijarah Sukuk and the influence of institutional support on investor perspectives in the Islamic market of Pakistan, suggesting the need for extending the analysis to various Sukuk and investment products for a broader understanding. Secondly, the research utilized a questionnaire-based approach for data collection, emphasizing the potential for future studies to explore additional sources and qualitative methods to delve deeper into investor decision-making dynamics and the role of institutional support. Thirdly, the focus on Shari'ah compliance, market structure, and quality of underlying assets in influencing investor behaviour suggests potential for future research to incorporate other factors like macroeconomic indicators, global financial trends, and political stability. Lastly, while providing insights into the impact of institutional support on economic development, further research could delve into specific mechanisms and policies institutions can adopt to enhance their support structures, fostering sustainable economic growth through Shari'ah-compliant investments.

Islamic financial instruments play a pivotal role in linking a nation's GDP with assets available for asset-backed Sukuk structures, emphasizing the importance of aligning these instruments with overall national productivity to avoid resource overutilization and potential economic challenges. In Indonesia, the corporate sukuk market size lags significantly behind Malaysia, representing less than 10% of total private-sector capital-market debt outstanding. Despite a 60% decrease in new Sukuk issuance in 2020, the potential for expanding the corporate Sukuk market is substantial, contingent on addressing structural barriers. The research underscores the crucial role of "institutional support" in the Pakistan financial sector, highlighting the need for Central Bank to lead structural changes in collaboration with other national institutions, public and private banks, and advocating for the complete elimination of the conventional sector, both domestically and internationally.

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Appendix

Role of Institutional Support in the Economic Development: Investor Perspective. A Case of GoP Ijarah Sukuk.

Dear Respondent,

We are humbly inviting you to partake in a research survey with regards to exploring and validating various confidence-building measures. We assure you that your answer will not be recognized with you personally. This research is purely academic and any information given will be used only for our research purpose. We pledge the confidentiality of the information given.

The completion of this survey takes about 10–15 minutes. We hope you will take few minutes of your valuable time to fill this questionnaire and return it to us. We are obliged to you.
Thanks, and best regards.

Gender
- o Male
- o Female

What is your age?
- o 20– 29
- o 30 – 45
- o 46 – 59
- o Over 60

Educational Qualification:
- o Graduate
- o Postgraduate

Designation:

- o Corporate Manager
- o Entrepreneur
- o Director
- o Portfolio Manager

Experience
- o Less than 3 Years
- o 5-10 Years
- o 10-15 Years
- o 15-20 Years
- o More than 20 Years

Investment Experience.
- o Beginner.
- o Intermediate.
- o Experienced investors.

Religious Affiliation:
- o Practicing Muslim
- o Non-Practicing Muslim
- o Converted Muslim

1. **Shariah Compliance**
- o Rate the importance of investing in Shariah-compliant assets in your investment strategy.
- o Not important at all
- o Slightly important
- o Moderately important
- o Very important
- o Extremely important

Please indicate your level of confidence in identifying Shariah-compliant investment options.
- Not confident at all
- Slightly confident
- Moderately confident
- Very confident
- Extremely confident

To what extent do ethical considerations influence your investment decisions?
- Not at all
- Slightly
- Moderately
- Significantly
- Extremely

How frequently do you refer to Shariah guidelines when evaluating potential investments?
- Rarely
- Occasionally
- Sometimes
- Often
- Always

Please rate your level of familiarity with different types of Shariah-compliant investment products.
- Not familiar at all
- Slightly familiar
- Moderately familiar
- Very familiar
- Extremely familiar

2. Quality of Underlying Asset

Please rate the importance of conducting a thorough evaluation of the quality of underlying assets before investing in Sukuk.
- Not important at all
- Slightly important
- Moderately important
- Very important
- Extremely important

To what extent do you believe that the quality of underlying assets affects the risk and return profile of Sukuk investments?
- Not at all
- Slightly
- Moderately
- Significantly
- Extremely

How confident are you in assessing the quality and financial performance of the underlying assets backing Sukuk investments?
- Not confident at all
- Slightly confident
- Moderately confident
- Very confident
- Extremely confident

Please rate the level of due diligence you typically undertake to evaluate the quality of underlying assets before investing in Sukuk.
- Minimal due diligence
- Limited due diligence
- Moderate due diligence
- Extensive due diligence

- Comprehensive due diligence

Considering the potential risks associated with Sukuk investments, how important is it to you that the underlying assets are of high quality and meet stringent criteria?

- Not important at all
- Slightly important
- Moderately important
- Very important
- Extremely important

3. **Market Structure**

Please rate the importance of understanding the market structure of the Sukuk market before making an investment.

- Not important at all
- Slightly important
- Moderately important
- Very important
- Extremely important

To what extent do you believe that the market structure of the Sukuk market impacts the risk and potential returns of investments?

- Not at all
- Slightly
- Moderately
- Significantly
- Extremely

How confident are you in your knowledge and understanding of the market structure of the Sukuk market?
Not confident at all

- Slightly confident
- Moderately confident
- Very confident
- Extremely confident

Please rate the level of importance you assign to factors such as market liquidity, transparency, and regulatory oversight when considering investments in the Sukuk market.

- Not important at all
- Slightly important
- Moderately important
- Very important
- Extremely important

Considering the potential risks and opportunities in the Sukuk market, how important is it to you that the market structure is well-established and supports investor confidence?

- Not important at all
- Slightly important
- Moderately important
- Very important
- Extremely important

4. **Institutional Support**

Please rate the importance of having strong institutional support, such as regulatory bodies and industry associations, in the Sukuk market.

- Not important at all
- Slightly important
- Moderately important
- Very important
- Extremely important

To what extent do you believe that robust institutional support enhances investor confidence in the Sukuk market?
- Not at all
- Slightly
- Moderately
- Significantly
- Extremely

How confident are you in the effectiveness of regulatory frameworks and investor protection mechanisms in the Sukuk market?
- Not confident at all
- Slightly confident
- Moderately confident
- Very confident
- Extremely confident

Please rate the level of importance you place on the availability of reliable information, research, and market analysis provided by industry associations or reputable institutions in the Sukuk market.
- Not important at all
- Slightly important
- Moderately important
- Very important
- Extremely important

Considering the potential risks associated with investing in Sukuk, how important is it to you that there is a supportive infrastructure in place to facilitate efficient issuance, trading, and settlement processes?
- Not important at all
- Slightly important
- Moderately important
- Very important
- Extremely important

5. Cognitive Biases

To what extent do you believe that cognitive biases can influence investment decisions in the Sukuk market?
- Not at all
- Slightly
- Moderately
- Significantly
- Extremely

How aware are you of cognitive biases that may affect your decision-making process when investing in Sukuk?
- Not aware at all
- Slightly aware
- Moderately aware
- Very aware
- Extremely aware

Please rate the level of influence cognitive biases have on your investment decisions in the Sukuk market.
- No influence at all
- Slight influence
- Moderate influence
- Significant influence
- Strong influence

To what extent do you actively try to mitigate the impact of cognitive biases on your investment decisions in the Sukuk market?
- Not at all
- Slightly
- Moderately

- Significantly
- Extremely

How important is it for you to seek external opinions or conduct thorough research to counteract potential cognitive biases when investing in the Sukuk market?

- Not important at all
- Slightly important
- Moderately important
- Very important
- Extremely important

6. Investment Decision

Please rate the importance of conducting thorough research and analysis before making Sukuk investment decisions.

- Not important at all
- Slightly important
- Moderately important
- Very important
- Extremely important

To what extent do you consider the risk-return profile of Sukuk investments when making investment decisions?

- Not at all
- Slightly
- Moderately
- Significantly
- Extremely

How confident are you in evaluating the creditworthiness and financial health of issuers before investing in Sukuk?

- Not confident at all
- Slightly confident
- Moderately confident
- Very confident
- Extremely confident

Please rate the level of importance you place on factors such as the type of Sukuk, tenure, and pricing when considering Sukuk investment opportunities.

- Not important at all
- Slightly important
- Moderately important
- Very important
- Extremely important

Considering your investment objectives, how well do Sukuk investments align with your financial goals?

- Not well at all
- Slightly well
- Moderately well
- Very well
- Extremely well

7. Investor confidence in investing in Pakistan Ijara Sukuk and assess their perception of promised institutional facilities.

Please rate your overall confidence in investing in Pakistan Ijara Sukuk.

- Not at all confident.
- Slightly confident.
- Moderately confident.
- Very confident.
- Extremely confident.

Are you aware of the promised institutional facilities associated with investing in Pakistan Ijara Sukuk?
- Yes
- No
- Maybe

How confident are you that the promised institutional facilities are provided?
- Not at all confident.
- Slightly confident.
- Moderately confident
- Very confident.
- Extremely confident.

How likely are you to recommend investing in Pakistan Ijara Sukuk to others?
- Very unlikely
- Unlikely
- Neutral
- Likely
- Very likely

How confident are you that the promised quality of underlying asset are provided?
- Not at all confident.
- Slightly confident.
- Moderately confident.
- Very confident.
- Extremely confident.

How confident are you that the promised market structure is provided?
- Not at all confident.
- Slightly confident.
- Moderately confident.
- Very confident.
- Extremely confident.

Which of the following the most important factor inclined you to invest in sukuk market.
- Shariah Compliance.
- Market Structure.
- Quality of Underlying Asset.
- Institutional Support.
- Cognitive Biases

DISCUSSION PAPER

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Actuarial Valuation (Pricing) of Takaful Products. A Malaysian Experience

Mohd Ma'Sum Billah[a]

Abstract

Takaful is Islamic insurance scheme and, is a policy based on the holistic approach of mutual cooperation, solidarity and brotherhood against unpredicted risk or catastrophes, in which the parties involved, are expected to contribute mutually within Maqasid al-Shari'ah. The nature of the principle of Takaful is fundamentally different from the principle of conventional insurance. Takaful provides insurance coverage to society, which practices based on the Shari'ah principles. In Malaysia, there are several companies, which offer Takaful operation and they are Takaful Malaysia Berhad, Takaful Etiqa Berhad, MNI Takaful Berhad and a few. In Takaful practices, rating or pricing Takaful products and services are determined based on the actuarial science. In this article however an attempt is made to analyse actuarial technique of valuation (pricing) of Takaful products.

Keywords: *Actuary, Takaful, Shari'ah, Maqasid al-Shari'ah, Valuation, Pricing, Mortality rate, Mobility rate*

Introduction

Actuary is an expert who calculates insurance risks and payments by studying both the mobility and the mortality rates (Billah, 2023a). However, pricing is referring to the value of the policy and the amount of premium rates that need to be contributed by the participant as a result of calculating the insurance risk by the actuaries' people. Therefore, there is a department called actuary and pricing department in Takaful Company, which specialized in this field. The objective of this department is to provide quality products with good pricing rates. Therefore, the product and the pricing need to fill some criteria before it can be considered as quality product:

- There is a mutual cooperation exist between participant and the Takaful operator in managing the fund.
- The profit that creates from the Mudarabah fund is lawful.
- The product is able to serve the ummah and provides benefits in line of Shari'ah principles.
- The product is able to provide protection and coverage to the participants with a reasonable premium rate.

The sentence means that Allah has encouraged and permitted in trade and commerce and prohibited 'Riba' in practices. This verse is related with the concept of the pricing in Takaful, which is the responsibility of the actuary and pricing department in preparing the costing for the Takaful product that does not contain any elements of 'Riba' and 'Gharar'. Takaful also emphasizes regarding the cooperation in helping each other

[a] Senior Professor of Finance & Insurance at the Islamic Economics Institute, King Abdul Aziz University, Kingdom of Saudi Arabia
Email: profdrmasumbillah@yahoo.com

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between participant and Takaful operator (Billah, 2023a). This includes operating the business in a sound and prudent manner. The participant contributes certain amounts in the Takaful plan, as a result the operator will provide the coverage accordingly. Similarly happens in the Mudarabah fund whereas the sharing of profit and lost will divide into a portion that agreed by the participant and operator at the beginning of the contract (Ansari, 2022). Therefore, there is no issue on misallocation of fund or breach of trust. The concept of the cooperation and help each other is enshrined in the Qur'an. Allah (SWT) said:

وتعاونوا على البر والتقوى

"*Cooperate each other in righteousness and piety*" (Al-Qur'an 5:2).

The actuary and pricing department has the responsibility to prepare costing for the new product by looking into mobility rates and morality rates as a consideration. The morality rates and mobility rates should come from the primary sources or originally result from the research which is done by the marketing department in Takaful itself. It is due to emphasize of pure and quality product offers to the society. However, the way that the price is fixed must be also influenced by the profit of company as well as the welfare of society.

Products

Every product has its own objectives, characteristics of participant, amount of contribution (premium rate), maturity period, benefits and type of payment as well as allocation of the fund and application form. The actuary and pricing department takes all information that provides by the marketing department to determine the pricing for each Takaful plan. For example, in fixing the rates of claim that can be made by the participant, the department needs to refer from mobility rates and morality rates. The mobility rates is referring to average rate of accident in Malaysia and the morality rate is referring to the average people death in certain time. The statistical and data collection also may be useful in calculating the cost of the Takaful plan. Therefore, primary sources much more important in order to get an accurate and quality result. In the family Takaful plan for example, the contribution made is relates to the maturity period that choose by the participants either 10 years or 50 years. The longer maturity period the participant's takes the more percentage of contribution will be credited into Tabarru' fund. The rational is the longer the participant takes the policy, the higher the risk will be faced as well as the coverage.

As has been observed that, the type of coverage that offers to the participants is depending to the type of policy. For example, 'Takaful Rawat' is purposely to help the participants in paying cost of treatment in the hospital; if there is accident of illness occur to the family members. However, 'Takaful Sihat' (Medical Takaful scheme) is purposely to provide coverage in term of money if the participant has any critical illness that determines by Takaful. Similarly, in term of claim that the longer the participant contributes to the plan, the higher coverage they will receive from the Takaful Company.

Table 1: Services offered by the Takaful company

Family Takaful	General Takaful
▪ Family Takaful Plan ▪ Family Takaful plan for Education ▪ Ma'asyi Takaful Plan ▪ Siswa Takaful Plan ▪ Hawa Takaful Plan ▪ Annuity Scheme of Takaful KWSP ▪ Health Takaful ▪ PTKB Takaful Plan	▪ Motor Takaful ▪ Accident Takaful ▪ Engineering Takaful Marine Takaful ▪ 'Rumah Desa' Takaful scheme ▪ Pilgrimage Takaful scheme ▪ Basic Fire Takaful scheme

Shari'ah rulings

The whole law is permeated by religious and ethical consideration, where each institution, transaction or obligation is measured by the standard of religious and moral rules. For instance, the prohibition of interest and uncertainties, the concern for the equality of the two parties and the concern for the just average (Mithl). The

basic of the Shari'ah ruling of Takaful is based on mutual cooperation between two parties as is stated in the Qur'an (Al Maidah: 3):
"And co-operate each ye one another in righteousness and piety, and do not co-operate in sin and rancour".

From the above verse, the Takaful relates to the morality risk, which requires appropriate protection from re-Takaful (Billah, 2023b). Therefore, it shows the implication of mutual co-operation between both parties. As an Islamic insurance, all activities in Takaful are prevented from Riba'. In other words, it is a prohibition of interest as Riba' in the contractual agreement, as well in determining the pricing of Takaful. Allah had said in Qur'an (Al-Baqarah : 278):

"Allah had permitted trade, but not allowed riba".

Takaful policy

In Takaful policy, the actuary plays an important role in determining the pricing for the Takaful plan as well as the rate and morality rate in preparing the costing. There is also involves projector investor return or in conventional insurance, it most familiar with the name of investment rate. Actuary department in expecting the return of profit uses this projector investment return. The mobility rate is used for measuring the critical illness and medical expenses. The morality rate is most used in Khairat' (Mirza et al., 2020). Similarly, with other conventional insurance, Takaful also recognizes time value of money in order to measure the expected return for the company. However, the interest a rate in time value of money is considered as profit margin in Takaful practices which is lawful in Islam.

The Central Bank of Malaysia is only to provide the guidelines to all insurance companies in preparing the cost for new product. Only after the approval from the Central Bank, the product can be launched. The Central Bank does only a part of filing the documents. If the Takaful Company plan to create new Takaful plan, the marketing department will do a research based on the company need which emphasizes customer's need and preference, request by the society and the competitors' challenge. After gathering the data, the marketing will transfer the information to the actuary department. The actuary department will prepare the costing based on the marketing information, morality rate and mobility rate. They need to make comparison regarding the amount with the statistical and existing rate. The proposal is submitting to the management department for the approval. After the approval, the proposal will submit to the accuracy at the consultant company. The Takaful Company hires the consultant company. Finally, after getting approval from the Central Bank, the IT department will prepare system for the new products.

Responsibilities of actuaries

The role of actuary in Takaful is recognized under the Islamic Insurance (Takaful) regulation, which contains three main areas:

Appointed actuary

A Takaful operator must have an appointed actuary who has responsibility to the report to the Central Bank should he/she fails to take the necessary steps to address the issues that may expose the company to undue risk of being insolvent.

Product certification

A Takaful operator is required to submit the regulatory authority (Central Bank) certification by an actuary who certifies that the premium basis of any life insurance product or as the Takaful contribution basis of any product of the Family Takaful Business is based on sound principles.

Actuarial valuation

A Takaful operator is required to submit yearly to the Central Bank an actuary report on the actuarial investigation the financial condition of the life insurance found, as well as part of Family Takaful Business specifically allocated for the payment of the Takaful benefit.

Pricing Techniques in Takaful. A Malaysian Experience
Abdullah wants to buy a Takaful policy from an authorized agent. Initially, he is 30 years old. He indulges in Family Takaful Plan and the maturity period ending at 25 years. In the policy states that, the proportion between Al-Mudarabah fund and At-Tabarru' fund is 91.7: 8.3, respectively. His policy amount is RM 50,000.

The Issue Arises:

- What is the monthly premium?
- What is the ratio of amount allocated in Tabarru' and Mudarabah fund?

Calculation:
Total Fund: RM 50,000 / (25 Years x 12 months)
: RM 166.67 per months

Tabarru' Fund: RM 166.67 x 8.3 %
: RM 15.00
Mudarabah Fund: RM 166.67 x 91.7 % = RM 150.02
If Abdullah passes away at the age of 40 years, what is the total amount of money can be claimed by his beneficiary?

Abdullah already contributed the money in first 10 months.

Calculation:
Mudarabah: RM 166.67 x 10 years x 12 months
: RM 20,000

If the profit in 10 years is about RM 2,500 and the contribution ratio is 60:40.

The participant will get 40% from the underwriting investment, which is RM 1,000.

Total fund: RM 166.67 x 20 remaining years
: RM 3,333

Therefore, the claimed that should be given to his beneficiary is:

= RM 20,000 + RM 1,000 + RM 3,333
= RM 24,333(will be distributed according to Faraidh)

Preference level
Why many people like to buy conventional policy insurance rather than Takaful insurance?

Practically, the transaction in conventional insurance is based on buy and sale agreement. The company will be the seller while the participant will be the buyer. When talk about claim in this contract, the policyholders will have full right to claim whole amount from the company. This is one attractive attribute that makes people buy policy from conventional insurance company. People may in doubt about why they can't claim whole amount in Takaful practice. The main reason is that the Takaful has 2 accounts. One account is personal account, while the other is participant special account. Both accounts are treated as Mudarabah and Tabarru' account respectively. In this case, the participant can only claim the amount in participant account. This has been stated in pricing procedure of Takaful, which is compliant to the Shari'ah principle as Allah (SWT) said (Al-Qur'an. 3:85):

"*…if anyone desires a system other than Islam never will it be accepted from him…*"

The issue of claim at the end of policy period
If someone doesn't make any claim during the policy period, what should one receive at the end of maturity?

In this case, Takaful practice provides the following benefits to the participant. Each Takaful product has its own pricing procedures, and the Takaful Company tries on serving participants the best, in line with BNM (2019) i.e., “A licensed Takaful operator carrying on Takaful business has the duty to manage the Takaful operations in accordance with Shari’ah and in the best interest of the Takaful participants. This includes operating the business in a sound and prudent manner”. Basically, there are two types of benefits that can be received by the policyholders.

Non-Claim Benefit (NCB)
The regulation in all countries already stated that for those who do not face any risk within risk period, they would be claimed by NCB. The illustration of NCB is as follows:

Table 2: Non-Claim Benefit (NCB)

Year	Contribution amount	Discount	Total payment
1	RM 1200	-	RM 1200
2	RM 1200	25%	RM 900
3	RM 1200	30%	RM 840

The Prophetic ruling (Sunnah) provide justification on NCB:

“…Muslims are bound by conditions, except the one, which permits the prohibited one and the one prohibits the permitted one…” (Sunan al-Tirmidhi. No. 1352).

Bonus
This will be given to Takaful participants at the end of maturity who do not make any claim. Basically, this money belongs to Takaful operator. It indicates that the company offers it as an appreciation in favour of participants.

The basic calculation in computing bonus:
= surplus – (General Expenses + Management Cost) – Zakat = Net Profit.

The bonus also can be treated as Sadaqah. As mentioned in the Qur’an (2:276):

“*Allah (SWT) will deprive usury of all blessing, but will give increase for deeds of charity, for he loveth not creatures ungrateful and wicked*”.

Family Takaful scheme
How to calculate the amount of premium and its coverage in Family Takaful Scheme?

There are several guidelines that should be adhering by the policyholders to determine the premium and its coverage amount. The steps are:

Step 1: Determine the group of age.
Step 2: Refer to the rate given in Takaful scheme in Family Takaful Schedule.
Step 3: Calculate the amount based on the percentage find in the schedule.

The final amount derived from these steps will be divided into two accounts namely, Personal account (PA) and Participants special account (PSA).

Example of practicality
Abdullah is taking a Family Takaful Plan and the maturity period is 30 years. His age right now is 25 years old, and he contributes about RM 16.90 in his Takaful account. This account can become his back up from the

unpredicted risk. However, he is still unsure about the allocation of fund and why it is different from the conventional practice? Generally, the payment made by the policyholder in conventional insurance will be credited into the general insurance account. However, it is different from the Takaful operation. The money collected will be allocated into Mudarabah and Tabarru' funds accordingly by ratio. Abdullah in this case, can be considered as Takaful participant and the company where he buys the policy is known as Takaful operator. The money that the company received will be segregated into different channels. The main channels are:

- Management Cost
- Risk Fund
    - I. IBN
    - II. Reserved claim
    - III. Unearned premium
    - IV. Re-Takaful
- Special Security Fund (SSF)
- Surplus

IBNR (Incurred but Not Recorded)
This is a type of Risk Management fund that exists in life and family Takaful. The IBNR is a reserved fund for the occurrences that ought to happen out of the policy period. The fund is known as IBNR reserved. The fund is compulsory to all Takaful operators. In other words, Takaful operator should establish this fund for the convenience of Takaful participants. The rate of contribution in this fund is 2.5% based on the actuaries' computation. Example that can be used to explain detailed about IBNR fund. Abdullah buys a Takaful policy for 1 month. He buys it from Takaful Nasional with amount of RM 10,000. During the policy period, Abdullah meets an accident, and he becomes handicapped. His beneficiary does not lodge a report to the related parties (Takaful Company, police etc.). After several months (out of the policy period), Abdullah claims his right from the Takaful company. The company will not give the money from Tabarru' account because the Tabarru' fund is belonging to other participants. Therefore, the company will debit an amount reserved for him in the IBNR fund.

Claim Reserve
The claim made by the participants during the policy period is sourced from the "claim reserve". This is the reserved that collected from participants' premium contribution as per underwriting. This contribution can be made by using several ways like from the deduction of salary, individual pocket money etc. The participant can claim the benefit from the Takaful operator if they face catastrophes like accident, injury, loss or damages and other unpredicted risks. So, the company tends to put a high rate on this fund for the purpose of gaining more funds as well as for the benefit of participants. As far as this fund is concerned, the main objective is to strive for the satisfaction of policyholders.

Unearned Premium
The participants should contribute certain amount of contribution in the Takaful fund. This amount can be contributed monthly or quarterly depending on the contract agreed during the underwriting. Sometimes, participants tend to contribute unequal amount throughout the policy period. This practice is not wrong, but it tends to get low amount in the fund. Alternatively, Takaful Company provides one special fund known as unearned premium fund. This fund serves as a backup for the participants that do not contribute equally in their premium payments. Here is an example to elaborate more about the unearned premium fund. Consider the following cash flow:

Table 3: Hypothetical cash flow

Month	Jan	Feb	Mar	Apr
Premium	RM 100	RM 80	RM 90	RM 150

Based on this cash flow, the participants do not contribute a similar amount in the whole four months. So, the company tries to make it same amount of premium in each month. Therefore, the company takes out some money from the unearned premium fund to cover the shortage. This fund comes from the participants in which they have put extra amount than required in the premium.

Re-Takaful

Re-Takaful is a type of risk management fund (BNM, 2019). The fund is required for the Takaful company for its risk (Takaful Company risk). The company can buy the policy from other companies agreed to help them when the company faces unpredicted risk (Billah et al., 2019). In the Malaysian context, the re-Takaful has been practiced by several Re-takaful providers namely MNRB and so on. Re-Takaful refers to a transaction made among the Takaful operators agreed to join responsibilities and solidarity. There are two types of re-Takaful arrangements as follows:

Facultative

This type of re-Takaful arrangement reflects the takaful by product. In other words, this arrangement goes products by products. For instance, the marine Takaful can only be re-Takaful by its own-based product (marine with marine). This is optional to the Takaful company and there is no strict regulations on it depending on the companies' mutual understanding.

Treaty

This is compulsory to all Takaful operators and has been regulated by law and standard policies. This nature reflects to all Takaful products can be re-Takaful under one roof. There is no restriction imposed on the products. Under this nature, it can be classified according to compulsory and non-compulsory.

All the risk management funds mentioned above are treated based on at-Tabarru' principle. This principle refers to a gift or donation, which is given away by one person to others sincerely without any reward in return (Billah et al., 2019). The funds are mainly for the needy and helpless people for their security, survival and happiness. Based on a Hadith, this fund will not be returned to or claimed back by participants unless they face any unknown risk. Prophet Muhammad (PBUH) said:

'Abdullāh ibn 'Abbās (may Allah be pleased with him) reported that the Prophet (may Allah's peace and blessings be upon him) said: "The one who takes back the gift he has given to someone is like one who eats his vomit." In another wording: "The one who takes back the charity that he gave is like a dog that vomits then eats its vomit." (Sahih al-Bukhari, No. 2621 & 2622).

A proposed provision may be included in the Takaful premium is Special Security Fund (SSF). What is SSF?

SSF is a fund that will help Takaful company from facing insolvency or bankruptcy. At this stage, the fund is not established yet but, in a process, to get approval from the Central Bank of Malaysia. The establishment of this unique fund requires big funding and capital to set up. The capital requisite is around RM 10 million up to 50 million. This fund is based on Shari'ah principles for sharing the burden between concern parties. The holy Prophet (PBUH) encouraged people to share the difficulty faced and try to make it lighter. Prophet (PBUH) said:

"*…Abu Huraira reported: The Messenger of Allah, peace and blessings be upon him, said, "Whoever relieves the hardship of a believer in this world, Allah will relieve his hardship on the Day of Resurrection. Whoever helps ease one in difficulty, Allah will make it easy for him in this world and the Hereafter"* (Sahih Muslim, No. 2699).

The mechanism suggested in the SSF is basically based on cooperation between participants and Takaful operator. Both need to contribute proportion of money in the fund. For example, the participants may contribute 2% to the fund and the operator also does the same with 2% in the account for each participant. This amount can be accumulated in a specific period, and, with that amount, operator can cover or back up it from loss. The amount that is already used can be distributed or reimbursed to the operator on the lump sum basis. The principle implies here is Qard al-Hassan. This term refers to benevolent loan to a specific party. There is no

additional charges imposed. The company can manage the fund for the protection from bankruptcy or loss. The extra amount derived from the loan should be used for charity and welfare purposes like helping the needy, building welfare centre and cater or manage orphanage. This fund shall be realized and approved by the Central Bank. Viewing it as a part of the development of Islamic economics, it also tends to help Islamic institutions suffering from unexpected risk. The benefit from establishing the SSF may be shared between contributing parties.
The management cost, should the company bear all the expenses, or should they take part of premium as the cost?

The establishment of company like Takaful company, which faces several problems especially in terms of term of budget and expenses. Even though it involves a lot of investment activities and other financial activities, Takaful company still requires support or other source for survival. One of its sources come from the participants' premium contribution. This contribution channels into different funds for the participants' benefit, apart from the premium, the management cost. This cost is the crucial in Takaful practices. Without proper management, the Takaful company may not serve the participants' demand fulfilling their needs. Resulting from the poor management fund, Takaful company may end up with poor quality, low services and the worst part is participants may be discouraged from being part of Takaful and find other reliable insurance companies for their risk coverage. In the management point of view, this cost used for payment of salaries as well as the utilities. The proportion may not be big as in the risk management fund. In practice, the Takaful operator may deduct about 5% up to 10% of premium for management cost. Example, if the premium is RM 150, the management cost is only RM 7.50 per participant. Every work or task should be compensated equally and with justice. The Prophet Muhammad (PBUH) said:

"…for every service must be charged before the sweat dry…" (Sunan Ibn Majah, No. 2443).

The commission, salary, bonus and wages should be payable fairly as per the task or work done. In this issue, Islam has clearly stated that the charge should be imposed, and the participants should understand the reason behind it. The extra of premium after deducting and allocating into various funds is known as surplus. The issue arises, for whom the surplus shall go to?

Surplus can be considered as underwriting income for a company. In the simple word known as gain of the Takaful company. This gain comes from the participants' extra contribution. The distribution of surplus in favour of the participant is merely known as ex-gratia or Ihsan. The Shari'ah opinion regarding the surplus and a comparison between life policy and family Takaful policy (Table 4).

Table 4: The Shari'ah opinion regarding the surplus and a comparison between life policy and family Takaful policy

Life Policy	Family Takaful Policy
It should go back to the risk management fund and allocated it equally.	It should go back to the policyholder who does not make any claim during the stated period.
The extra should give back to the participants who do not make any claim during the policy period. The contribution should base on the contribution ratio.	Put it back into Participants' Special Account (PSA).
The surplus gains should be shared by both parties; participants and operator on the presumption that the operator put a lot of effort in managing it.	

Author's compilation

Actuary, underwriter and loss-adjuster
The market is confused on who evaluates the price of the insurance policy? Is it actuary or underwriter or loss adjuster? The correct answer is actuary. This is the important people behind the Takaful industry. To clarify further, there are several important portfolios in the Takaful industry, namely:

Actuary

In view of the opinion of the Human Resource, actuary is a combination of business executive, mathematician, financier, sociologist, and investment manager. They are problem solvers who use actuarial science to define, analyse, and assess the financial, economic and other business applications of future events. Mainly, they define the risk within the country boundaries and, define it based on the damages like accident, fire etc. An actuary is trained to analyse uncertainty, risk and probability. They also create and manage programs, which will reduce the adverse financial impact of the expected and unexpected impact that happens to people and businesses. Here are several responsibilities of an actuary:

- Investigating the effects of medical impairments on long life.
- Applying mathematical models to insurance company problems.
- Participating in various aspects of corporate planning.
- Calculating a fair price for new product.
- Identifying the benefits, a new insurance contract will cover.
- Preparing company's financial statement.

Underwriter

The underwriter is involved with review and processing of application for participants' compensation in insurance. Here are several functions of an underwriter in the Takaful company:

- Conducts interviews with applicants to gather information to prepare policies or determine classifications or rates.
- Process renewal policies and adjusts payroll, rates and premium; prepare certificates of insurance.
- Reviews and evaluates applications for participants' compensation Takaful and determines appropriate classifications based on the types and nature of work performed.
- Determines appropriate premium rates and codes based on classification assigned.
- Interprets policies and explains coverage and changes to interested parties; responds to inquiries concerning rules and regulation.
- Gathers and prepare reports.

Loss-adjuster

Who is a loss-adjuster? Human Resource defines a loss-adjuster as an independent expert in the handling and settlement of insurance claim. It means that a loss- adjuster is an entity for investigating damages and prepares a report for claiming purposes. Basically, there are several roles played by a loss-adjuster in Takaful industry:

- Investigate the circumstances of the loss and ascertain facts of the case.
- Determine policy liability.
- Quantify loss within the terms and conditions of the policy.
- Seek recovery against the any negligent party.
- Advise policyholders on loss mitigation and risk improvement.

Example of contribution of premium

Table 5: Takaful Rawat- Ehsan Package

Age	Plan 1	Plan 2	Plan 3
Up to 17	RM 378	RM 278	RM 193
18 to 35	RM 522	RM 384	RM 265
36 to 45	RM 666	RM 490	RM 336
46 to 55	RM 942	RM 689	RM 462
56 to 60	RM 1405	RM 1026	RM 685

Table 6: Takaful Siswa Plan

Monthly Contribution	RM 20	RM 30	RM 50
Participants			
• Death	RM 1000 + PA	RM 1000 + PA	RM 1000 + PA
• Disable	RM 1000	RM 1000	RM 1000
• Accident	RM 10000	RM 15000	RM 25000
Guardians			
• Death	RM 1000 +(RM20 x duration up to 18)	RM 1000 + (RM 30 x duration up to 18)	RM 1000 + (RM 50 duration up to 18)
• Disable	RM 1000 + (RM 20 x duration up to 18)	RM 1000 + (RM 30 x duration up to 18)	RM 1000 + (RM 50 duration up to 18)

Table 7: Takaful Dana Pekerja (Workers' Fund) Plan

	Contribution	
Coverage Scopes	RM 40	RM 50
Death	RM 8000 + PA	RM 10000 + PA
Accident	RM 20000	RM 25000
Permanent disables	PA + RM 200 per month up to maturity	PA + RM 250 per month up to maturity
Personal Khairat	RM 1000	RM 1000
Family Khairat a) Spouse b) Children c) Parents	 RM 1000 RM 500 RM 400	 RM 1000 RM 500 RM 400
Medical expenses (accident only)	1. Repayment up to RM 500 2. daily allowance RM 20 up to 52 weeks (at least 2 times hospitalized)	1. repayment up to RM 500 2. daily allowance RM 25 up to 52 weeks (at least 2 times hospitalized)
Drawing for education purpose	Year 2: 50% Year 5: 70%	Year 2: 50% Year 5: 70%

Table 8: Takaful Hawa Plan: Package A

Benefit	RM
Cash Benefit	
• Cancer. • Additional cash benefit for other parts effect by cancer. • Operation on breast (each side). • Khairat for death.	RM 20,000 RM 20,000 RM 10,000 RM 4,000
Cash Allowances for Hospital Ward	
• Due to cancer • Additional cash benefit for other parts effect by cancer.	RM 150 RM 150
Yearly Cancer Test	
Reimbursement on the "pap smear" and breast test (Check for cancer)	RM 100

Al-Mudarabah rate stated by Takaful Malaysia

Takaful industry determines the rate that should be fulfilled in order to allocate the contribution into al-Mudarabah account. Here is the Table (Table 9) extracted from Takaful Malaysia Berhad for al-Mudarabah rate (express in percentage), an example:

Table 9: Al-Mudarabah rate stated by Takaful Malaysia

Month/ Business	General Takaful Business	Family Takaful Business
January	26.95	23.63
February	26.56	23.63
March	25.77	23.26
April	25.58	23.16
May	25.59	23.01
June	25.81	22.43
July	25.6	22.22
August	25.61	23.16

Management Expenses are Not Charged on the Contribution of Premium

The Takaful Participants would have the opportunity to enjoy 'free cover'. Perhaps it may sound strange, as it would imply that Takaful is just like another charitable organization. No business would give away its products or services for free except on special event. From the context of insurance, it looks more awkward because the core activity of insurance after all is to provide financial guarantee in order to compensate against loss or liability in the event of a misfortune. What more the quantum of guarantee may exceed the premium paid in the first place in the event of a huge misfortune. Nevertheless, through the profit-sharing contract of al-Mudarabah, as provided by Takaful such an opportunity is no more a dream. Taking the performance of Takaful Malaysia as an example, where participants have been enjoying a rate of profit averaging at around 35% p.a. for the general Takaful business over the last five years, participants who have been sticking to Takaful in terms of their insurance needs would fully appreciate the meaning of 'free cover'. With the total aggregate of the three consecutive years profit it would obviously be more than enough to pay for the fourth-year renewal contribution (premium), assuming that the amount of contribution each year has been the same throughout. But profit is something which is not guaranteed.

Whether such a level of profit rate could be sustained would depend on the claim experience as well as the accounting practice adopted by a Takaful operator. Certainly, in the event of big claims the financial benefits paid from the Takaful fund would be correspondingly high. This would decrease the balance of the fund and hence would affect its underwriting results. Should the number of claims exceed contributions the underwriting performance would suffer a deficit. Hence there would be no profit. From the technical standpoint, Takaful, to all intents and purposes, is no different from insurance. It therefore follows that the art of evaluating or underwriting a risk would also be no difference from the principles commonly and universally practiced by insurance, so long as these principles do not contravene the Shari'ah rules. After all Islam calls for good governance and excellent management, particularly in a situation where one is entrusted as custodian or trustee to manage and handle money. In a contract, the parties involved must uphold certain obligations and responsibilities to ensure fairness, transparency and equitability. Honesty and sincerity are essential hallmarks to check one side from taking undue advantage at the unfair expense of the other resulting to unjust loss and injury not only to the other side, but others as well who at the same time may be having joint financial interest in the same contract. This is where the 'utmost good faith', a doctrine strongly advocated in Islam, should strictly be adhered to prohibit all parties in a Takaful contract not to conceal any material fact either at the point of inception of the contract or upon the happening of a misfortune leading to claim by Participants.

To illustrate further, since it in the best interest of the parties concerned to safeguard the Takaful fund from any undue exposure due to unwarranted practices, it would rest upon the shoulder of the Takaful operator to see and ensure that proper professional management is in place. After all, the fund which is built from the Tabarru' or donation portion of the contributions paid by the participants is for their common benefit. Together with the operator as trustee and manager on the one hand, and the participants as the `insurers' and 'insured' at the same time on the other must protect the Takaful fund from undesired claims. Towards this end, every strategy adopted in ensuring good management of an insurance company would also be relevant in ensuring good management of Takaful. If insurance requires professional skills and strong technical know-how in the areas of underwriting, risk management and claims evaluation, so the same apply in the Takaful practices.

In the case of Takaful an appreciation of Shari'ah would help to enhance towards better understanding of its operation. The accounting practice adopted is also a critical factor in determining the profit. For practical reason, Shari'ah generally accepts that cash accounting would be a suitable basis for any contract. Although it is not strictly an issue of Shari'ah, it is however argued that any profit to be shared must be based on actual or realized figure. To distribute profit which has not been realized is simply not practical. In this respect for the type of Takaful operation with profit-sharing arrangement, as practiced by Takaful Malaysia, for example, the most appropriate accounting policy would be on cash basis. By this policy, only the recognition of income is on cash basis, but liabilities and expenses are accrued. Following this practice, participants who pay their Takaful contributions early, ideally on the day the Takaful contract is incepted would have the opportunity to receive relatively higher amount of profit from late paymasters. Profit is calculated from the day contribution was paid. Therefore, any delay in the settlement of the contribution would mean an opportunity due to relatively less amount of actual profit received. For example, a participant who pays the contribution on the same day the Takaful commences would enjoy a full year profit upon the expiry of cover. On the contrary if payment is made three month later, the amount of profit distributed would be equivalent only to three quarter of the full year's income.

In the Takaful industry, other critical feature commonly adopted as part of the accounting policy under the Mudarabah practice is on the treatment of the operator's management expenses. In this respect, a distinction must be made between costs of Takaful, such as payments of claim, re-Takaful and reserve which are borne by the Takaful fund, from the management expenses of the operator which are charged to the shareholders' fund. In terms of the Takaful contract, participants of general Takaful agree that the operator would pay on their behalf claims to their aggrieved fellow participants and other related costs including re-Takaful and reserve as Tabarru' or donation from their contributions. Like insurance, due to the nature of general Takaful, Tabarru' amount can only be known when a misfortune occurs. For profit sharing therefore, the contribution recognized as the Mudarabah capital would be the balance after deducting the Tabarru' amount, and investment profit will be added back to the capital account.

Recommendation

All the issues and problem arise should be clarify to those who have interest in buying Takaful policy. The company will aid with the convenience of the policyholders even though the valuation of certain policies is quite rigid. At the same time, the company should put a lot of effort in providing the necessary information to future participants. The computation, segmentation and evaluation of policy must be transparent to public. This vital information can open the eyes of all about the uniqueness of Shari'ah principle in transaction or insurance activities. The actuary also plays vital responsibilities in making such information avail. On the other hands, they also tend to promote the Takaful product to all. The procedure and step in estimating and approximating should be done keen and decent. As a matter of fact, the pricing may be the core element in attracting the client. Therefore, the interactive and two-way direction of communication may be done with suitable mechanism in transmitting the valuation ideas.

The Takaful company and other relevant authorities should collaborate and co-operate in marketing and practicing the true Shari'ah concept in the Takaful products. The brand name, purposes, benefits and the calculation of claim should be the main ingredient in Takaful brochure, websites, kiosk and other promotion tools. By relying on traditional activities, the company may not get huge feedback from the public. Perhaps, the government and other financial institutions should lend the hands to Takaful industry. This shows that the commitment by other concern parties will make the Takaful product outreach to potential clients who may easily be convinced to appreciate the pricing procedure. Nevertheless, the effort and exertion that the company put on this pricing procedure may become a benchmark for other companies. In short, the pricing procedure should serve as primary information in marketing the Takaful products. And this mechanism cannot work alone but need support from various organizations to realize it.

Conclusion

Actuaries design the pricing procedure. This is the vital role in the insurance field. The valuation should be done in appropriate manner and in Takaful case, it should be based on the Islamic jurisprudence. The actuary department is responsible in calculating new product's cost by applying the mobility rates, mortality rates, projector investment return, information from marketing research and providing value to the company. At the last stage, the approval should be verified by Central Bank before one is implemented. The process of pricing in Takaful products begins with conducting research on the need of the society by the marketing department. The purpose of the costing is used in determining the just pricing rate for the new product. After getting the approval, the Central Bank will fill the document and duly approves the proposal. The IT department will create a system for the new product before one is launched in the market. The pricing regulation in Takaful is based on mutual cooperation, brotherhood and solidarity within the holistic spirit of Maqasid al-Shari'ah. This procedure shall be free from the element of Riba', gambling and other Shari'ah contrary components.

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