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The Effect of Quantitative Shariah-screening on Portfolio Performance in Malaysia

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Abstract

The Islamic capital market in Malaysia comprises a wide range of investment vehicles, including *Shariah*-compliant stocks, Islamic bonds (*Sukuk*), and Shariah-compliant mutual funds. Malaysia's government continues to support the development of the Islamic capital market through regulatory frameworks and incentives. This has fostered a positive environment for *Shariah*-compliant investing. The growing awareness of Islamic values has significantly driven the expansion of shariah compliance in Islamic finance into a new phase. A key component of *Shariah* compliance is the screening process. The introduction of *Shariah* screening criteria is to ensure that investments in the Islamic capital market align with Islamic principles. The aim of this study is to investigate the impact of *Shariah* screening on portfolio performance. Specifically, it will assess how the debt ratio and cash ratio of stocks influence their performance, given that *Shariah* screening restricts the debt and cash ratios to no more than 33%. This study adopts a qualitative approach, for a more robust understanding of the impact of *Shariah* screening on portfolio performance, particularly during market fluctuations and economic shocks. This research will add to the growing body of knowledge on *Shariah*-compliant investing and its impact on portfolio performance. It will provide evidence on the quantitative screening mechanisms (debt and liquidity screening) and their role in maximizing financial performance in the context of Islamic finance. The findings could help both individual and institutional investors in Malaysia make informed decisions when constructing *Shariah*-compliant investment portfolios.

Keywords: *Shariah screening, portfolio performance, Shariah shares, Shariah equity, Shariah investment management*

1. Introduction

The stock markets in the GCC region (Saudi Arabia, UAE, Qatar, Bahrain, Kuwait, and Oman) have seen consistent growth driven by higher oil prices and government-led diversification initiatives. Many of these markets are actively developing their Islamic capital markets and are introducing more *Shariah*-compliant options for investors. The Tadawul Stock Exchange in Saudi Arabia and Dubai Financial Market are key players in this space.

In countries with large Muslim populations, stock exchanges such as those in Saudi Arabia, Malaysia, Dubai, and Indonesia have introduced Shariah-compliant boards that list stocks meeting Islamic ethical guidelines. As these markets expand and attract more global investors, the performance of these stocks can see notable growth, especially when there is increasing investor interest in ethical investing.

Like conventional stock markets, the performance of stocks in the Islamic capital market is influenced by global economic factors such as interest rates, inflation, and geopolitical events. However, because Islamic investments are based on equity and profit-sharing principles, they may be more resilient during times of financial uncertainty. Additionally, Islamic finance tends to avoid the high leverage and risk-taking associated with interest-based debt, which can provide a level of stability in the performance of *Shariah*-compliant stocks. The long-term outlook for stock performance in Islamic capital markets remains positive, driven by the increasing adoption of ethical and sustainable investment principles. As more global investors seek Shariah-

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compliant assets for ethical and portfolio diversification reasons, demand for Islamic stocks is expected to grow. This demand, combined with the expansion of Islamic capital markets, should continue to fuel stock market development and provide opportunities for strong performance in the long run.

The Islamic capital market in Malaysia comprises a wide range of investment vehicles, including *Shariah*-compliant stocks, *Sukuk*, and *Shariah*-compliant mutual funds. The Malaysian Securities Commission (SC), together with the Bursa Malaysia, plays a key role in regulating and developing the ICM. Bursa Malaysia lists over 700 *Shariah*-compliant securities, which are included in the FTSE Bursa Malaysia *Shariah* Index.

As of November 2024, over 70% of the companies listed on Bursa Malaysia are *Shariah*-compliant, making Malaysia one of the leading hubs for Islamic finance and investments globally. Malaysia also has the largest *Sukuk* market, with approximately 60% of global *Sukuk* issuance taking place in the country, underscoring the importance of Islamic finance in the nation's financial landscape.

Malaysia's government continues to support the development of the Islamic capital market through regulatory frameworks and incentives. This has fostered a positive environment for *Shariah*-compliant investing. Investor Sentiment: A growing number of Malaysian investors prefer ethical investments that align with their religious and moral values. According to the Malaysian Islamic Investment Survey 2022, nearly 60% of Malaysian investors indicated a preference for *Shariah*-compliant investment options, contributing to an increasing demand for Islamic mutual funds, *Sukuk*, and *Shariah*-compliant stocks.

The FTSE Bursa Malaysia Shariah Index (FBM Shariah Index) and the FBM KLCI (the benchmark index of the Kuala Lumpur Stock Exchange) offer a good comparison. Data from 2023 shows that while the FBM KLCI generated a 3-year annualized return of 2.6%, the FBM Shariah Index outperformed with a 3-year annualized return of 3.2%. This suggests that, over the past few years, *Shariah*-compliant stocks have been able to deliver slightly better performance than their conventional counterparts, possibly due to the exclusion of highly volatile sectors such as banking and gambling.

The *Shariah* screening procedures implemented by different countries follow varying policies. Similarly, if the *Shariah* screening model differs, it suggests that the quality of *Shariah*-compliant stocks also varies, depending on the criteria and selection process used. The quality of Islamic stocks can be assessed by evaluating their performance, which is reflected in metrics such as returns, volatility, and resilience against economic shocks.

The introduction of *Shariah* screening criteria is to ensure that investments in the Islamic capital market align with Islamic principles. *Shariah* screening methodology was formulated by the Shariah Advisory Council (SAC) of Securities Commission (SC) of Malaysia to assist investors in identifying *Shariah*-compliant securities. This methodology has evolved significantly, particularly in Malaysia, where the Securities Commission (SC) has implemented a two-tier screening process to ensure that investments align with Shariah law.

Investment instruments listed on the Main, ACE, and LEAP Markets of Bursa Malaysia Securities Berhad are reviewed by the Shariah Advisory Council of the Securities Commission Malaysia to assess their Shariah-compliant status. This study aims to contribute to the development of *Shariah*-compliant securities in Malaysia's capital market over time. As shown in Table 1, performance measurement analysis indicates that, as of 25 November 2011, there were 946 securities in total, with 839 being *Shariah*-compliant and 107 securities not being Shariah-compliant (Securities Commission of Malaysia, 2024).

Table 1: Shariah-compliant Securities Listed in Bursa Malaysia as at 25 November 2024

Main/ACE/Leap Market	Number of Shariah compliant Securities	Total securities	Percentage of Shariah-compliant securities (%)
Industrial products and services	254	301	84
Consumer products and services	163	216	75
Technology	93	121	77
Property	87	101	86
Construction	65	70	93
Plantation	35	45	78
Transportation and logistics	30	36	83
Energy	27	31	87

Healthcare	25	29	86
Telecommunications and media	22	30	73
Utilities	11	13	85
Financial services	5	38	13
TOTAL	817	1033	79

Source: Securities Commission Malaysia (2024)

Shariah screening was introduced in the Islamic capital market to identify and exclude stocks and securities containing elements prohibited under *Shariah* law. These stocks are removed from the list of *Shariah*-compliant investments available to Muslim investors. As business practices evolve and new developments emerge, it is essential to regularly reassess the compliance status of companies to ensure their activities remain aligned with *Shariah* principles. In this regard, the Securities Commission of Malaysia (SCM) publishes an updated list of Shariah-compliant stocks twice a year.

Screening can be defined as the process of examining or testing something to determine whether it meets specific standards or criteria. The *Shariah* screening methodology, as described by Ayedh et al. (2019), is a process designed to exclude companies with excessive conventional debt, interest-based investments, liquidity issues, or income derived from impermissible (impure) sources. *Shariah* screening significantly impacts investment decisions, particularly for Muslim investors, by ensuring that their investments comply with Islamic principles.

The *Shariah* screening process provides a structured methodology for identifying *Shariah*-compliant securities, thereby enhancing investor confidence in the Islamic capital market. By filtering out companies involved in non-compliant activities such as those dealing with *riba* (usury/interest), *maysir* (gambling), *gharar* (excessive uncertainties), *haram* (such as alcohol and pork related) products. *Shariah* screening helps investors avoid prohibited (*haram*) investments. This is vital for maintaining both ethical and religious standards in their portfolios.

By employing a structured two-tier methodology that combines qualitative and quantitative assessments, stakeholders can better navigate the complexities of Shariah compliance while promoting ethical investment practices.

Quantitative *Shariah* screening serves as a crucial tool for investors seeking to ensure their investments adhere to Islamic principles. The rationale behind the new financial ratios is to assess and measure elements related to *riba* and *riba*-based activities. On the downside, the updated screening method is more restrictive, which could lead to the exclusion of companies that were previously considered *Shariah*-compliant under the old criteria.

Table 2: Key Components of the Screening Methodology

Qualitative Assessment: • This initial stage involves evaluating business activities to identify any that are inherently non-compliant with Shariah principles, such as gambling, alcohol production, and conventional banking (image of the company) • Other matters such as Maslahah, `umum balwa, `uruf and the rights of the non-Muslim community that are accepted by Islam.	1st tier: Business Activity Benchmarks • A 5% threshold is set for certain prohibited activities (e.g., riba, gambling), meaning that no more than 5% of a company's revenue can come from these sources. • A 20% threshold applies to other activities deemed less critical but still non-compliant
Quantitative Assessment: The second tier focuses on financial ratios to further assess compliance. This includes specific benchmarks that companies must meet regarding their financial health and operations	2nd tier: Financial Ratio Benchmarks • Compute the financial ratios: i. Cash/ Total Assets ii. Debt/ Total Assets • Each ratio must be lower than 33%.

Table 2 presents the qualitative and quantitative screening, whereby the thresholds are used to determine whether a company's activities and financial ratios comply with Islamic principles. These thresholds help investors decide which companies are permissible for investment. For the cash ratio, only cash held in conventional accounts and instruments is considered, while cash in Islamic accounts and instruments is excluded from the calculation. Similarly, for the debt ratio, only interest-bearing debts are included, while Islamic debt and *sukuk* are excluded. Both ratios are based on balance sheet items and are measured against a common benchmark of 33 percent. These ratios are clearly intended to assess the extent of non-compliance with Islamic principles in the company's non-Islamic financial transactions. The 33 percent benchmark likely derives from the well-known *Hadith* of the Prophet, which limits charitable donations to one-third of one's wealth.

This benchmark is also applied in the screening standards of developed markets such as the DJ, FTSE, S&P, and MSCI. However, the Securities Commission's definition of cash and total debt includes only the non-compliant components, making it more appropriate than other definitions that consider total cash and total debt regardless of whether they are Islamic or non-Islamic. To be certified as *Shariah*-compliant, all companies issuing securities must meet the requirements in both stages of the screening process.

Islamic finance is a financial system that operates in accordance with Islamic law. It encompasses three key components: Islamic capital markets, Islamic banking, and Islamic insurance (*takaful*). Each of these sectors shares the responsibility of ensuring that their products are *Shariah*-compliant. This study, however, will focus specifically on the *Shariah* screening process for stocks and securities. Furthermore, in Malaysia, literature on *Shariah* screening, is still limited. In specific, this study would like to investigate the quantitative assessment whereby the financial ratios are analyzed to measure elements like *riba* and ensure that non-compliant activities do not exceed specified thresholds (e.g., less than 5% or 20% of total revenue or profit).

The reminder of this paper is organized as follows: Section 2 explains the research problem and objectives, Section 3 is the theoretical part, Section 4 is on the review of literature related to this study. Section 4 describes the methodology and data used in this paper. Section 5 summarizes the findings and concludes the paper. Finally, Section 6, provides a summary and the research findings.

2. Research Problem

The growing Muslim population in Malaysia, projected to rise significantly in the coming decades, has contributed to an increased demand for *Shariah*-compliant investments. As of 2020, Muslims made up 63.5% of Malaysia's population, and their growing interest in aligning their financial activities with religious principles has bolstered the development of a well-regulated Islamic capital market. This trend is not only prominent in Malaysia but also in Muslim-majority countries worldwide, influencing even non-Muslim investors to consider *Shariah*-compliant financial products (Pok, 2012). As the demand for such investments rises, the challenge of maintaining rigorous and effective *Shariah* screening processes becomes more challenging.

In a study where in today's globalized economy, it is increasingly difficult to find a joint-stock company whose activities are fully compliant with *Shariah* principles and rulings. One of the key challenges in ensuring *Shariah* compliance lies in the screening process itself. A recent qualitative study by Ashraf et al. (2017) delves into the complexities and technicalities involved in this screening process, highlighting the challenges faced by investors and regulatory bodies in maintaining strict adherence to *Shariah* guidelines.

Apart from that, certain studies suggest that the *Shariah* screening process does not fully align with Islamic values and fails to adequately consider societal welfare or openness. For instance, the S&P 500 Shariah Index methodology first screens industries and then analyzes financial ratios. As a result, a company can be *Shariah*-compliant one year and non-compliant the next. In such cases, management may be unaware of their compliance status due to the checklist-based nature of the screening process. Additionally, companies with high levels of *Shariah* compliance tend to have less favorable financial arrangements, such as lower leverage, cash reserves, and accounts receivable, leading to higher interest rates. This gives *Shariah*-compliant enterprises a financial disadvantage compared to non-compliant ones. For example, the lack of leverage in *Shariah*-compliant firms may limit management's ability to act in the best interests of shareholders, while the higher leverage of non-compliant firms can act as a monitoring mechanism, discouraging managers from engaging in unethical behavior.

Shariah-compliant investing inherently involves a more restrictive universe of eligible securities due to the ethical and legal constraints imposed by Islamic law. This limited investment universe can affect portfolio diversification, leading to potential increases in idiosyncratic and concentration risk. While traditional investment strategies benefit from a broader range of stocks and bonds, *Shariah*-compliant portfolios must navigate these limitations, potentially sacrificing diversification for religious adherence.

Due to this limitation, the performance of *Shariah*-compliant investments relative to conventional portfolios remains a key area of debate. Some argue that the added costs and complexities of *Shariah* compliance may discourage investors, leading them to favor conventional investments despite the ethical appeal of *Shariah*-compliant options. Some studies argue that *Shariah*-compliant portfolios can achieve returns comparable to or even superior to conventional ones, especially when investments are chosen based on solid ethical principles and lower-risk companies (Sait, 2018). For example, research by Hassan et al. (2009) suggests that *Shariah*-compliant portfolios may outperform conventional ones in emerging markets, where ethical considerations are more influential.

As mentioned earlier, the quantitative *Shariah* screening measure financial ratios such as debt and cash ratio. With regards to this, *Shariah*-compliant portfolios also avoid companies with high leverage. This reduces their exposure to companies that might struggle in periods of rising interest rates or economic stress. However, it can also lead to underperformance in sectors that require significant debt financing, such as real estate and infrastructure. Other studies, such as Abdul Rahman (2011), highlight the potential underperformance of *Shariah*-compliant portfolios, particularly due to the restricted investment universe, which may exclude high-growth sectors like technology and finance. Similarly, Bashir et al. (2019) argue that these restrictions can lead to missed opportunities for higher returns, particularly in high-growth sectors.

There are mixed findings/results regarding the performance of *Shariah*-compliant portfolios. While some researchers have found that these portfolios can outperform conventional ones, others have not. This discrepancy highlights the need for further exploration, which this study aims to address, particularly when the *Shariah* screening criteria has been revised. Furthermore, the revised financial threshold limits *Shariah* companies' ability to raise interest-bearing debt as a source of financing raising a greater concern that the new threshold of financial ratio may affect the performance of *Shariah*-compliant firms.

3. Agency Theory

The relationship between *Shariah* screening and portfolio performance is deeply connected to agency theory, as the screening process helps align the interests of investors (principals) with fund managers (agents). By mitigating agency problems such as conflicts of interest, agency costs, and information asymmetry, *Shariah*-compliant screening mechanisms help ensure that fund managers act in the best interests of investors while adhering to ethical and religious principles. Past literature supports the use of agency theory to explain how *Shariah*-compliant investments can reduce agency costs, enhance transparency, and align incentives, ultimately influencing portfolio performance. The use of *Shariah* screening in investment portfolios helps align the interests of fund managers with those of investors, reducing the agency problem by establishing a clear set of guidelines and reducing the potential for unethical or non-compliant investments that could harm the fund's reputation or performance.

Shariah-compliant screening can also lower agency costs by creating an efficient governance structure (e.g., *Shariah* boards and compliance officers) that ensures adherence to ethical standards, which ultimately helps manage risk and enhances the long-term performance of the portfolio. In relation to this, how the compensation structures of Islamic financial institutions should align the goals of fund managers with the ethical preferences of investors, using agency theory as a framework to explain how *Shariah*-compliant funds mitigate the principal-agent problem through compensation linked to both financial returns and Shariah-compliance. This can be supported by how the governance structure of Islamic financial institutions (which often includes *Shariah* boards and compliance officers) is designed to align the interests of agents (fund managers) and principals (investors) to ensure adherence to Shariah principles while optimizing financial performance.

Besides, *Shariah*-compliant screening can act as a monitoring mechanism to reduce the agency problem by ensuring that the fund managers' investment decisions are aligned with the ethical preferences of the investors through the *Shariah* boards, that serve as a monitoring body that ensures transparency and reduces the information asymmetry between the agent and principal. The role of *Shariah* boards is also important in ensuring compliance with ethical and religious standards, which mitigates agency problems associated with information asymmetry and moral hazard in Islamic finance (Hassan et al., 2009).

4. Literature Review

The performance of the Islamic capital market plays a crucial role in the broader economy. A well-functioning Islamic market can contribute significantly to economic growth by promoting efficient capital allocation and investments. One of the key factors influencing this performance is the methodology used to classify *Shariah*-compliant and non-compliant stocks. The way stocks are screened impacts not only trading volumes but also share prices, which in turn affects the overall performance of the market.

In Malaysia, the introduction of Islamic equity indices marked a milestone in the development of the Shariah-compliant investment space. The first such index, launched by RHB Unit Trust Management Bhd. in 1996, was followed by the creation of the Kuala Lumpur Shariah Index (KLSI) on April 17, 1999. The KLSI was developed to meet the growing demand from both local and international investors looking to invest in assets that adhere to Islamic principles. Initially, the index contained 279 companies, but by November 29, 2019, it had expanded to include 696 companies, making up 77% of the total listed companies on Bursa Malaysia (Securities Commission, 2019).

Different *Shariah* screening methods produce varying performance results, with quantitative ratios typically associated with lower performance (Saleh & Jurdi, 2021). The importance of country-specific screening standards is highlighted, as local market conditions play a crucial role in determining the effectiveness of *Shariah* compliance (Arifin & Qizam, 2021). Shariah-compliant portfolios are typically considered to have a lower risk-return tradeoff. While these portfolios might not always achieve the same high returns as conventional portfolios, they may offer better risk-adjusted returns. This is largely due to the rigorous screening process based on financial ratios, which helps ensure that the companies included in these portfolios are less likely to face financial distress. For example, *Shariah*-compliant companies tend to have lower debt levels, which reduces their exposure to bankruptcy risk. Additionally, these companies often have tangible assets that help them weather economic downturns better than their conventional counterparts.

By avoiding companies with excessive liquidity, such as those holding large cash reserves, *Shariah*-compliant portfolios encourage companies to reinvest their profits into growth opportunities, rather than hoarding capital. This may lead to more efficient use of resources and long-term growth for both the companies and the portfolios that invest in them.

Several studies have examined the performance of *Shariah*-compliant portfolios, particularly in comparison to conventional equity portfolios in Malaysia. According to Hassan et al. (2009), Shariah-compliant portfolios generally perform similarly to conventional portfolios during periods of economic growth. However, in times of economic decline or heightened market uncertainty, *Shariah*-compliant funds often outperform conventional ones. This is because *Shariah*-compliant portfolios tend to avoid speculative and highly leveraged stocks, focusing instead on stable, less risky assets.

One significant finding is that announcements regarding *Shariah* compliance can have a substantial effect on stock prices. When a company is recognized as *Shariah*-compliant, it often sees a boost in stock price due to increased interest from Muslim investors, who prioritize *Shariah* compliance in their investment decisions. Conversely, companies that are deemed non-compliant may experience a drop in stock prices as they become less attractive to these investors.

Research suggests that *Shariah*-compliant portfolios can deliver competitive returns, or even outperform conventional portfolios, over the long term. However, the performance of these portfolios heavily depends on the screening criteria used. For example, Raza (2021) found that portfolios built using market capitalization-based screening methods tend to perform better than those based on total asset-based screens. This highlights the importance of selection criteria in shaping the returns of Shariah-compliant investments.

The performance of *Shariah*-compliant portfolios also depends on the broader economic environment. During periods of economic instability or financial crises, companies that are involved in interest-based transactions or speculative activities may struggle, while those in ethical or real asset-backed sectors may perform better. As a result, *Shariah*-compliant portfolios can outperform during times of economic stress because they tend to focus on more stable, real economy-based assets. Izzeldin and Karbhari (2011) found that Islamic stocks often perform better during economic stress, as they are less exposed to interest rate fluctuations and speculative bubbles. In contrast, during periods of economic growth, when sectors like finance and technology are performing well, *Shariah*-compliant portfolios may underperform due to the exclusion of these sectors, which may offer higher returns in such periods.

One of the key arguments in favor of *Shariah*-compliant investing is its potential for better risk-adjusted returns. By avoiding companies with high debt or significant exposure to interest, *Shariah*-compliant portfolios may be more resilient in times of economic downturns. This focus on financial stability and ethical business practices may reduce overall risk exposure. Ashraf et al. (2017) investigated the impact of quantitative *Shariah* screening, including restrictions on financial leverage and a preference for real assets, on portfolio performance. They found that while these screening measures might limit potential returns, they also reduce risk exposure, offering a balanced tradeoff for investors.

Moreover, Raza (2021) found that *Shariah*-compliant portfolios often experience lower volatility due to their avoidance of speculative investments. This lower volatility can translate into better Sharpe ratios (a measure of risk-adjusted return), suggesting that *Shariah*-compliant investments may offer a more stable return profile, particularly in times of market turbulence. Similarly, Ariff and Farrukh (2011) argued that *Shariah*-compliant investments could outperform conventional investments in terms of risk-adjusted returns, particularly during periods of market volatility.

Despite the potential benefits, there are challenges associated with *Shariah*-compliant investing. For instance, some studies have indicated that *Shariah* screening, particularly through debt-ratio assessments, can negatively impact stock returns in certain markets, such as in Indonesia and Pakistan (Arifin & Qizam, 2021). Furthermore, Abdul-Rahman et al. (2010) observed that applying *Shariah* screening to local stocks can lead to a sharp reduction in the number of companies eligible for inclusion in the *Shariah*-compliant universe. While this might limit investment options in the short term, it is expected that companies will adjust their operations to meet *Shariah* requirements over time, thereby increasing the pool of eligible companies in the long run.

In conclusion, the performance of *Shariah*-compliant portfolios is influenced by a range of factors, including the underlying screening methodologies, the state of the economy, and market conditions. While *Shariah*-compliant portfolios might not always match the returns of conventional portfolios, they offer a more stable and lower-risk investment option, particularly during times of economic stress. With increasing investor demand for ethical and *Shariah*-compliant investments, the Islamic capital market is expected to continue growing and evolving, offering promising opportunities for both investors and the broader economy.

5. Methodology

The study explores the relationship between quantitative screening factors and financial performance metrics, such as Return on Assets (ROA) and Return on Equity (ROE). Employing a qualitative approach, the research conducts a research analysis of Shariah-compliant portfolios to evaluate the impact of key screening factor, specifically debt and liquidity, on portfolio performance. The findings are also to contribute to the understanding of a topic by proposing new theory/framework suggesting new directions for research.

At the literature review stage, the researcher formulated the following research questions to guide the study:

1. How does financial ratio screening imposed by *Shariah* compliance impact portfolio return, and how do the returns of *Shariah*-compliant securities compare to conventional securities?
2. Does the limitation on leverage and liquidity (cash and cash equivalents) hinder or enhance financial performance?

This conceptual paper also provides insights into the financial implications of adhering to Shariah investment principles.

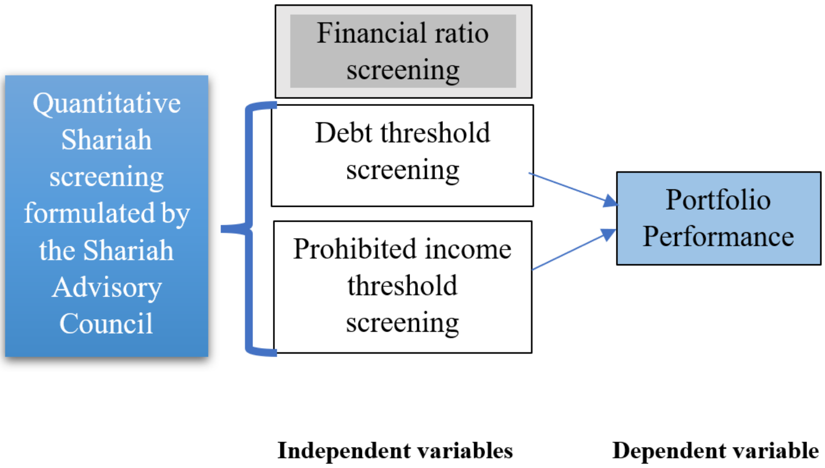
6. Research Findings and Discussion

6.1 Proposed Research Concept Based on the Framework Established by the Securities Commission Malaysia

This section aims to explain the findings and discussion of this study by addressing the specific objectives mentioned above in 2.0. This research aims to qualitatively assess the impact of *Shariah* screening on portfolio returns, comparing Shariah-compliant securities with conventional ones to evaluate whether the financial ratio screening imposed by Shariah-compliance hinder or enhance financial performance. Previous research has not yet fully explained the issues underlying the screening components of the framework imposed by the Securities Commission.

Figure 1 below shows the proposed framework constructed from the information of shariah screening criteria approved by Securities Commission Malaysia. The dimensions under financial ratio screening are adopted from the quantitative approach, thus being an independent variable to measure how this threshold will affect the performance of portfolio.

Figure 1: Conceptual Framework



As shown in Table 3, financial ratios screening looks at the relative size of the company's interest income and return from interest-based assets. If a large percentage of its income comes from interest, a company may be excluded even if its core business is permissible. The level of liquid assets, which may include cash and cash equivalents, short term investments and account receivables, should be kept to a minimum in Islamic finance.

Table 3: Variables and measurements

Variables	Measurement	Justification
Portfolio return/performance	Return on Asset (ROA), Return on Equity (ROE)	To measure company/firm performance in relation to their asset or equity
Debt threshold	The Debt ratio – Debt/Total Asset	Debt to be included in the calculation includes interest-bearing debt only. If the company used Islamic financing such as sukuk, it should be excluded from the calculation
Prohibited income threshold	Percentage of revenue from non-permissible activities – Cash and cash equivalent /Total Asset	Cash-to-Total Assets ratio helps assess whether a company holds excessive cash reserves. Companies with a cash-to-asset ratio exceeding 50% may be excluded from Shariah-compliant portfolios, as holding such a high proportion of cash could be considered inconsistent with the ethical principles of Islamic finance.

6.2 How does financial ratio screening imposed by Shariah compliance impact portfolio return, and how do the returns of Shariah-compliant securities compare to conventional securities?

Since 1998, the official list of *Shariah*-compliant securities in Malaysia has been announced twice a year. Initially, these announcements were made in April and October, beginning in 2000. However, starting in 2007, the announcement schedule was revised to May and November, where it remains to this day.

The revised methodology in 2013 aims to align the standards with global expectation by introducing a two-tier quantitative framework. Previous study by Zainudin and Sulaiman (2019) has recommended to investigate on how does the revised methodology affect the Shariah-compliant status of public companies listed on Bursa Malaysia. The methodology used to assess *Shariah* compliance significantly influences the status of public companies listed on Bursa Malaysia. In their previous study, the introduction of a revised two-tier quantitative approach which includes both business activity benchmarks and newly introduced financial ratio benchmarks, alongside the existing qualitative assessment has a direct impact on the *Shariah*-compliant status of listed companies. This change means that companies with mixed activities, which were previously evaluated using 10% or 25% thresholds, will now be assessed based on more stringent 5% or 20% benchmarks. Additionally, companies with high levels of conventional debt will be affected, as the new methodology introduces screening based on the total conventional debt of the company, a factor that was not considered under the previous approach.

The new revised framework stated that companies with a debt-to-equity ratio above 33% are generally excluded from *Shariah*-compliant portfolios due to Islamic principles that prohibit excessive reliance on interest-bearing debt. High levels of debt are seen as incompatible with the ethical standards of *Shariah* law, which forbids *riba*. A lower debt ratio is preferred, as it indicates reduced exposure to interest and enhances financial stability. From a portfolio management standpoint, excluding highly leveraged companies can mitigate financial risk, particularly during economic downturns when such companies are more vulnerable to solvency challenges.

Companies that are *Shariah*-compliant and those with non *Shariah*-compliant securities are involved in distinct business and investment activities, which means their associated risks and returns are likely to differ. The screening criteria can influence the financial performance of portfolios, as companies with high debt levels may be excluded from Islamic portfolios, potentially limiting diversification or growth in certain sectors. However, avoiding high-debt companies may also reduce the risk of financial instability, contributing to more stable long-term returns. During economic downturns, leverage can be detrimental due to higher fixed costs (interest), potentially leading to increased financial distress (Walkshäusl, 2015).

Numerous studies have explored the impact of debt screening on key financial indicators such as Return on Assets (ROA) and Return on Equity (ROE). One of the primary principles of Islamic finance is the prohibition of *riba*, which leads to the exclusion of companies heavily reliant on interest-bearing debt from Shariah-compliant portfolios.

The debt screening process ensures that only companies with a sustainable, interest-free capital structure are eligible for inclusion, aligning with the ethical principles of Islamic finance.

The performance of *Shariah*-compliant portfolios can vary significantly based on market conditions. In bull markets, *Shariah*-compliant funds may underperform conventional funds due to their exclusion of high-growth sectors such as finance, energy, and technology. For instance, Malaysia's stock market has seen technology sector growth in recent years, particularly in 2020 and 2021, where tech stocks posted strong returns. *Shariah*-compliant portfolios, however, may have missed out on these opportunities due to their exclusion of non *Shariah*-compliant tech companies. In contrast, during downturns or periods of market stress, *Shariah*-compliant portfolios typically outperform. For example, during the COVID-19 pandemic (2020-2021), *Shariah*-compliant portfolios demonstrated resilience, as the companies they included were often less exposed to speculative debt and leveraged positions.

Shariah-compliant portfolios typically demonstrate lower volatility than their conventional counterparts, indicating a more risk-averse investment approach (Arifin & Qizam, 2021). Debt screening, particularly through debt-to-equity and interest-bearing debt ratios, has been shown to have significant implications for portfolio performance. Several studies have investigated how debt screening affects the financial metrics like ROA and ROE.

A company with lower debt may not leverage financial borrowing to boost its ROE in the short term. However, the long-term stability and financial health afforded by lower leverage often result in higher ROE over time, as the company generates consistent profits without relying on debt-based funding.

6.3 Does the limitation on leverage and liquidity (cash and cash equivalents) hinder or enhance financial performance?

A key feature of *Shariah*-compliant investments is the avoidance of excessive debt and *riba*. The quantitative screening process typically uses ratios like the debt-to-equity ratio and cash-to-assets ratio to ensure that companies in the portfolio adhere to Islamic principles by minimizing exposure to debt and interest-based activities. Specifically, Islamic equity screening standards prohibit investments in companies with high financial leverage and a low proportion of investment in real assets.

Shariah-compliant portfolios tend to be less volatile because they avoid investing in companies with high leverage and interest-bearing debt, which makes them more resilient in times of economic uncertainty. Abdul

Rahman (2011) found that *Shariah*-compliant portfolios in Malaysia exhibit lower volatility compared to conventional portfolios, primarily because they avoid high-debt companies and industries susceptible to speculative bubbles. In terms of standard deviation, a measure of risk, *Shariah*-compliant equity funds in Malaysia have shown lower values than their conventional counterparts, particularly during times of market stress.

A study by (Arifin & Qizam, 2021) found the debt ratio (DER) has a significantly positive effect on the *Shariah* portfolio returns, but not on the conventional portfolio returns. The presence of Shariah screening adds an additional "virtue" to capital markets. Even though leverage is subject to *Shariah* screening, portfolio performance remains positive, which in turn helps reduce risk. As a result, investors and managers need not be concerned about the impact of *Shariah* screening. This evidence helps explain why many firms in Indonesia maintain high debt profiles and why the DSN-MUI and OJK have set relatively loose thresholds 82% for the debt-to-equity ratio (DER) and 45% for the debt-to-asset ratio (DAR). This result aligns with Durand's (1952) traditional theory of capital structure, which suggests that, to some extent, leverage can enhance a firm's value.

Hassan et al. (2009) examined the impact of Shariah compliance on financial performance and found that companies with lower debt levels demonstrated better ROA and ROE compared to their highly leveraged counterparts. They argued that by avoiding excessive debt, Shariah-compliant companies tend to have more stable earnings and higher profitability, as their lower financial risk enhances their overall performance. Hoepner et al., (2011); and Hayat & Kraeuss (2011) in their studies on the Shariah stocks and mutual funds proof that the *Shariah* investment products offer higher stock returns due to restricted leverage and credit sales.

Companies with lower leverage often achieve higher ROA because they are less encumbered by debt-related expenses (such as interest payments), leaving more capital available for productive investments. Without the heavy burden of debt servicing, these companies can allocate more resources toward enhancing operational efficiency, resulting in higher asset returns.

Although a company with lower debt may not use financial leverage to boost its ROE in the short term, the long-term stability and financial health associated with lower leverage often led to higher ROE over time. By consistently generating profits without relying on debt-based funding, such companies can achieve sustained profitability and superior returns for shareholders.

Ariff and Farrukh (2011) found that *Shariah*-compliant stocks, which typically have lower debt ratios, demonstrate better operational efficiency and profitability, leading to higher Return on Assets (ROA). Their study indicated that companies with lower debt levels are better positioned to reinvest profits into productive operations rather than servicing high-interest debt, resulting in improved ROA. Similarly, other study examined *Shariah*-compliant portfolios in Malaysia and found that firms with lower debt levels tend to achieve higher Return on Equity (ROE), as their equity capital is utilized more efficiently for growth and value creation. By avoiding excessive debt, these firms can focus on long-term operational performance and capital efficiency, ultimately delivering better returns for shareholders.

In contrast, Ashraf et al. (2017) and El-Alaoui et al. (2018) found that leverage tends to negatively impact portfolio performance. However, their findings were based on the financial crisis period (2007-2008), and under normal market conditions, they observed no significant difference in performance.

The incorporation of stochastic purification variables in portfolio models can help mitigate compliance risks, though it may also lead to a reduction in overall returns (Puspita et al., 2023). While this adjustment improves adherence to Shariah principles, it introduces a trade-off, as the need for stricter compliance may limit investment opportunities and affect the portfolio's potential for higher yields.

For example, an apparel company that invests surplus cash seasonally in interest-bearing money market instruments, such as Treasury bills and low-risk commercial papers, may face eligibility issues for Islamic investors if interest income represents a significant portion of its total earnings. Similarly, a company with excessive debt financing may be excluded from investment, even if it operates in a *Shariah*-permissible business. For instance, real estate developers relying heavily on debt financing are screened out, despite real estate development itself being Shariah-compliant. However, if a company's debt is structured in a *Shariah*-compliant manner (i.e., not interest-based), the debt ratio screening does not apply. This is because the primary purpose of the screening is to exclude companies that derive substantial benefits from interest-based financing. As such, investing in leveraged Islamic banks or *Shariah*-compliant real estate companies is permissible, irrespective of their debt ratios (Rehman, 2010).

Islamic guidelines restrict the proportion of revenue derived from interest-bearing activities (*riba*), and typically, companies with interest income exceeding 5% of their total earnings are excluded from *Shariah*-compliant portfolios. By avoiding companies with significant interest income, investors can ensure their portfolios remain ethically aligned and less vulnerable to the volatility and risks associated with interest rate fluctuations. Companies with minimal interest exposure are often viewed as more stable, as they are less reliant on external financial factors and more focused on their core business operations.

Shariah-compliant stocks reduce risk by limiting debt capital, credit sales, interest income, and adhering to other ethical investment principles. Additionally, their risk remains low, even during global crises, due to these *Shariah* investment guidelines. *Shariah* stocks as one of the most effective alternatives for minimizing risk in investment portfolios. The unique characteristics of *Shariah*-based investments make them a preferred choice for global investors. Ashraf et al. (2022) analyze the impact of Covid-19 on global *Shariah* indices and find that these indices generated excess returns during that period. In this context, Salisu and Shaik (2022) suggest that Islamic stocks can serve as a hedge during pandemics.

7. Conclusion and Recommendation

Shariah screening not only guides Muslim investors in making compliant investment choices but also shapes market dynamics by influencing stock valuations and creating a more structured investment environment. As an increasing number of investors in Malaysia look for ethical, *Shariah*-compliant investment options, it is crucial to understand the effect of these quantitative screenings on enhancing portfolio performance, particularly regarding risk-adjusted returns and long-term profitability. Research consistently shows that *Shariah*-compliant screening improves financial stability, with lower debt levels and effective cash management contributing to higher ROA and ROE compared to conventional portfolios.

Further research is needed to better understand the long-term impact of *Shariah*-compliant investing on portfolio performance, particularly in emerging markets where *Shariah*-compliant investments have the potential to outperform due to different economic dynamics. Overall, quantitative *Shariah*-screening serves both as a constraint and a value proposition, depending on the investor's objectives and the market context.

Based on the findings, future researcher is suggested to focus on other areas for further investigation, such as exploring other financial ratios (beside ratios that only compulsory for screening) or deeper dives into sector-specific *Shariah*-compliant screening. There have been several debates about the factors that contribute to the portfolio performance that serve as a useful measure of its return performance.

Islamic finance plays a pivotal role in promoting sustainable development by aligning financial activities with ethical, social, and environmental goals. It is rooted in the principles of *Shariah* law, which emphasize justice, equity, and the well-being of society. Since now the current trend is on Environmental, Social, and Governance (ESG) financing and investment, it is best to also highlight how the growing trend of ethical investing, including Socially Responsible Investing (SRI), aligns with *Shariah*-compliant investing. Researcher is encouraging to have further integration on quantitative methods, relations to an ethical investment strategy.

8. Practical Implications

This study has significant implications for financial institutions and fund managers, particularly in shaping their capital leverage decisions. It highlights the need to carefully consider the choice between debt and equity when determining the optimal capital structure to fund a company's operations. Considering this, financial institutions and asset managers can develop or refine *Shariah*-compliant financial products, such as ETFs, mutual funds, and index funds. With the application of debt and cash ratio filters, the performance and compliance of these products can be improved. Asset manager is responsible for managing risk, thus the quantitative screening methods, like debt-to-equity ratios, can also provide a more structured risk management framework for managing Shariah-compliant portfolios. By ensuring that the portfolio’s assets are in line with these criteria, financial institutions can reduce exposure to non-compliant and risky assets.

Companies that offer *Shariah*-compliant investments could use this finding to assess how their debt and cash management practices affect their attractiveness to *Shariah*-compliant investors. This could be as a guideline for them to improvise and make changes to a corporate policy regarding financial leverage, debt issuance, and cash reserves. Moreover, this research could also be beneficial for corporate governance aspect, by encouraging companies to adopt financial practices that align with Shariah-compliant criteria, potentially increasing their investor base within the Islamic finance community.

Whereas on the investors’ side, this study would contribute to the best decision-making practices. This research can guide investors who wish to adhere to *Shariah* principles. For example, the quantitative screening tools, like debt and cash ratios, can be used to help identify compliant stocks, bonds, and other assets for Shariah-compliant portfolios through the ratio measurement. It also can be guidance for investors when it comes to portfolio construction. They can adjust their portfolios by using these ratios to create a balanced, yet *Shariah*-compliant portfolio still optimizes financial returns. Investors who want to align their financial strategies with ethical or religious guidelines may benefit from this study. Furthermore, this research could show if these screening enhance or reduce portfolio returns compared to non-screened portfolios. International investors seek to diversify their portfolios by investing across various asset classes. In this context, Shariah-compliant stocks offer a valuable alternative for global investors looking to rebalance their portfolios.

Islamic finance is increasingly recognized for its alignment with the Sustainable Development Goals (SDGs), due to its focus on ethical investing, social justice, and the avoidance of exploitative financial practices. Screening based on debt and cash ratios can support the SDGs by promoting financial stability and ethical business conduct, which resonates with several goals, notably Goal 8 (Decent Work and Economic Growth), Goal 9 (Industry, Innovation, and Infrastructure), and Goal 16 (Peace, Justice, and Strong Institutions).

By prioritizing companies with low debt and minimal interest exposure, investors are more likely to steer clear of industries that rely on unsustainable financial practices, thus fostering investment in sectors that positively impact on the economy and society, such as renewable energy, education, and healthcare.

A potential challenge, however, lies in the risk of portfolio underperformance for those strictly adhering to debt and cash ratio constraints. Excluding high-growth companies with significant debt or cash holdings could result in missed market opportunities. Nevertheless, such strict adherence also presents an opportunity to develop innovative financial products and strategies that balance *Shariah* compliance with strong financial performance. Moreover, these portfolios can attract impact investors who prioritize sustainable and ethical investments.

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Financial Inclusion and Islamic Banks: Bibliometric Analysis

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Abstract

Financial inclusion has attracted policymakers and academics due to its helpfulness for economic growth and poverty alleviation. Much academic research has been conducted on financial inclusion and Islamic banks for the last ten years. This study aimed to perform a bibliometric analysis to find trends in financial inclusion and Islamic bank publications, influential countries, institutions, sources, and scholars and propose a model that could impact financial inclusion and Islamic banks. The proposed model, which includes digital finance, poverty alleviation, education, economic growth, financial inclusion, and sustainable development, is significant as it provides a comprehensive framework for understanding and addressing the challenges of financial exclusion. The study examined the intersection of financial inclusion and Islamic banks by conducting a screening on 4 June 2024. The data was collected from Scopus- a reputable database. The period covered is from 2013 to June 2024, with 242 publications published. 218 publications were analysed after the screening. The findings show that the trend of financial inclusion and Islamic bank publication has significantly increased. Malaysia is the country that has published nearly half of the publications, with the International Islamic University Malaysia (IIUM) being the highest affiliation. Leading scholars in this field are referenced in this study which offer an overview of financial inclusion and Islamic banking for researchers.

Keywords: *Financial inclusion, Islamic banks, Islamic finance, Bibliometric analysis*

1. Introduction

Since the financial crisis that began in 2007, and escalated worldwide in 2008-2009, financial inclusion has become a key driver for economic growth of nations. With the adoption of the sustainable development goals in 2015, financial inclusion has been recognised as a powerful tool for achieving these goals. Financial inclusion services have a direct impact on several of the goals, such as Sustainable Development Goals (SDG) 1, 2, 5, and 8, while the impact on other goals may not be immediately apparent. This underscores the inspiring potential of financial inclusion in shaping a more equitable and prosperous future for all. (Kuada, 2019). Financial inclusion is a strategic approach that integrates vulnerable populations, including women, low-income individuals, and marginalized communities, into the financial system. However, many nations, particularly those in the developing world, continue to grapple with high levels of financial exclusion. This exclusion has affected their economic growth, underscoring the urgent need for comprehensive strategies to address this issue.

The majority of the unbanked population in the world is from Muslim-majority countries. People excluded from the financial system are either voluntarily or involuntarily types. The voluntarily financially excluded segment is caused by a lack of a financial system that complies with the Shariah principles. A study conducted by Brekke (2018) found that the Muslim population in Norway- a Western country, has been financially excluded from the financial system as the services and products that financial institutions are not Shariah-compliant; therefore, the financial exclusion of the Muslim community in Norway is caused by religious norms.

Islamic finance is the best for the Muslim community as it is based on their needs regarding *Shariah*. Islamic finance strives to promote financial inclusion by providing individuals who are excluded due to

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religious reasons access to the financial system. It utilises similar methods and strategies such as conventional finance to cater to specific groups of unbanked individuals, including microfinance, micro-insurance, and mobile money accounts (Tahiri Jouti, 2018)

Islamic finance facilitates financial inclusion by offering financial products and services that adhere to *Shariah* principles, therefore balancing the interests of wealthy people with those in need of financing. The Islamic social finance products, including *Zakah*, *Sadaqah*, and *Waqf*, enhance the commercial elements. Furthermore, these contribute to mitigating voluntary financial exclusion and severe poverty. Additionally, Islamic financing not only enhances financial inclusiveness. Also, it results in financial migration from the conventional financial system to the Islamic financial system (Tahiri Jouti, 2018).

Islamic finance has experienced tremendous growth in the past few years. According to IFSB (2024) the global financial system has reached its highest record, amounting to USD 3.38 trillion in assets. Islamic banking accounts for the highest portion of the international Islamic financial system, with over 70% of the total Islamic finance, amounting to USD 2.37 trillion. This indicates the financial health of the Islamic banking sector, its contribution to the economic growth of countries, and the enhancement of the financial inclusion of the unbanked population.

However, Islamic banks have not reached a comprehensive financial inclusion for all Muslim populations. More than 40% of the unbanked population in the world comes from Indonesia, Bangladesh, Nigeria, Pakistan, India, and Egypt, which have the highest number of Muslim populations around the globe (Global Findex Database, 2021). Nevertheless, Islamic finance countries are more inclusive in terms of financial inclusion, and women are more financially empowered than in conventional system countries (Baber, 2020).

Financial inclusion in Islamic banks can potentially reduce poverty and enhance the socio-economy of marginalised communities. A study conducted by Novreska & Arundina (2024) found that Islamic financial inclusion positively contributes to poverty reduction and human development. Hence, it is crucial to prioritise the enhancement of accessibility, availability, and utilisation of Islamic banking products and services, particularly in areas with limited Islamic financial inclusion.

The involuntary financial exclusion of the Muslim population in the Muslim majority countries has caused obstacles that led to less use of Islamic banks. Lack of regulations and weak institutions are among the main challenges that Islamic banks face. Therefore, it is vital to emphasise institutions' role in establishing people's trust and confidence in using formal Islamic financial institutions. This is achieved by strengthening the rule of law, safeguarding property rights, and enhancing regulatory quality. As a result, transaction costs are reduced, effective monitoring and enforcement of contracts are facilitated, and Islamic banking development is promoted (Kamalu & Ibrahim, 2021).

To tackle the issues of financial inclusion, scholars have studied the issues of financial inclusion and Islamic banks and ways to bring practical solutions to the high level of economic exclusion. Many bibliometric studies have been done in the financial inclusion field, like (Chhatoi et al., 2021; Ghosh, 2024; Suryavanshi et al., 2024). However, publication trend studies in the area of financial inclusion and Islamic banks are scarce. This study explores the research trends in financial inclusion and Islamic banking. The following research questions align with the study's objectives:

1. Using performance analysis, what are the influential aspects of financial inclusion in Islamic banks literature in the field?
2. Using mapping and network analysis, what are the primary research trends of financial inclusion in Islamic banks' literature in the field?
3. What lessons can be learned from previous literature to help us prepare for the future, and what objectives can be established through a bibliometrics analysis of financial inclusion in Islamic banking?

2. Literature Review

Islamic banks play a crucial role in tackling the issue of financial exclusion and the increase of financial inclusion of Muslim countries in Organizational Islamic Corporations (OIC). Islamic banks fill the needs of Muslims as the services and products of Islamic banks are in line with Sharia. Hence, it leads Muslim communities to engage with Islamic banks and include the pool of financial markets (Kabiru & Wan Ibrahim, 2020). To achieve financial inclusion for all segments of the community, Islamic financial literacy plays a significant role in improving financial inclusion and encouraging the unbanked population to use Islamic banks

(Masrizal & Trianto, 2024).

A study conducted by Tahiri Jouti (2018) shows that Islamic finance positively impacts financial inclusion, especially in the Muslim majority countries. The author has further highlighted that Islamic finance enhances financial inclusion and creates financial migration from the conventional financial system to the Islamic financial system. The author recommended ways to improve financial inclusion in Islamic finance. Islamic finance can adopt the same method of conventional financial systems and adapt them to Shariah rules. In addition, Islamic finance can use *Waqf* and *Zakat* to have a broader impact on financial inclusion.

According to Khmous & Besim (2020) studied the role of Islamic banking on financial inclusion in the MENA region. The study used secondary data from the 2014 World Bank Global Index. The findings indicate that financial inclusion in the middle-income MENA region is lower than the global average. The authors have found that being rich, male and older positively correlates to financial inclusion. Islamic banking practices promote financial inclusion, particularly for persons with firm religious commitments. The impact of Islamic banking on financial inclusion is seen to be more significant in middle-income nations in the Middle East and North Africa (MENA) region.

Khémiri et al. (2024) studied the relationship between financial inclusion and Islamic banks and the role of CSR as a moderator. The authors have taken data from 27 Islamic banks that operate in GCC countries. The findings highlighted the distinctive features and difficulties of Islamic banking, including its rigorous standards, governance systems, mechanisms for resolving issues, and robust financial safeguards. This implies that Islamic banking has the potential to enhance financial inclusion by catering to the requirements and preferences of marginalised groups, including the impoverished, the rural, and the vigilant. Furthermore, it states that Islamic banking has the potential to facilitate financial inclusion via the promotion of risk-sharing, ethical behaviour, and social responsibility.

Akhter et al., (2019)examined the role of Islamic banks on the supply and demand side of financial inclusion in Asia and Africa. The authors gathered data from 14 middle- and 14 low-income countries in Asia and Africa between 2005 and 2017. The results demonstrate that Islamic banking positively impacts financial inclusion by increasing the number of borrowers in both the African and Asian areas, particularly those who specifically need Islamic banking services. Islamic banking in the Asian area has shown a less compelling correlation with depositors, indicating that prospective consumers in this region are more reluctant to save with Islamic banking. This also demonstrates that the absence of confidence in Islamic banking, namely in terms of convenience and the availability of branch networks, is a challenge to achieving financial inclusion.

Muslim women in OIC countries are among the financially excluded communities of financial institutions. However, Tunku Abdul Rahman et al. (2022) found that Islamic banking plays a crucial role in establishing a financial system that is more inclusive for Muslim women, particularly those who face obstacles to financial inclusion due to their religious beliefs.

While most scholars have explored the impact of Islamic banking on financial inclusion, few have examined how financial inclusion influences the stability of Islamic banks. A study conducted by Banna et al., (2022) examined the role of digital financial inclusion on Islamic banks during COVID-19. The authors used data from 65 Islamic banks from six countries. The findings reveal that increased use of digital financial inclusion enhances the stability of Islamic banking, hence reducing the default risk of banks in the studied area. Integrating digital financial inclusion (DFI) into the Islamic banking sector promotes inclusive economic development, ensuring the financial system's sustainability even during crises like the ongoing COVID-19 epidemic.

Banna & Md Rabiul (2020) examined the role of financial inclusion on the stability and efficiency of Islamic banks. The authors analysed data from 153 Islamic banks in 32 countries. The findings indicate that the efficiency of Islamic banks in most countries is inconsistent after the great financial crisis as the countries are still struggling with the consequences of the recession. The authors have also found that financial inclusion plays a significant role in the sustainable development growth and the efficiency of Islamic banks.

To target the robust growth of Islamic banks, marketability is a significant factor that plays a role in enhancing the financial sustainability of Islamic banks. To achieve a high level of market for Islamic banks, it is vital to have a high level of financial inclusion (Abbas et al., 2023). Another study conducted by Eid et al. (2023) found that financial inclusion directly impacts Islamic banks' financial stability; therefore, financial stability cannot be reached without financial inclusion.

Several obstacles challenge the achievement of full financial inclusion in all sectors. In Indonesia, the largest Muslim population, MSMEs play a crucial role in the country's gross domestic product (GDP); however, Islamic banks have not targeted MSMEs to include the Islamic financial pool. This is due to a few issues. Firstly, the unequal distribution of regulations and limitations may discourage and impede the efforts of Islamic banks in granting financial access to the MSME sector, therefore hindering the attainment of the financial inclusion objectives within the Islamic banking sector. Furthermore, the deficiencies in MSME registration and taxes will likely deter formal MSMEs from renewing their business licence and hinder informal MSME units from registering their firm. This matter's lack of sufficient legality might undermine their ability to get external funding from recognised financial institutions and participate in helpful government programs (Saifurrahman & Kassim, 2024).

A study conducted by Siddiqui et al., (2021) examined factors that determine the financial inclusion of Islamic banks in India, which has one of the highest Muslim populations in the world. The findings reveal that religiosity (largely Muslim), gender, and employment are among the factors that determine the financial inclusion of Islamic financial institutions in India. The authors recommend extensive formal Islamic financial institutions to enhance financial inclusion.

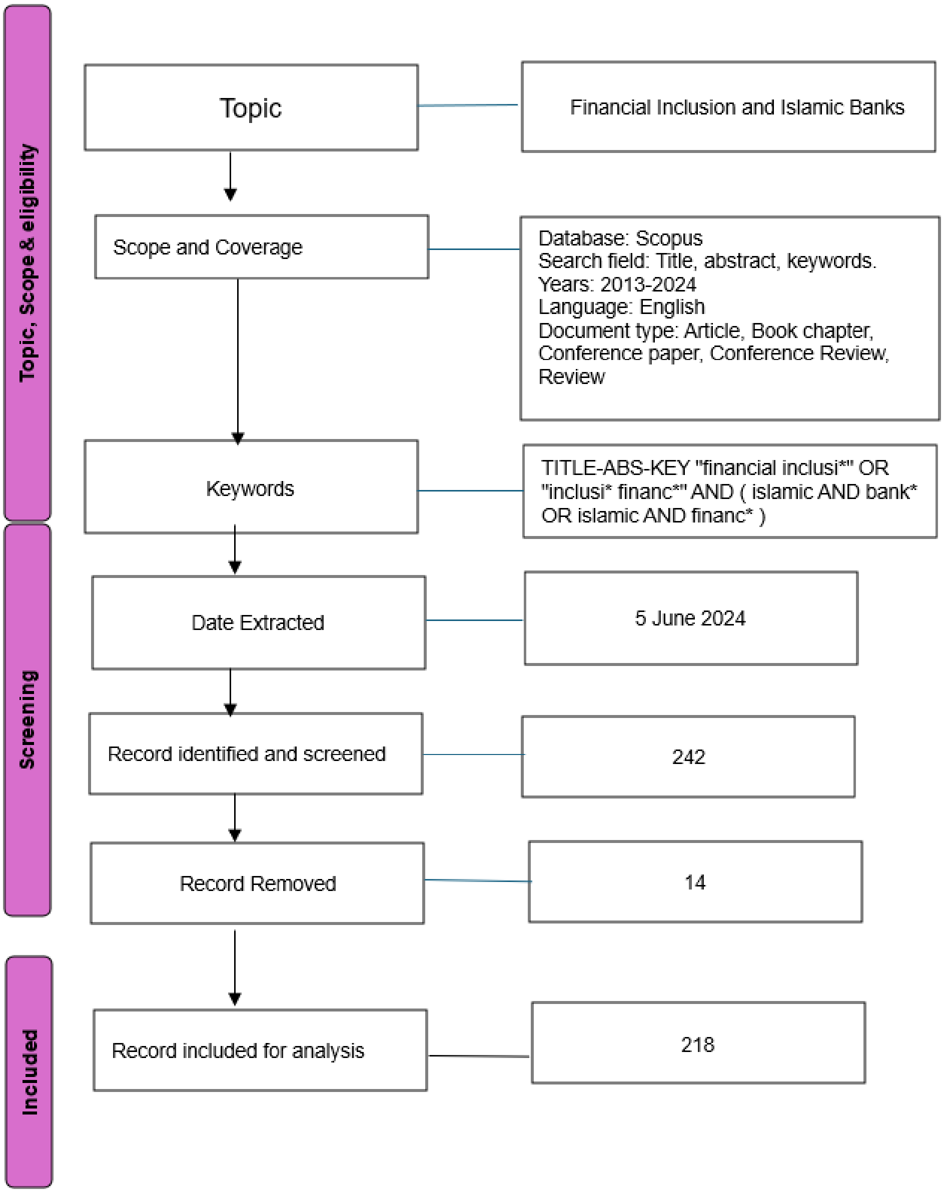
In the case of Africa, especially in Nigeria, unemployment and poverty are among the main challenges that the people are suffering. Islamic banking plays a vital role in the employment of SMEs through the provision of effective Islamic financing products such as *Musharakh* to the people as studied by Sabiu & Abduh (2021).

As the significance of the financial inclusion of Islamic banks to the economy, poverty reduction and financial well-being are addressed. The models used by Islamic banks to approach poor Muslim communities have been studied. To improve the conditions of the poor Muslim community, Islamic microfinance products should be designed and provided to people in need. These products empower marginalised segments and hence lead to improve economic status (Hassan, 2015).

3. Methodology

This paper utilises bibliometric analysis to examine research trends in financial inclusion and Islamic banking. Bibliometric analysis helps summarise large volumes of data, highlighting current and emerging trends (Donthu et al., 2021). Literatures pertaining to financial inclusion and Islamic banks has been gathered from the Scopus database, including articles, book chapters, conference papers, conference reviews, and review papers. The data collection period was from 2013 to 2024, focussing only on publications written in English. The Prisma flow diagram illustrates the methodology we used to analyse the gathered data.

Diagram 1: PRISMA Flow Diagram



4. Results and Findings

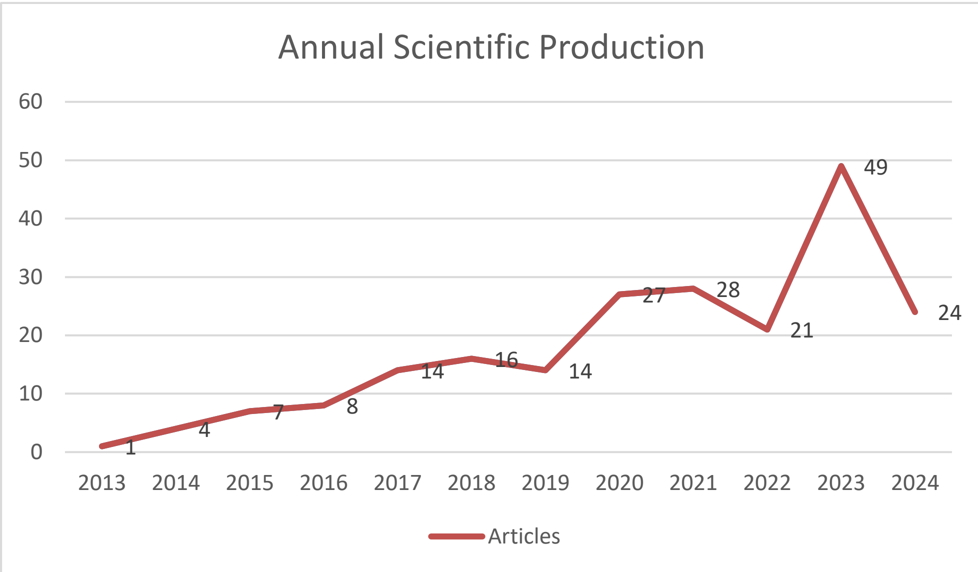
4.1. Performance Bibliometric Analysis

This study is a collaborative effort that evaluates the effectiveness of primary sources, journals, authors, institutions/affiliations, nations in Financial Inclusion, and their relationships with Islamic banks. The aim is to determine their relevance to the research issue of the study. To streamline the analysis, this study is limited to scholarly journal publications and papers published in English. Utilising a singular language throughout the research has the benefit of facilitating a more streamlined bibliometric study, which entails the comparison of keywords, article sources, and affiliations in a more effective manner.

4.1.1. Annual Scientific Production

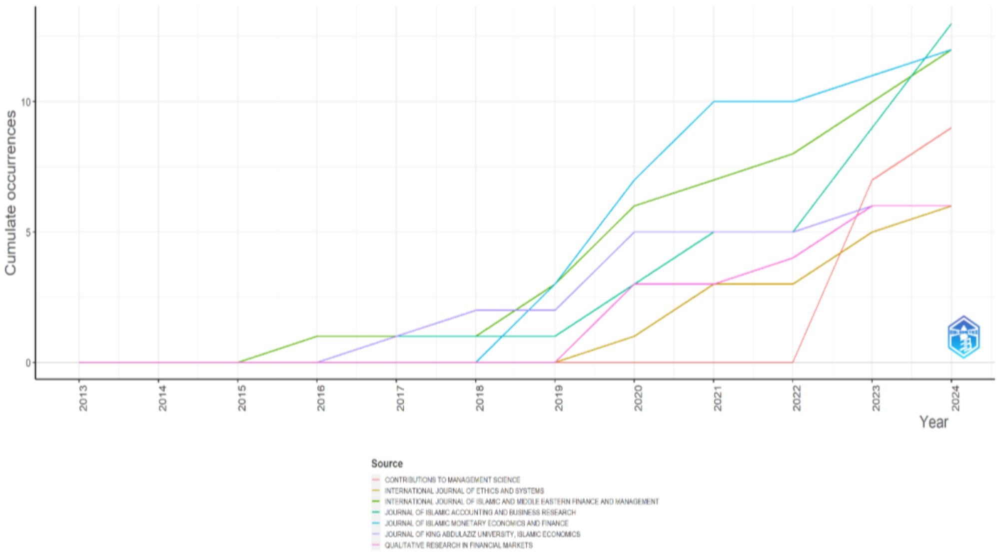
Figure 1 shows the annual publication in Financial Inclusion and Islamic Banking. The trend indicates that the interest in researching this area started in 2013. However, with the introduction of sustainable development goals (SDGs) in 2015, scholars and policymakers have seen financial inclusion as an essential tool that can be crucial in implementing the goals, and studies on financial inclusion and sustainable development have risen since 2015 (Ellili, 2024). In addition, scholars have begun to do more research on financial inclusion and Islamic banking to study the role of Islamic banks in the financial inclusion of the Muslim community. The publications in this area reached their highest level in 2023, whereby 49 publications were published. In 2024, 24 publications were produced, and the research in this area is expected to increase in the future.

Figure 1: Annual Scientific Production



4.1.2. Source Production Overtime

Figure 2: Source Production Overtime



4.1.3. Top Journals

For bibliometric analysis, it is vital to consider the sources of the publications produced to recognise the journals that have contributed the most. As the table below shows, the Journal of Islamic Accounting and Business Research has achieved the highest journal, producing 13 publications in financial inclusion and Islamic Banks. The International Journal and Middle Eastern Finance and Management and the Journal of Islamic Monetary Economics and Finance have secured the second spot with similar publications 12. The Journal of Contributions to Management Science has produced nine publications on financial inclusion and Islamic banks.

Table 1: Top Journals

Sources	**Articles**
Journal of Islamic Accounting and Business Research	13
International Journal of Islamic and Middle Eastern Finance and Management	12
Journal of Islamic Monetary Economics and Finance	12
Contributions to Management Science	9
International Journal of Ethics and Systems	6
Journal of King Abdulaziz University, Islamic Economics	6
Qualitative Research in Financial Markets	6
International Journal of Social Economics	5
Banks And Bank Systems	4
Al-Shajarah	3

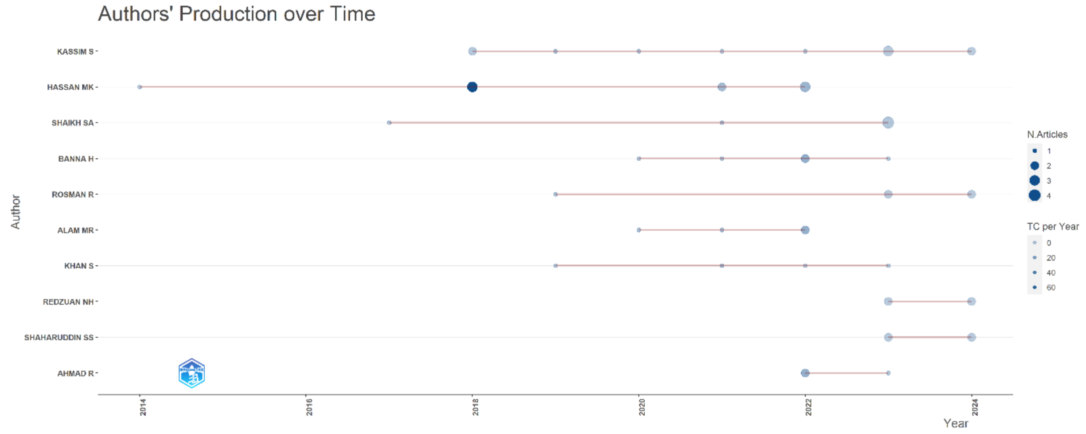
4.1.4. Top 10 Author Contributors in Financial Inclusion and Islamic Banks

According to the table 2, Kassim S has the most significant number of publications in the field of financial inclusion and Islamic banking. Hassan MK achieved the second position with nine publications, while Shaikh SA obtained the third with six publications. Banna H and Rosman R have each authored five articles, while Alam MR, Khan S, Redzuan NH, and Shaharuddin SS have each contributed to 4 publications.

Table 2: Top 10 author contributors in Financial Inclusion and Islamic Banks

Authors	**Articles**
Kassim S	11
Hassan Mk	9
Shaikh Sa	6
Banna H	5
Rosman R	5
Alam Mr	4
Khan S	4
Redzuan Nh	4
Shaharuddin Ss	4
Ahmad R	3

Figure 3: Author's production over time



4.1.5. Top Number of Articles by Affiliation

In bibliometric analysis, it is crucial to discover the institutes and universities that have contributed most to the chosen topic. The International Islamic University Malaysia (IIUM) has published the most publications in financial inclusion and Islamic banking, with 21 publications. The University of Malaya has secured the second position with 13 publications. The University of New Orleans and University Utara Malaysia have obtained the third and second positions, respectively, with 9 and 8 publications each. Qatar University has generated six studies, while Universitas Airlangga produced 5. This indicates that Malaysian universities play a significant role in contributing to research in the field of financial inclusion and Islamic banks.

Table 3: Top number of articles by affiliation

Affiliation	Articles
International Islamic University Malaysia	21
University of Malaya	13
University of New Orleans	9
Universiti Utara Malaysia	8
Qatar University	6
Universitas Airlangga	5
Hamad Bin Khalifa University	4
University of Bahrain	4
University of Sharjah	4
Zhongnan University of Economics and Law	4

4.1.6. Country's Scientific Production

Table 4 displays the research output in financial inclusion and Islamic banking across different countries. Malaysia is currently at the forefront regarding the number of publications in this field, with a total of 101. Indonesia has achieved the second rank with a score of 74. This shows that Malaysia and Indonesia are leading research contributors in this field and are some of the largest Islamic finance countries in the world in terms of market share (put the citation). Pakistan and India, two countries with large Muslim populations, have published 29 and 21 research papers, respectively, on the topics of financial inclusion and Islamic banking during the last decade. The significance of studying Islamic banking and its impact on financial inclusion becomes apparent when considering the high poverty rates in certain countries. Islamic banks have the potential to address this issue by offering Islamic banking products to the community and improving the level of financial inclusion.

The US and UK have contributed a number of 21 and 20 publications, respectively. Nigeria, Turkey, Saudi Arabia and Jordan have published 19, 15, 15 and 12 publications, respectively.

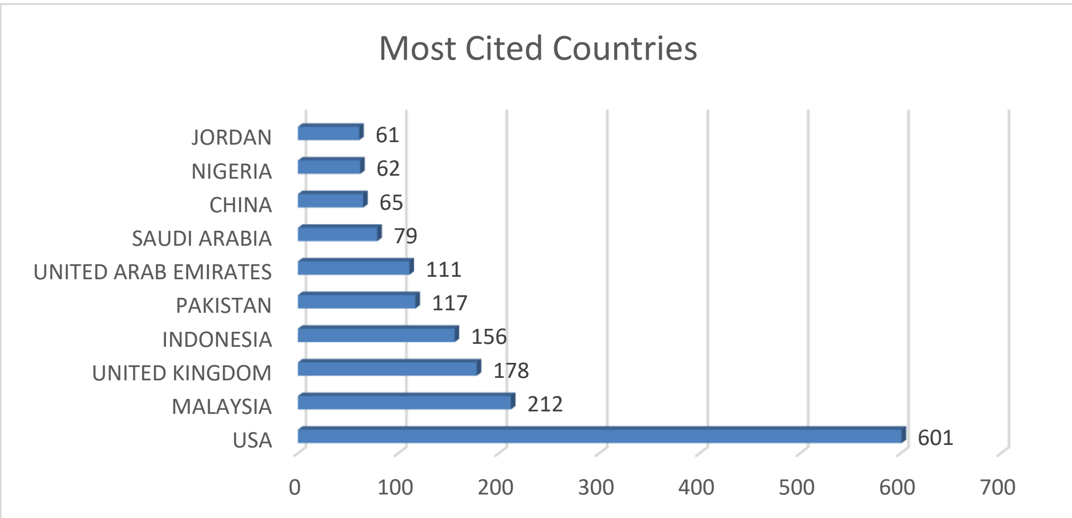
Table 4: Publication per country

Country	**Frequency**
Malaysia	101
Indonesia	74
Pakistan	29
India	21
United States of America	21
United Kingdom	20
Nigeria	19
Turkey	15
Saudi Arabia	14
Jordan	12

4.1.7. Most Cited Countries

In utilising the bibliometric technique, it is crucial to analyse the citations of published research. The United States has been referenced 601 times, making it the most cited nation in financial inclusion and Islamic banking. Malaysia has achieved the second position with a total of 212 citations. The United Kingdom achieved third place, a total of 178. Indonesia, a country with a Muslim majority, cited 156 times, while Pakistan, another Muslim-majority country, has 117 citations. The most interesting is that Islamic finance has crossed the boundary of Muslim-majority countries. Many non-Muslim nations, including the US, the UK and China, have appeared as the top cited nations in the financial inclusion and Islamic banks. This shows that Islamic finance has been seen as a potential for economic growth and the population's well-being.

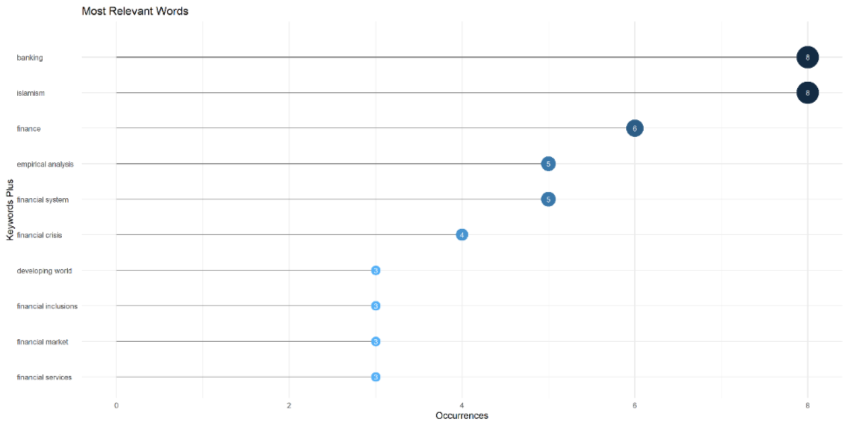
Figure 4: Most cited countries



4.1.8. Most Frequent Words

The most frequent words are the words that authors and their publications have appeared the most. As the main objective of this study is to study the research of the financial inclusion of Islamic banks, the words "Banking" and "Islamism" are the highest frequent times that appeared in publications in the area for the last ten years with some frequency of 8 time each. The words “Finance”, “Empirical analysis”, “and “Financial system” are among the words that followed with a number frequency of 6, 5, and 5 times respectively. In addition, the word “Financial crisis” has appeared four times, while “Developing world,” “Financial inclusion,” “Financial markets,” and “Financial services” have targeted an appearance of three times each.

Figure 5: Most frequent words



4.1.9. Word Cloud

A word cloud in bibliometric analysis is a graphic representation of the most often appearing terms or keywords in a collection of academic articles, papers, or other scholarly publications. A word cloud visually represents words in different sizes, where the size of each word corresponds to its frequency or significance in the collection. The keywords “finance”, “banking”, “financial inclusion”, “Financial system”, “Financial crisis”, “poverty alleviation”, “microfinance”, and “sustainable development” are the prominent keywords of the articles that were published. In addition, the image can be extracted using keywords that have not been studied. The research gaps that can be addressed in the future in this field are “digital finance”, “education”, “economic and social effects”, and “blockchain”. These keywords are vital for incorporating financial inclusion and studying their impact on the financial inclusion of Islamic banks.

Image 1: Word Cloud

4.1.10. Co-Occurrence

Image 2: Co-Occurrence

4.1.11. The Main Topics in Financial Inclusion and Islamic Banks

Figure 6: The Main Topics in Financial Inclusion and Islamic Banks

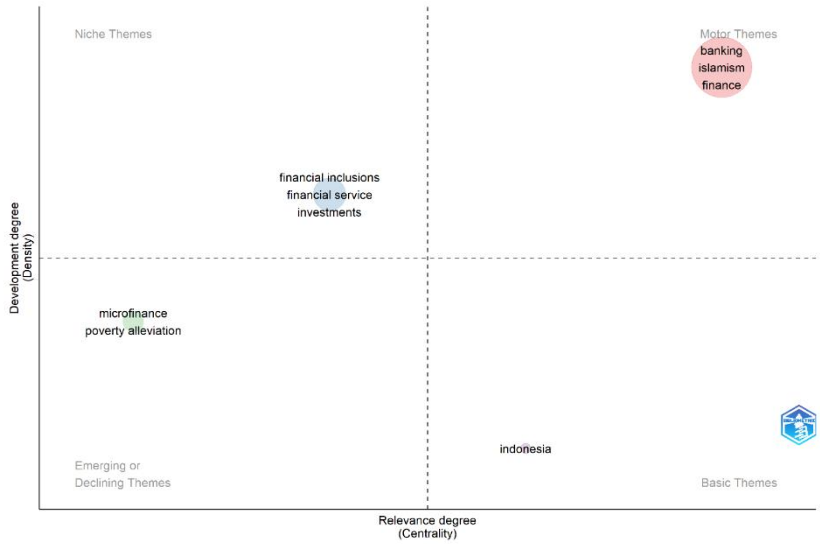


Figure 7: Visualisation of keywords of financial inclusion and Islamic banks in VOS Viewer

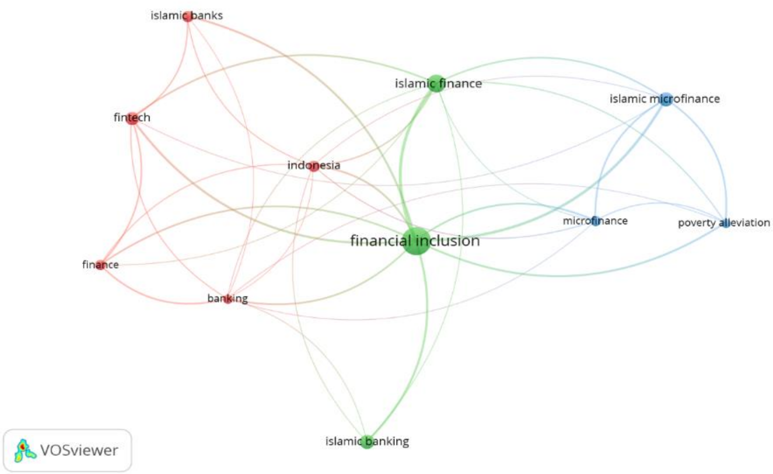
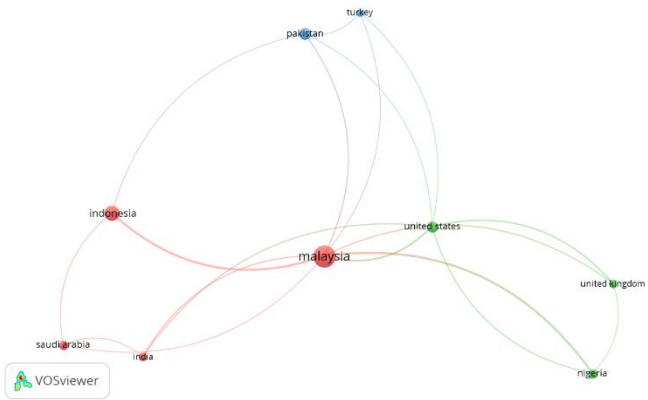


Figure 8: Bibliographic coupling of countries



5. Conclusion, Limitations and Recommendation

The article presents a composite collection of key statistics, including leading authors, frequently referenced journals, highly cited papers, emerging keywords, and research clusters. It contributes to the existing body of knowledge on financial inclusion and Islamic banking. The findings showed that publications and citations on Islamic banking and financial inclusion have grown. Furthermore, Malaysia and Indonesia have made notable contributions to publications on financial inclusion and Islamic banks. In addition, the study adds literature on this topic by highlighting keywords such as digital finance, poverty alleviation, education, economic growth, financial inclusion, and sustainable development, which centres the focus of this research and provides a future research investigation.

The results indicate a growing global interest among researchers in the fields of Islamic banks and financial inclusion. By following the research agenda outlined, future scholars can effectively position their studies and shape their arguments to have a meaningful impact.

Several research gaps have been identified due to the bibliometric study, which presents opportunities for future research. Initially, future research should concentrate on integrating wise innovations with existing digital technology to enable the ubiquitous use and simple adoption of Islamic institutions. Secondly, it is imperative to investigate the impact of education on the promotion of financial inclusion in Islamic institutions. It is essential for future research to employ effective strategies and methods to improve education, particularly among marginalised populations. Lastly, future research should explore the interconnections between sustainable and economic development and financial inclusion. Future research can significantly contribute to developing sustainable and inclusive financial ecosystems by focusing on these areas.

It is essential to recognise the specific limitations of this analysis. This study relies on the Scopus database, and for more comprehensive comparative analysis future research should consider incorporating WOS, EBSCO, and other databases. The research would be significantly improved by implementing a multi-database sample collection. Two, VOSviewer was the sole software utilised in the study for science mapping and performance analysis of the financial inclusion of Islamic banks literature. To generate superior data visualisations, additional tools such as SciMat, CitNetExplorer, and Biblioshiny were excluded.

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A Bibliometric Analysis of Ṣukūk Waqf

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Abstract

This study presents a comprehensive bibliometric analysis of the research on *ṣukūk waqf*, an innovative financial instrument that combines the principles of *ṣukūk* (Islamic bonds) and *waqf* (Islamic endowment). The objective of this research is to explore the current state of academic literature, identify emerging trends, and uncover potential avenues for future investigations in this domain. The study employed bibliometric techniques to systematically review relevant publications indexed in prominent databases, such as Scopus and Web of Science, from the inception of the concept to the present day. Bibliometric indicators, including publication trends, citation analysis, co-authorship patterns, and thematic mapping, were utilized to gain insights into the intellectual structure and evolution of the *ṣukūk waqf* research landscape. The findings reveal a growing interest in *ṣukūk waqf*, with a steady increase in the number of publications over the past decade. The analysis highlights the geographical concentration of research, with prominent contributions from Malaysia and Indonesia, indicating the regional significance of this financial innovation. The study also identifies key thematic clusters, such as the design and structuring of *ṣukūk waqf* instruments, their applications in socioeconomic development, and the challenges associated with their implementation. The bibliometric analysis provides a comprehensive overview of the current state of *ṣukūk waqf* research, facilitating the identification of knowledge gaps and emerging research opportunities. The study's findings can inform scholars, policymakers, and practitioners in their efforts to further explore and leverage the potential of *ṣukūk waqf* for sustainable and socially responsible finance.

Keywords: *Ṣukūk waqf, Islamic finance, Bibliometric analysis, financial innovation, Socio-economic development*

1. Introduction

A tradable financial instrument known as *Ṣukūk Waqf* is used to represent money invested in successful investments. The development of *waqf* (endowment) assets, including hospitals, clinics, Islamic schools, and programs in the areas of education, health, economics, and social development, is funded in part by the earnings from *Ṣukūk Waqf* (Syamsuri et al., 2021). The *Ṣukūk Waqf*, which is merged with the *Ṣukūk* instrument in Indonesia, is a cash waqf. The Indonesian Waqf Board (BWI) oversees the management of *waqf* funds, which are invested in *Ṣukūk*. The returns from these investments are allocated to the beneficiaries, known as *mauquf 'alaih*, to develop and sustain healthcare, educational, and community empowerment initiatives, including disaster recovery efforts (Syamsuri et al., 2021). The waqf monies are refunded as they mature.

One potential way to overcome the difficulties in *waqf* administration is to integrate *Ṣukūk* with *waqf* (Mohtesham et al., 2021). *Waqf* influences the community's sustained well-being, which has a major social impact in addition to its economic effects (Yusuf et al., 2022). *Waqf* must be managed sustainably and effectively to optimize societal welfare and living standards. This means abandoning the conventional strategy of turning *waqf* assets into consumable resources through sale or transformation and instead concentrating on turning them into productive assets (Uula, 2022; Faradis et al., 2019). According to Faradis et al. (2019), the *Ṣukūk Waqf* model can ease this transition and aid in the *waqf's* growth as a significant and long-lasting organization.

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According to Oubdi and Raghibi (2018), *Ṣukūk Waqf* is viewed as a sustainable financing tool provided by Islamic finance to support public expenditure and alleviate public financial shortfalls. The revenue and advantages of *waqf* assets may be maximized using Ṣukūk Waqf as a financing and investment tool, expanding its multifaceted function, especially in the fields of social and economic development (Alama & Kaid, 2023). Wibowo (2023) asserts that *Ṣukūk* and *Waqf* can help Indonesia achieve several Sustainable Development Goals (SDGs), including reducing poverty, enhancing social welfare, financing infrastructure, promoting economic growth, and assisting with community development, healthcare, and education. Several nations, like Saudi Arabia, Singapore, and Indonesia, have effectively incorporated *Ṣukūk* and *Waqf* (Oubdi & Raghibi, 2018; Syamsuri et al., 2021).

Nonetheless, there are several obstacles to the combination of *Waqf* and *Ṣukūk*. One of the main obstacles is the general public's and investors' ignorance of the *Ṣukūk Waqf* idea, which might reduce demand and impede the industry's expansion (Ali et al., 2019; Mohtesham et al., 2021). Furthermore, investors may become confused and find it challenging to assess various products due to the absence of standards in the *Ṣukūk Waqf* market (Injas et al., 2016). Additionally, there is a lack of transparency around the combination of *Ṣukūk* and *Waqf*, which might make it difficult for investors to evaluate the risks and social effects of *Ṣukūk Waqf* investments (Oubdi & Raghibi, 2018).

Examining the state of research in this area is crucial given the potential of *Ṣukūk Waqf* as a sustainable finance tool. Bibliometric analysis with programs like VOSviewer is one technique for assessing the state of research. By mapping author collaborations, journal co-citations, and keyword co-occurrences, this method may produce and present maps that offer insights into the state of the field.

Several research have looked at different facets of *Ṣukūk Waqf* integration. Mukhlisin and Mustafida (2019) talked about the potential for Indonesia to issue *Ṣukūk* based on *waqf* assets. The structural study of Ṣukūk Al-Waqf for funding BOT-based development initiatives was elucidated by Mohammed et al. (2021). In 2022, Alim et al. (2022) put up a *Ṣukūk -Wasiyyah* model. Aldeen et al. (2020) looked at current monetary waqf-related difficulties. Syamsuri et al. (2021) emphasized that more study is required for *Ṣukūk Waqf* to be implemented successfully. Yasin (2021) assessed the issues, difficulties, and potential course of the Indonesian government's CWLS SWR001 series Ṣukūk issuance. Masrifah (2019) investigated Islamic boarding schools' use of *waqf* based on *Ṣukūk*.

By doing an extensive bibliometric analysis of the *Ṣukūk Waqf* literature, the current study seeks to fill in the gaps in the body of knowledge already in existence and enhance the body of information that has already been established. The principal aims are to delineate the worldwide progression of *Ṣukūk Waqf* research, as evidenced by scholarly articles published in pertinent journals, and to pinpoint forthcoming research prospects through the formation of a research agenda.

2. Literature Review

Islamic financial products that adhere to *Sharīʿah* are called *Sukūk*. Although they resemble conventional bonds, Islamic financing forbids the usual bond structure of paying interest. Rather, the *Sukūk* issuer uses the money raised from the sale of certificates to a group of investors to buy assets in which the investors have a direct or indirect ownership stake. Put another way, the foundation of *Ṣukūk* is Islamic finance, which forbids the collection or payment of interest. *Ṣukūk* holders get a portion of the earnings made by the underlying assets in exchange.

In recent years, *Sukūk* has become more and more popular as a vehicle for businesses to get funding through corporate *Sukūk* offerings and as a tool for governments to acquire money through the issue of sovereign *Sukūk*. The profit-sharing tenets of *Muḍārabah* and *Mushārakah* are among the *Sharīʿah* principles that dictate how *Sukūk* is structured. Furthermore, the *Ijārah* (hire-purchase) concept and the sales principles based on *Murābaḥah*, Bayʿ Bithamān al-Ājil, Salam, and Istiṣnāʿ are also utilized in the structure of *Sukūk* (Ahmad, 2011; Kamaluddin et al., 2015; Fasa, 2016).

Conversely, *waqf* is a type of guardianship or custody of fixed-value assets provided for philanthropic or religious reasons and administered to help the underprivileged. *Waqf* has historically entailed real estate, including buildings and land (Khamis & Salleh, 2018). Nonetheless, the use of mobile assets in *waqf* has been approved by a 2002 *fatwa* issued by the Indonesian Council of Ulema (MUI), allowing for the efficient administration of these assets. *Waqf* is defined by Herindar and Rusydiana (2021) as the transfer of money and other resources from investments and consumption to be employed as productive assets that can benefit society as well as individual consumers in the future.

One way to think of *waqf* is as an investing and savings strategy (Pyeman et al., 2016). It entails making use of specific consumable resources as productive assets, which may eventually boost capital accumulation and provide revenue. Preserving the productive state of the assets without permitting their sale or transformation into consumptive assets is one of the fundamental tenets of waqf management. According to theory, waqf should advance and may even give rise to new *waqf* (Faradis et al., 2019). It is possible to maximize the efficiency of *waqf* assets by managing them across a range of industries, including commerce, services, manufacturing, and agriculture. The waqf will get advantages in the form of returns from the net income produced by these assets (Hadyantari, 2018).

A novel financial instrument known as *Sukūk waqf* integrates the ideas of *waqf* and *ṣukūk*. In the evolution of the modern Islamic financial system, it is a novel product (Musari, 2019). *Ṣukūk waqf*, which stands for the money invested in the waqf fund, are transferable certificates with the same face value. *Ṣukūk waqf* is a socially responsible investment plan that uses book building in the primary domestic market to handle waqf funds through investment management by the *nāẓir* (manager). *Ṣukūk waqf* returns are not exchangeable on the secondary market and are instead utilized for societal objectives. According to Oubdi and Raghibi (2018), this clarifies why *ṣukūk waqf* is a sustainable financing tool that may assist in sustaining state expenditures carried out by and for the people. *Ṣukūk waqf* is seen as an alternate method for consistently and sustainably raising money from Muslim communities, as highlighted by Alim et al. (2022). It blends S*ukūk's* rich qualities with flexibility. While *Sukūk* tied to *waqf* is utilized to create social assets, *Waqf*-related *Sukūk* transactions are solely investment and commercial in nature.

According to Syamsuri et al. (2021), more investigation is required before implementing *Sukūk waqf*. Thus, the purpose of this study is to do a bibliometric analysis to examine *Ṣukūk waqf's* research in greater detail. Among the pertinent studies is one by Aldeen et al. (2020), which looked at current problems with cash waqf. The findings of their study suggest that cash *waqf* has emerged as a promising strategy for reducing poverty. Furthermore, the study shows that between 2002 and 2019, researchers from Malaysia and Indonesia showed a significant devotion to cash *Waqf*. The study also highlights areas that still require investigation to fully realize the potential of cash Waqf. Examples of these areas include analyzing cash *Waqf* practices in other nations and verifying the viability of the suggested models through interviews. Subsequent studies on cash Waqf awareness may also consider variables such as 'peer influence' and 'self-efficacy in contributing to cash *Waqf*.'

Ṣukūk Waqf has come to light as a breakthrough in economic sustainability, a viable fill-in for the financing gap for humanitarian projects, a name for charitable or humanitarian fund-raising, and a cutting-edge plan for waqf asset development. *Ṣukūk Waqf* comes in two varieties: 'connected' and 'linked' *waqf ṣukūk*. Both have three purposes in the contemporary Islamic economy: they facilitate money circulation, serve as an investment instrument, and serve as a means of achieving sustainable development.

Yasin (2021) assessed the issues, difficulties, and potential course of the Indonesian government's CWLS SWR001 series. The study's results showed that individual *waqf* dominated the market (99.6%), demonstrating that investors continued to want the SWR001 even in the face of the COVID-19 epidemic. However, *nāẓir* was compelled to reconsider the execution of previously scheduled social activities because of the less-than-optimal sales performance. The development of CWLS goods has been beset by issues such as their relative novelty, restricted distribution partners and *nāẓir*, low coupons, insufficient public awareness, inadequate contracts, and low literacy rates, all of which have hindered the full realization of *wakif's* potential. To foster a favorable perception of CWLS, stakeholders must make sure that information is effectively disseminated, and that word-of-mouth mobilization occurs. Enhancing nazir's professionalism, simplicity of use, and communication tactics are also essential.

Mukhlisin and Mustafida (2019) examined the potential for Indonesia to issue *ṣukūk* based on *waqf* assets in other relevant studies. The structural study of Ṣukūk Al-Wakaf for funding BOT-based development initiatives was elucidated by Mohammed et al. (2021). A *ṣukūk waṣīyyah* model was presented by Alim et al. (2022), in which *ṣukūk* is one of the *Sharīʿah* capital market tools and *waqf* fundraising is one of the *waqf* management activities. This model employs the *wāqif's* will (*waṣīyyah*) to limit the usage of this money according to their preferences. Furthermore, Masrifah (2019) looked at Islamic boarding schools' use of *ṣukūk* based *waqf*.

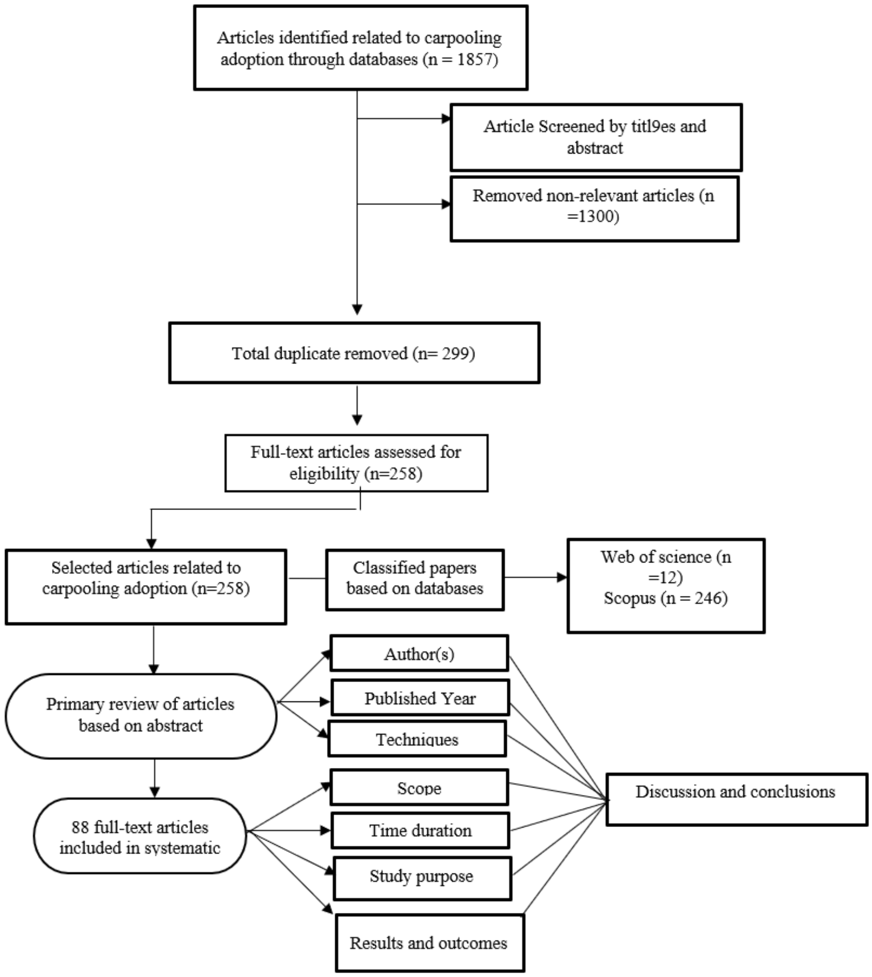
3. Research Methodology

A systematic literature review is a succinct assessment of the literature that uses predetermined procedures to locate, choose, arrange, and evaluate research material (Babatunde et al., 2017). By seeking to solve a particular research topic using pre-defined article eligibility criteria and documented, repeatable methodologies, it synthesizes existing literature (Mitropoulos et al., 2021). Therefore, one of the most crucial steps in the process is creating a protocol that outlines the aims and objectives of the review as well as the inclusion and exclusion standards for research articles, the analytical approach, and the procedure for finding studies. Only when necessary can a review's procedure be altered; else, bias will be introduced (Babatunde et al., 2017). Consequently, the Preferred Reporting Items for Systematic Reviews and Meta-analyses (PRISMA) were utilized in this investigation. The main objective of PRISMA is to facilitate the performance and reporting of transparent literature reviews by researchers (Hillel et al., 2020). Three essential actions were taken in this inquiry to use the PRISMA technique. This process includes searching literature, finding relevant articles, gathering information, and synthesizing it. The research looked through two online databases from 2013 to 2024 to find every publication published on the topic of a bibliometric analysis of *Ṣukūk waqf* (see Fig 1).

The following are the main research questions that this article addresses.

- RQ: What are the main research gaps and trends in the analysis of *Ṣukūk Waqf* after its inception of development and application?

Figure 1: Literature search process using PRISMA



Source: Authors computation (2024)

- **RQ1:** What are the main research gaps and trends in the analysis of *ṣukūk waqf* after decades of development and application?

Furthermore, the study answers the research question by making use of bibliometric analysis with R-studio and the bibliometric package. Before data analysis, the main bibliometric statistics are addressed. Subsequently, sources, authors, documents, grouping, conceptual structure, and social structure are taken into consideration in the investigation. Subsequently, several variables are employed to investigate in detail each of the previously described categories, including Bradford's law, average yearly scientific production, average annual citation, and the majority of pertinent sources.

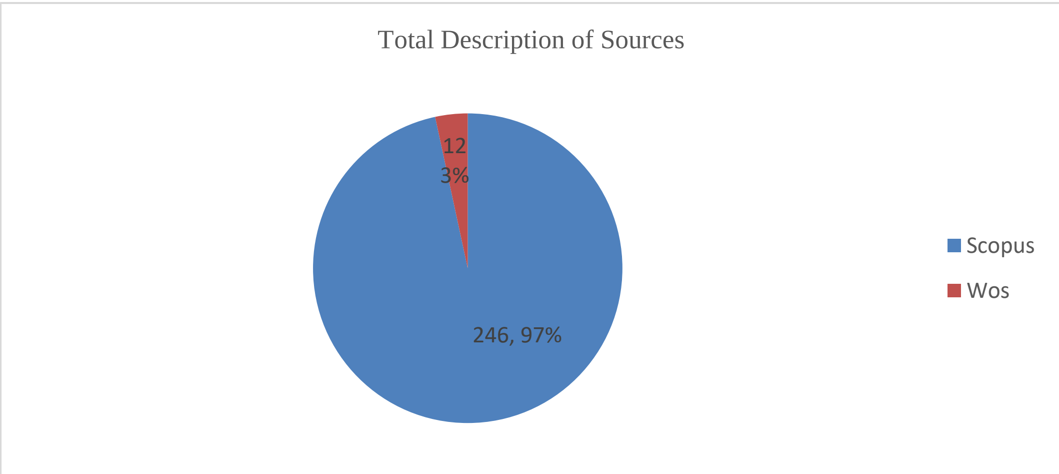
3.1 Literature search

The following search terms were used to locate all studies included in the analysis of *Ṣukūk Waqf* in Web of Science (WoS) and Scopus, two well-known indexed electronic databases: "Sukuk Waqf" OR "Islamic bond Waqf" OR "Islamic endowment bond" OR "Cash Waqf" OR "Islamic social welfare" OR "Sukuk invest*" OR "Waqf" OR "Sukuk" OR "Islamic Finan*" OR "Sukuk develop*" OR "Sukuk Credit" OR "green Finan*". A research paper was deemed suitable for inclusion if: (1) it is on Ṣukūk Waqf or related concepts (2) published in English and (3) It has undergone peer review. Studies not directly related to the topic of Ṣukūk Waqf, as well as papers not published in peer-reviewed journals and not available in the English language, were eliminated. Finally, article-style papers have taken precedence over other document forms (such as review or proceeding papers). There were no language or time constraints. An initial search was conducted on July 29th, 2024.

3.2 Search output

At this point in phase 1, a total of 1857 peer-reviewed research publications have been obtained. Because we limited our search to SCOPUS and WoS, our study is not comprehensive and only covers a small portion of the literature on the analysis of *Ṣukūk Waqf* studies. The research evaluated titles and abstracts in Phase 2 to find works that were relevant to *Ṣukūk Waqf*. A total of 1857 articles were kept and subjected to full-text examination, with 258 articles meeting the inclusion criteria. Web of Science yielded twelve publications, whereas SCOPUS two hundred and forty-six. The distribution is depicted in Figure 2.

Figure 2: Distribution of sources



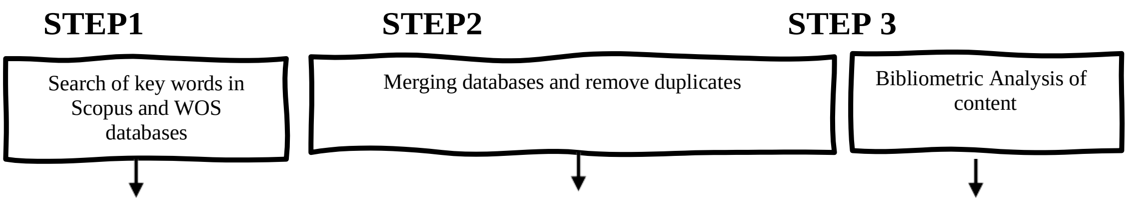
Source: Authors computation (2024)

Figure 2 shows the distribution of sources used in the research analysis. With 246 sources or 97% of all the articles in the research, Scopus has the greatest number of sources, as seen by the graph. Conversely, WoS did not exceed 12 articles, which accounted for 3% of the total number of papers used in the analysis.

3.3 Bibliometric Analysis

The major bibliometric statistics are discussed first before looking at the data. Following that, the research considers the overall picture, sources, authors, documents, clustering, conceptual structure, and social structure. Following that, the following factors are used to examine each of the categories mentioned above extensively: (1) main information, (2) annual scientific production, (3) average citation per year, (4) three fields plot, (5) most relevant sources, (6) Bradford's law, (7) source impact, (8) relevant authors, (9) authors production over time, (10) authors impact, (11) country's citation, (12) word cloud (13) tree map, (14) clustering by coupling, (15) Co-citation Network, (16) Thematic map, (17) factorial analysis (topic dendrogram), (18) collaboration network, (19) collaboration word map. The bibliometric process using R is highlighted below:

Table 1: Description of Data Collection Process using R



n =1857 **articles**	**n=258 articles**	**n=258 articles**
	To merge databases and remove duplicates we ran	Bibliometric analysis
"Sukuk Waqf" OR "Islamic bond Waqf" OR "Islamic endowment bond" OR "Cash Waqf" OR "Islamic social welfare" OR "Sukuk invest*" OR "Waqf" OR "Sukuk" OR "Islamic Finan*" OR "Sukuk develop*" OR "Sukuk Credit" OR "green Finan*"	These lines of commands in R Studio: Install.Package(Bibliometrix) Library (Bibliometrix) Bbibliophily ()	With R Studio and Bibliometric Package

Source: Authors computation (2024)

4. Results

4.1. Descriptive Bibliometric Analysis

4.1.1. General Overview

Table 2: Main Information

Description	**Results**
MAIN INFORMATION ABOUT DATA	
Timespan	2013:2024
Sources (Journals, Books, etc)	176
Documents	330
Annual Growth Rate %	-7.41
Document Average Age	4.39
Average citations per doc	9.027
References	0
DOCUMENT CONTENTS	
Keywords Plus (ID)	265
Author's Keywords (DE)	876
AUTHORS	

Authors	655
Authors of single-authored docs	67
AUTHORS COLLABORATION	
Single-authored docs	75
Co-Authors per Doc	2.77
International co-authorships %	3.333
DOCUMENT TYPES	
Article	245
article; book chapter	4
article; early access	4
Book	2
book chapter	40
book chapter article	1
conference paper	12
conference paper article	1
Proceedings paper	9
Review	12

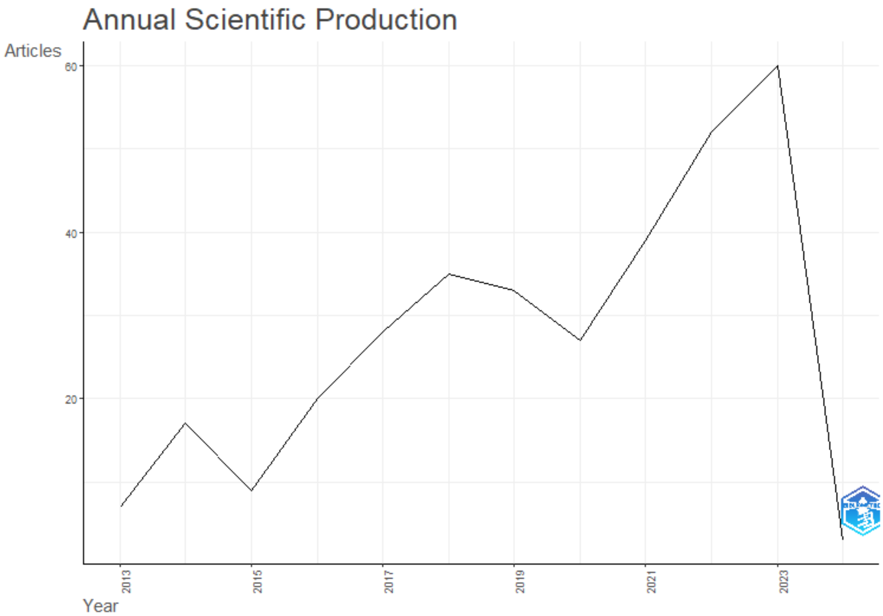
Source: Authors' computation from R-Studio (2024)

Data from the Scopus and WoS databases, on 258 papers published in 2013–2024, are displayed in Table 1. *Ṣukūk waqf* is a type of Islamic financial instrument that combines the principles of *Sukūk* (Islamic bonds) and waqf (Islamic endowment). This hybrid structure has gained attention in recent years as a way to mobilize funds for charitable and social development purposes. The bibliometric analysis provides insights into the intellectual structure and trends in the research on *Sukūk waqf*. The number of keywords used in comparison to the number of items is three times higher. At the same time, the study period spans 11 years of scientific output. The greatest rise in published publications, however, happened in 2023 (Fig. 1). Each article was authored by two authors on average (2.77). Lastly, when the total number of authors of multi-authored publications is divided by the total number of multi-authored articles, the cooperation index (CI) is calculated to be 3.33.

4.1.1.1. Annual Scientific Production

According to Andres' study, this exponential function, science grows multiplicatively over time, with the rate of growth related to the size of the population; that is, the greater the population, the faster the science will grow. Consequently, Table 1 shows a gradual decline in the quantity of output. This phase of greater expansion will not be followed by a time of stabilization since the exponential growth suggested by Price's law is deemed inappropriate inside a logistic function. The paper found that the yearly growth rate of *Sukūk waqf* decreased by -7.41 percent between 2013 and 2024 in our study. With 60 publications released, 2023 proved to be the most productive year. Table 2 shows that, on average, papers published in 2023 obtained a high number of citations (2.82), however, because of their higher citation years, publications published in 2022 scored higher on the mean total citation per article index (2.36).

Figure 3: Annual Scientific Production



Source: Authors' computation from R-Studio (2024)

Table 3: Average Article Citation Statistics

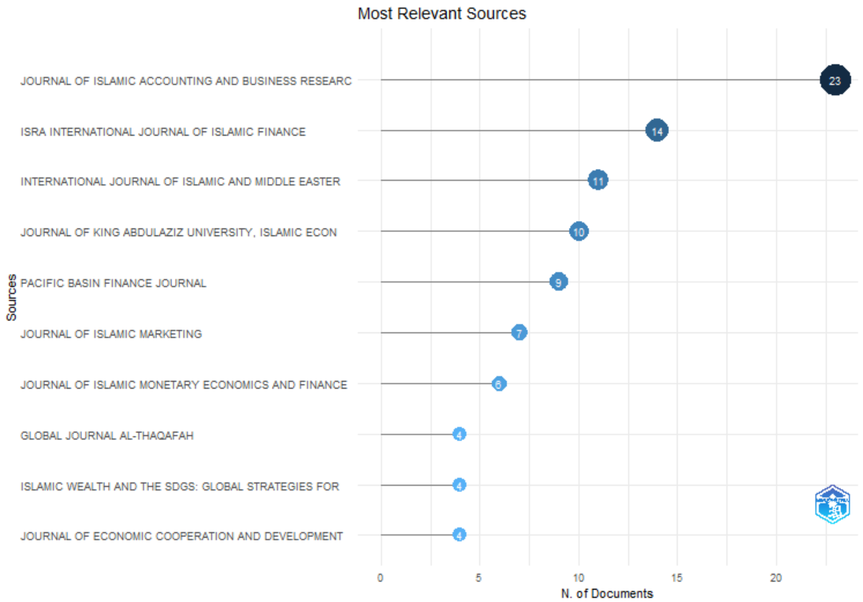
Year	MeanTCperArt	N	MeanTCperYear	CitableYears
2013	32.57	7	2.71	12
2014	12.41	17	1.13	11
2015	20.67	9	2.07	10
2016	15.3	20	1.7	9
2017	14.71	28	1.84	8
2018	10.2	35	1.46	7
2019	8.94	33	1.49	6
2020	6	27	1.2	5
2021	7.23	39	1.81	4
2022	7.08	52	2.36	3
2023	2.82	60	1.41	2
2024	1	3	1	1

Source: Authors computation from R-Studio (2024)

4.2 Most Relevant Sources

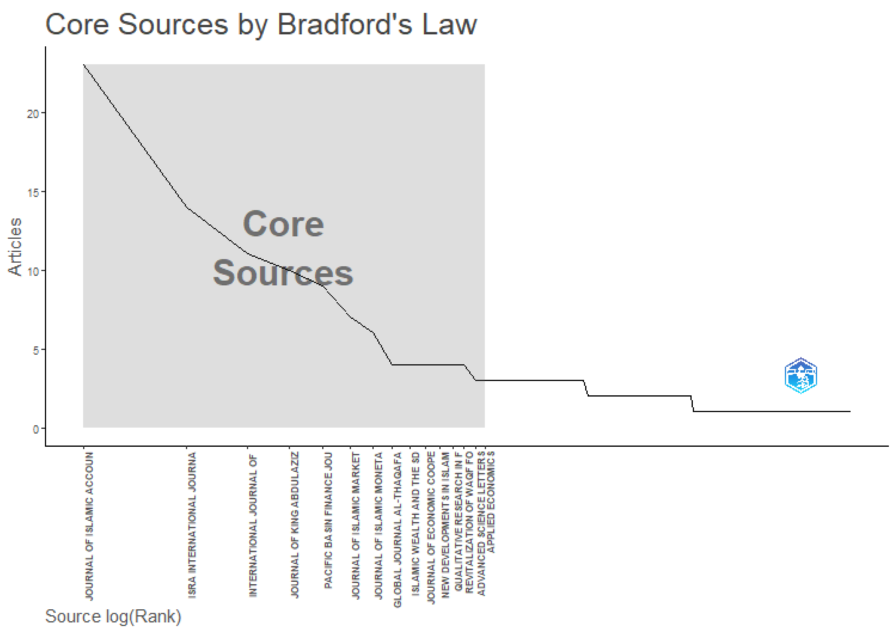
From now on, the criterion for providing results will be centered on the 10 most relevant as contained in. It was essential to count the relevant sources that appeared in our database to achieve these results. The examination of the 258 articles in our database allows us to verify that in terms of the number of publications by the most relevant sources, both in the role of the main author and co-author, “Journal of Islamic Accounting” is the most productive source with exactly 23 (9%) publications (figure 2). "Most publications on a given topic are first dispersed throughout a small number of core journals, and then they are concentrated in those journals." Bradford's rule of dispersion states that "an exponentially rising number of journals will be required to fill the subsequent zones if the collection of relevant articles is partitioned into groups or zones with the same number of items as the core". Bradford's law is therefore often used in bibliometrics to evaluate journal productivity. Figure 4 demonstrates that the bulk of publications on the topic are published in a limited number of journals, while the number of journals producing papers on the topic is declining.

Figure 4: Most relevant Sources



Source: Authors computation from R-Studio (2024)

Figure 5: Bradford's Law



Source: Authors computation from R-Studio (2024)

A journal's Impact Factor (IF) defines citation measure as "a citation measure of its average article's citation score over a very short period." The total number of "citable" items (research articles, reviews, and notes) published by the journal in the same year that is divided by the total number of citations received in the processing years determines for a given year. We can identify publications that have a strong impact during a given IF, which is useful for libraries when choosing which journals to purchase or for authors when choosing where to submit their articles. For instance, when we say a journal has an impact factor of three, we mean that in the previous two years, this journal averaged three citations per published article in the IF. High-impact factor (IF) journals are frequently seen as more reliable. The greater the IF of the journals included in the units' publication records that are being reviewed, the more likely it is that the candidate will outperform all other applicants in a competition for funding, tenure, or promotion. The Hirsch index, sometimes known as the h-index, is a single statistic that assesses both quantity and effect. The h-index is defined as follows: If h of a scientist's N articles have at least h citations each and the other (N–h) papers have h citations each, then the scientist has index h. A well-liked improvement to the h-index, the g-index measures the weight of citations received by a scientist's best works; the total number of documents has no effect on the index's value. The M-index is determined by taking the median number of citations from publications that are ranked less than or equal to the Hirsch core h. Figures 4 and 5 provide the impact metrics of the ten journals that are most pertinent.

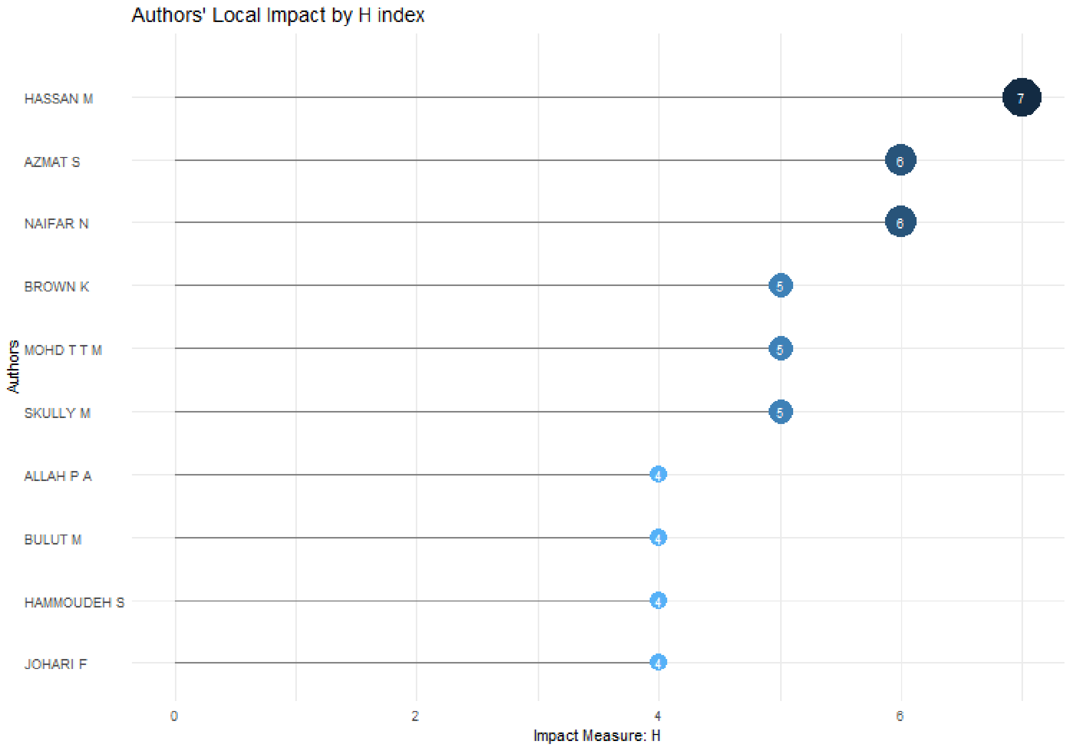
4.3 Authors

Figure 6 displays the top 10 writers by output. A reasonable association exists between a scientist's prominence and his production of articles. Figure 7 shows the output of top authors over time.

Figure 6: Source Local Impact by H Index

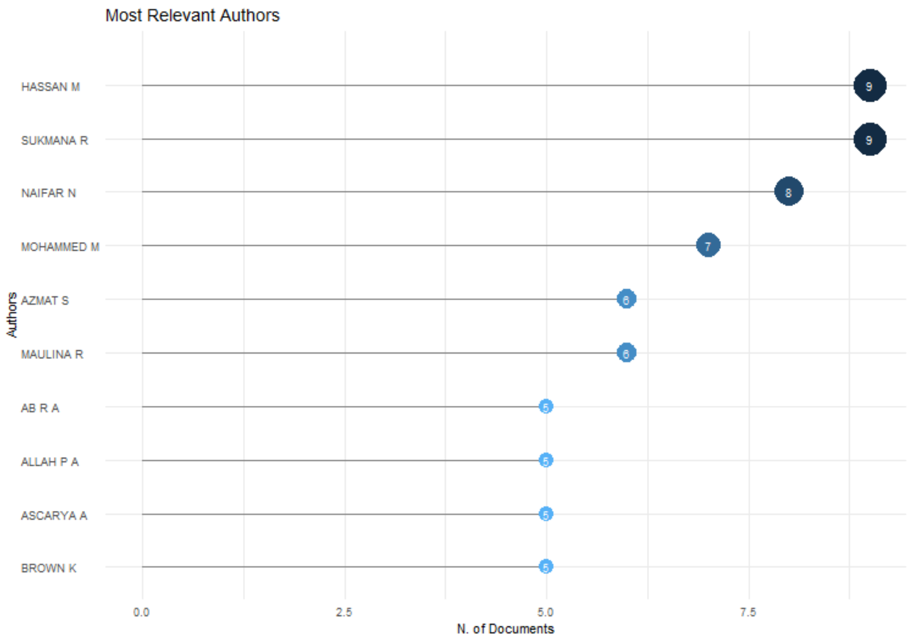
Source: Authors computation from R-Studio (2024)

Figure 7: Authors' Local Impact by H Index



Source: Authors computation from R-Studio (2024)

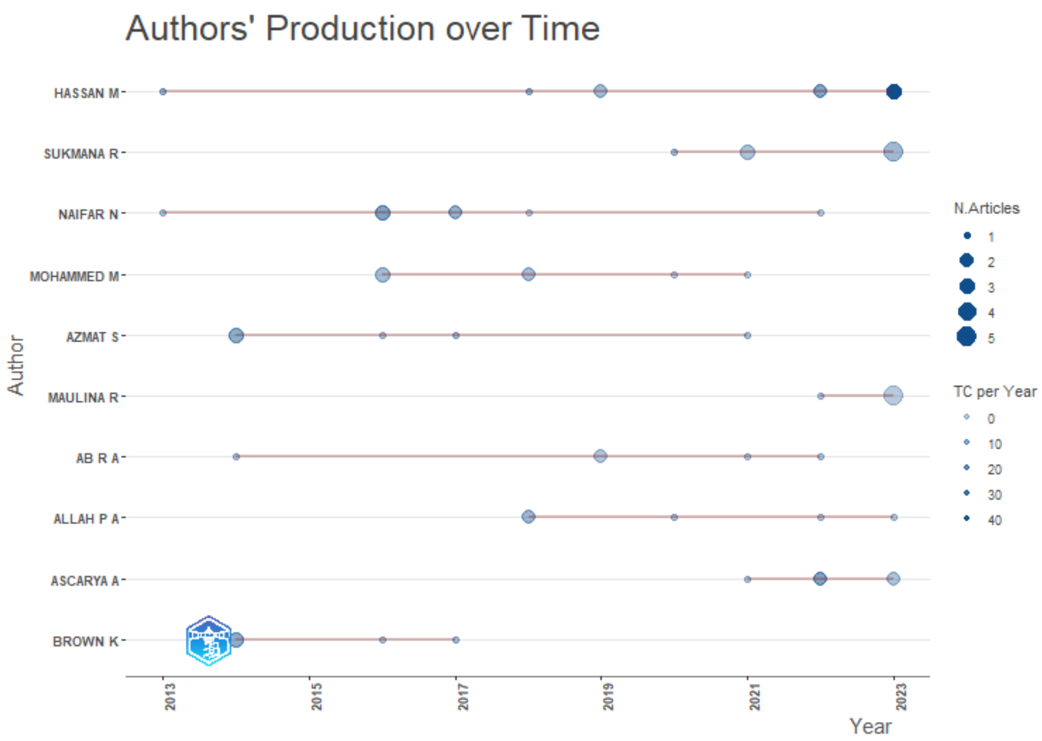
Figure 8: Most relevant Authors based on number of documents



Source: Authors computation from R-Studio (2024)

In terms of the total number of publications by the most important authors, both as main authors and co-authors, a review of the 258 papers in our database confirms that Hassan M and Sukmana R, is the most relevant source with exactly 9 publications which is about 3.50% of the articles in the database, Naifar N recorded 8 (3.10%) and others all recorded 5 (1.9%) publications each. Finally, we notice that all of the writers included in the table of the most relevant authors have more than five publications, which is about 1.9% of the articles in the database.

Figure 9: Top authors' production overtime



Source: Authors' computation from R-Studio (2024)

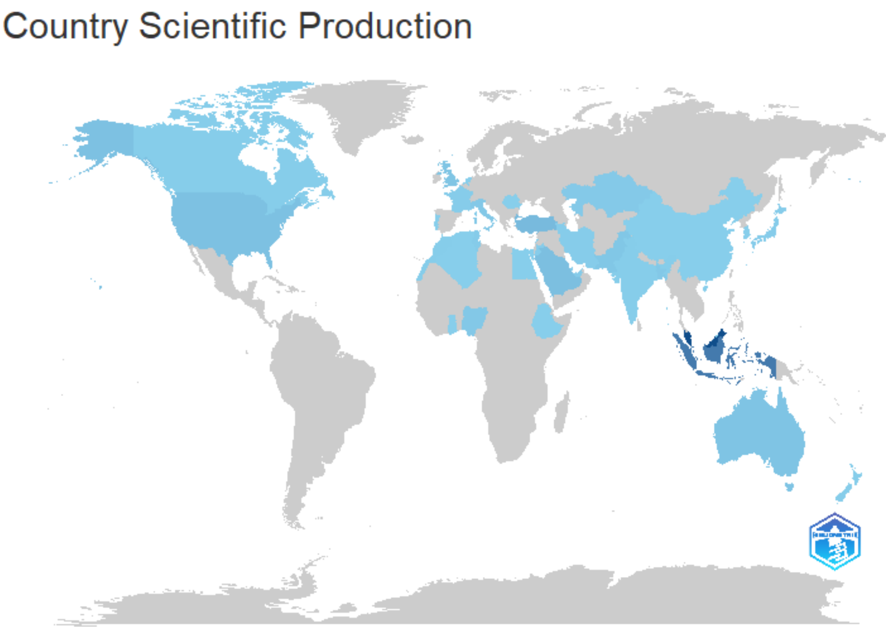
Figure 9 shows the publications of the top author's work overtime, with the key figures being Hassan M., Sukmana R., Naifar N., Mohammed M., etc. who published between 2013 and 2024. On the other hand, it is well known that 2024 had the greatest concentration of publications, with this year being the most prolific for the majority of writers.

4.3.1 Authors by Countries

4.3.1.1 Country Scientific Production

Malaysia was the most productive country, followed by Indonesia, according to all of the studies considered. Figure 10 depicts the worldwide map productivity of the most important nations.

Figure 10: Country Scientific Production



Source: Authors' computation from R-Studio (2024)

Figure 10 revealed that Malaysia has the highest number of production when it comes to ṣukūk waqf recording 151 publications in total. Indonesia reported 96 publications with Turkey making the top three with 23 publications (see Table 4). More so, publications from North Africa, West Africa, and South Africa are still missing, given their virgin research nature of the topic.

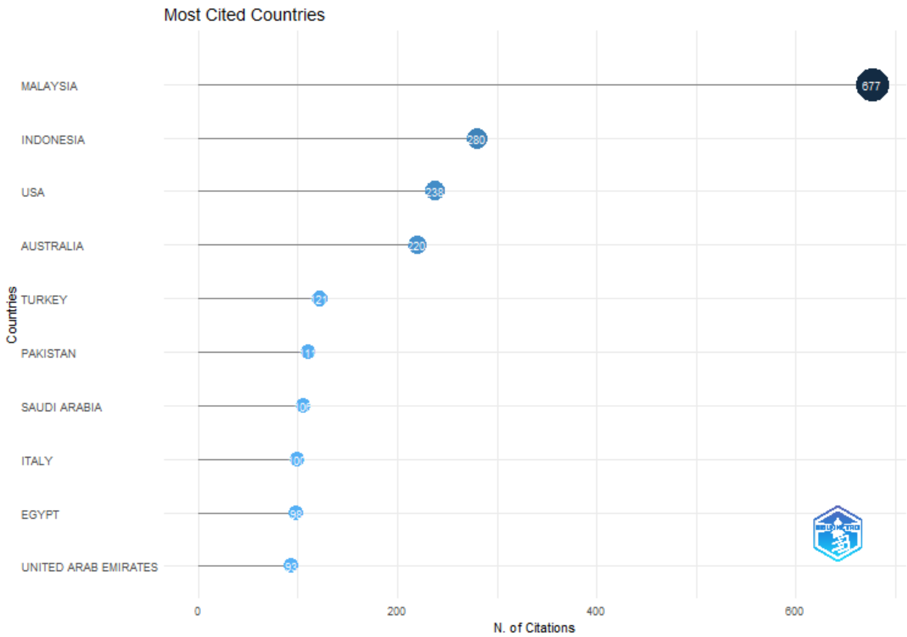
Table 4: Country Scientific Production Statistics

Region	**Freq**
Malaysia	151
Indonesia	96
Turkey	23
Saudi Arabia	17
USA	15
Australia	12
UK	11
Pakistan	9
Bangladesh	7

Source: Authors' computation from R-Studio (2024)

The top 10 countries are depicted in Figure 11. Papers from Malaysia have gotten 877 citations in total, compared to 280 for articles from Indonesia and 220 for the USA.

Figure 11: Most Cited Countries



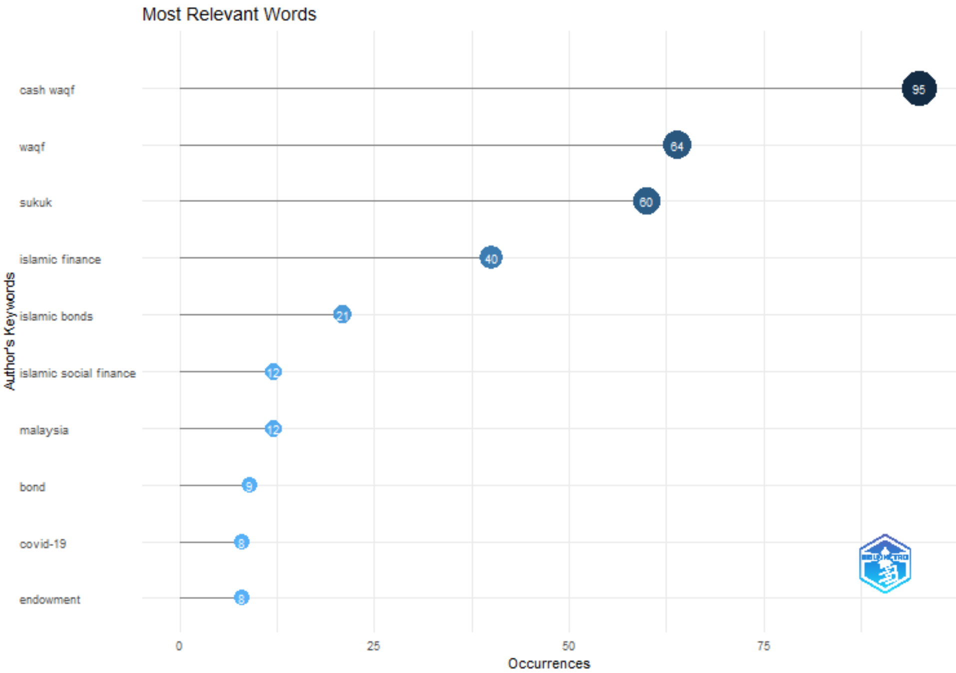
Source: Authors' computation from R-Studio (2024)

4.4 Documents

4.4.1 Most Relevant Words

The frequency of keywords and their related relationship networks between the primary writers, as well as the most explored themes throughout time, were analyzed using the R program. The goal of creating these outputs is to determine which terms are most frequently used concerning the topic under investigation, to determine how the authors are related based on the scientific publications they publish, and to comprehend the temporal distribution of production research on the subject matter. The table for the most frequently used word cloud is shown below.

Figure 12: Most Relevant Words



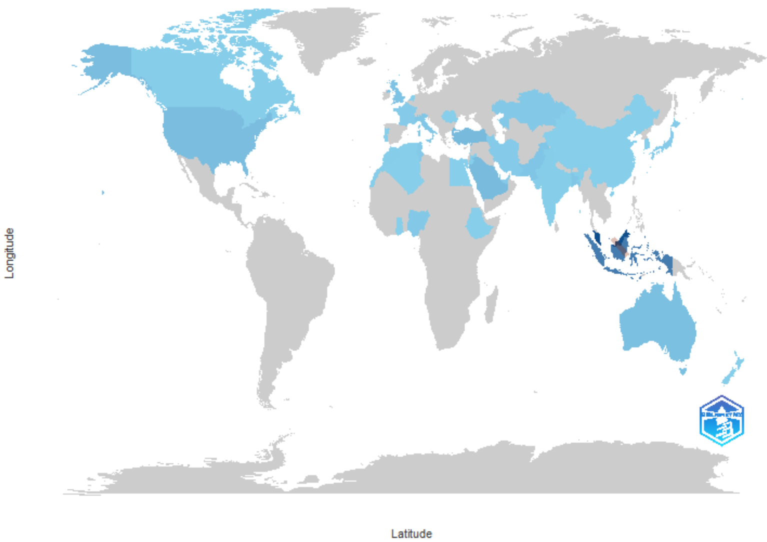
Source: Authors' computation from R-Studio (2024)

Cash waqf is a frequent keyword used by various authors. Other keywords frequently used by the authors as appeared in the word cloud above are *waqf, ṣukūk*, Islamic finance, and Islamic bonds amongst others.

4.5 Collaboration World Map

This section looks at articles on the topic that have appeared in single or numerous periodicals in each nation. It also tries to keep track of international collaboration and networking in the field of *Sukūk waqf*.

Figure 13: Country Collaboration Map



Source: Authors' computation from R-Studio (2024)

Figure 13 shows worldwide collaboration. The map's blue color denotes international cooperation in research. The degree of collaboration among the writers is further evidenced by the pink ring that unites the states. It's interesting to observe how the nations who have published the most on the subject have worked together in this manner. Although Malaysia and Indonesia have the most significant alliances with countries that are frequently quite far away and haven't succeeded in developing the subject, the cooperation can result in policy interchange and market collaboration.

Table 5: Global Collaboration Statistics

From	To	Frequency
Jordan	Brunei	1
Kazakhstan	U Arab Emirates	1
Malaysia	Egypt	1
Malaysia	Indonesia	3
Malaysia	Kazakhstan	1
Malaysia	Nigeria	1
Malaysia	Pakistan	1
Malaysia	U Arab Emirates	1
Malaysia	United Kingdom	1

Source: Authors' computation from R-Studio (2024)

5. Discussion

A bibliometric analysis was the primary focus of the study. The pertinent research issues indicated above were addressed by the use of both thematic and bibliometric analysis. A qualitative research technique called theme analysis is used to find, examine, and incorporate findings and conclusions. Based on research topics, many themes have been identified and investigated. The study also takes into account the big picture, authors, sources, records, and social structure. Then, utilizing the bibliometric analysis obtained from R studio, many parameters are employed to thoroughly investigate each of the previously mentioned categories, including Bradford's law, average citation per year, yearly scientific production, and the majority of relevant sources.

According to the above result, which shows the distribution of sources used in the research analysis, Scopus has the greatest number of sources (246), making up 97% of all the articles in the study. Conversely, WoS did not exceed 12 articles, which accounted for 13% of the total number of papers used in the analysis.

In response to the research question, bibliometric analysis was used for this purpose. According to Andres' study, in terms of this exponential function, science grows multiplicatively over time, with the rate of growth related to the size of the population; that is, the greater the population, the faster the science will grow. Consequently, Table 2 shows a gradual decline in the quantity of output. This phase of greater expansion will not be followed by a time of stabilization since the exponential growth suggested by Price's law is deemed inappropriate inside a logistic function. We found that the yearly growth rate of *Sukūk waqf* decreased by -7.41 percent between 2013 and 2024 in our analysis. With 60 publications released, 2023 proved to be the most productive year. Table 3 shows that, on average, papers published in 2023 obtained the highest number of citations (2.82), however, because of their higher citation years, publications published in 2022 scored higher on the mean total citation per article index (1.41).

The examination of the 258 articles in our database allows us to verify that in terms of the number of publications by the most relevant sources, both in the role of the main author and co-author, "Journal of Islamic Accounting" is the most productive source with exactly 23 (9.0%) publications (figure 10). "Most publications on a given topic are first dispersed throughout a small number of core journals, and then they are concentrated in those journals." Bradford's rule of dispersion states that "an exponentially rising number of journals will be required to fill the subsequent zones if the collection of relevant articles is partitioned into groups or zones with the same number of items as the core". Bradford's law is therefore often used in bibliometrics to evaluate journal productivity. Figure 10 demonstrates that the bulk of publications on the topic are published in a limited number of journals, while the number of journals producing papers on the topic is declining.

In terms of the total number of publications by the most important authors, both as main authors and co-authors, a review of the 258 papers in our database confirms that Hassan M, is the most relevant source with exactly 9 publications which are about 3.49% of the articles in the database, Sukmana R. also recorded 9 (3.49%) publications. Finally, we notice that all the writers included in the table of the most relevant authors have more than five publications, which is about 1.9% of the articles in the database.

In addition, it was revealed that Malaysia has the highest number of production when it comes to *ṣukūk waqf* recording 75 publications in total. Indonesia reported 53 publications with Turkey making the top three with 13 publications. More so, publications from North Africa, West Africa, and South Africa are still missing, given the virgin nature of the topic.

6. Conclusion and Recommendation

The burgeoning significance of *Sukūk waqf* within the Islamic finance paradigm has demonstrably fueled its increasing popularity and impact in recent years. Consequently, this growth has elicited heightened scholarly interest, evidenced by a surge in research output as our analysis confirms, underscoring the field's growing academic relevance. The central objective of this research was to meticulously map and evaluate the extant literature on *Sukūk waqf*. As a result, the study was able to delineate the structural characteristics of this research domain, specifically concerning its key authors, publications, and journals.

The literature mapping provided us with an overview of what has been researched so far in terms of the *Sukūk waqf*, and the work discovered 258 papers between 2013 and 2024 because of this research. The analysis of the 258 articles resulted in the development of a systematic review of the main literature, which was addressed in the context of analysis of *Sukūk waqf*, as well as the mapping of the main studies (Top 10) according to their academic importance as measured by the index of citation volume.

This research allowed us to see those studies on *Sukūk waqf* have been gaining traction in the scientific community, as seen by the growth in publications over time. In terms of the overall findings of the systematic review and mapping of the literature, the study can say that *Sukūk waqf* is still in its early stages since it is an activity that has only recently become popular and only in a few countries, in contrast to conventional banking. It is, nevertheless, now a fundamental field, as evidenced by the expanding relevance that researchers have proven regarding the subject, producing an increasing number of studies with significant academic effects in this area of knowledge.

Acknowledgement

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Redefining Asnaf Fi Sabillah: Contemporary Interpretations and Zakat Distribution Practices in Islamic Banking and Finance Institutions (IBFIs)

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Abstract

This study examines the contemporary interpretations of *asnaf fi sabillah* in the context of Islamic Banking and Finance Institutions (IBFIs) and their *zakat* distribution practices. The research explores the evolution of *fi sabillah* interpretation from its classical, primarily military-focused understanding to its broader, more inclusive modern conceptualizations. Through a comprehensive literature review encompassing institutional practices, ijtihad fatwa, and academic studies, the research identifies significant variations in interpretation and application across different Islamic jurisdictions and schools of thought. The study employs a qualitative methodology, including library research, analyzed through both qualitative and thematic approaches. A theoretical framework integrating *Maqasid al-Shariah*, *Maslahah* Theory, and Islamic Finance Development Theory is utilized to evaluate various interpretations and their alignment with Islamic principles and contemporary needs. The research reveals a general trend towards broader interpretations of *fi sabillah* that encompass educational, social, and economic development activities. However, it also highlights ongoing debates and disagreements regarding the scope and application of this concept. The study identifies several research gaps, particularly concerning the specific role of IBFIs in interpreting and applying *fi sabillah* in their *zakat* distribution strategies. Based on these findings, the research proposes guidelines for IBFIs in channelling zakat to *fi sabillah* recipients, emphasizing the need for balanced distribution, prioritization of core *zakat* objectives, and alignment with *Maqasid Shariah*. These guidelines aim to ensure that zakat distribution through the *fi sabillah* category contributes effectively to the development of Islamic banking and finance while adhering to Islamic principles and addressing contemporary socio-economic challenges. The study concludes by highlighting the importance of continued scholarly discourse and ijtihad in adapting Islamic financial practices to modern contexts.

Keywords: *Asnaf fi sabillah, Islamic banking and finance institutions, zakat distribution, Maqasid Shariah, contemporary Islamic jurisprudence*

1. Introduction

The issue of interpreting and applying the concept of *asnaf fi sabilillah* in contemporary contexts has emerged as a significant topic in Islamic jurisprudence and finance. Traditionally, *fi sabilillah* was primarily associated with military *jihad*, as exemplified by the American Zakat Foundation's interpretation (American Zakat Foundation, n.d.). However, the changing landscape of global Muslim communities and evolving socio-economic challenges have necessitated a re-examination of this concept.

The expansion of the *fi sabilillah* interpretation began gaining traction in the late 20th century. Scholars like Yusuf al-Qaradawi, as discussed by Alaidin and Abdullah (2020), proposed a broader understanding that includes various forms of struggle for Islam, encompassing intellectual, educational, and social jihad. This shift

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in interpretation reflects the changing nature of challenges faced by Muslim communities worldwide.

The need for a more inclusive interpretation became particularly apparent with the rise of Muslim minority communities in non-Muslim countries. The Assembly of Muslim Jurists of America (2011) recognized this need, allowing zakat to be used for supporting Islamic schools in the West, acknowledging the unique challenges faced by these communities in preserving their religious identity and education.

In Malaysia, the evolution of *fi sabilillah* interpretation has been particularly noteworthy. Ab Rahman et al. (2017) highlight the use of the *Maqasid Shariah* approach in evaluating zakat distribution schemes for fi sabilillah. This approach ensures that zakat distribution aligns with the higher objectives of Islamic law, including preserving religion, life, intellect, lineage, and property.

The debate over the scope of *fi sabilillah* has also been influenced by the changing nature of global challenges facing Muslim communities. Mohammad et al. (2018) argue for an even broader interpretation that covers all activities contributing to the development of da'wah for the sake of Allah. They propose that this expanded interpretation could play a crucial role in revitalizing economies and improving social progress in Muslim-majority countries.

The emergence of Islamic Banking and Finance has broadened the interpretation of *fi sabilillah*. As these institutions have grown into key economic players, their role in *zakat* distribution-particularly under the *fi sabilillah* category-has become a subject of discussion. Fauzi et al. (2024) propose using *zakat* funds from the *fi sabilillah* category to support Islamic boarding school students with international achievements, linking the concept with educational excellence and global competitiveness.

However, this expansion of interpretation is not universally accepted. Some institutions, like Darul Fatwa of Australia (2024), maintain a more conservative view, limiting *fi sabilillah* to volunteer fighters and explicitly excluding other charitable projects. This divergence in interpretation highlights the ongoing debate and the need for a comprehensive comparative analysis.

The emergence of this issue is also tied to the broader trend of *ijtihad* (independent reasoning) in contemporary Islamic jurisprudence. Hakim (2020) notes that modern scholars are actively seeking ways to apply the concept of *fi sabilillah* to contemporary Muslim needs, ensuring that Islamic principles remain relevant and applicable in changing times.

As Muslim societies continue to evolve and face new challenges, the interpretation of *fi sabilillah* remains a critical area of study and debate. The diverse interpretations across different regions and institutions, as highlighted by Soib and Sulong (2024), underscore the need for a comprehensive analysis that can guide future policy and practice in zakat distribution, particularly in the context of Islamic Banking and Finance.

1.1. Research Problem

The contemporary interpretation of *asnaf fi sabilillah* presents a complex problem that impacts various aspects of Islamic finance and social welfare. At its core, the issue revolves around the divergence between traditional and modern interpretations of *fi sabilillah*, and how these interpretations are applied in practice by *zakat* institutions and Islamic financial entities.

The interpretation of *fi sabilillah* is not merely a theoretical concern but has profound practical implications for *zakat* distribution. As *zakat* fundamentally aims to uphold Islamic values while addressing socio-economic needs, the way *fi sabilillah* is interpreted directly impacts resource allocation priorities and the effectiveness of zakat in achieving its intended objectives. With Islamic Banking and Finance Institutions becoming significant collectors and distributors of *zakat* funds, their interpretation of *fi sabilillah* can significantly influence whether zakat resources are directed toward immediate poverty alleviation or longer-term development of Islamic financial infrastructure. This tension necessitates clear guidelines rooted in both classical principles and contemporary realities.

The application of *fi sabilillah* in the context of Islamic Banking and Finance (IBF) institutions presents its own set of challenges. There is a lack of clear guidelines on how these institutions should interpret and apply the concept of *fi sabilillah* in their zakat distribution practices. This gap in guidance can lead to inconsistent or ineffective use of zakat funds in the development of Islamic finance, as highlighted by the absence of specific studies on this topic in the reviewed literature.

Furthermore, the problem extends to the alignment of *fi sabilillah* interpretations with the broader objectives of Islamic law (*Maqasid Shariah*). Ab Rahman et al. (2017) emphasize the importance of evaluating zakat distribution schemes, including those for *fi sabilillah*, against the principles of *Maqasid Shariah*.

However, there is a lack of comprehensive frameworks for conducting such evaluations, particularly in the context of IBF institutions.

The rapid evolution of global challenges facing Muslim communities adds another layer of complexity to this problem. As noted by Achmad (2024), limiting *fi sabilillah* to traditional concepts of jihad or armed struggle is increasingly seen as irrelevant in today's context. However, determining the appropriate scope of modern applications that remain true to the spirit of Islamic teachings presents a significant challenge.

Lastly, there is a critical need for empirical research on the impact of different *fi sabilillah* interpretations on the overall effectiveness of zakat in addressing contemporary socio-economic challenges. The literature review reveals a gap in longitudinal studies assessing the long-term outcomes of various fi sabilillah-based zakat distribution strategies, particularly in the context of Islamic finance development.

In summary, the research problem encompasses the lack of consensus on *fi sabilillah* interpretation, potential misallocation of zakat funds, challenges in application within IBF institutions, alignment with *Maqasid Shariah*, adaptation to contemporary global challenges, balancing local and global needs, and the absence of comprehensive impact assessments. Addressing these interrelated issues is crucial for ensuring that the concept of *fi sabilillah* remains a relevant and effective tool in Islamic finance and social welfare in the modern era.

1.2. Research Objectives

This research aims to achieve the following objectives:

i. To examine the evolution of *fi sabilillah* interpretations from classical to contemporary perspectives and their application in Islamic Banking and Finance Institutions.

ii. To analyze current practices of zakat distribution under the *fi sabilillah* category by IBFIs and develop guidelines that align with Maqasid Shariah while addressing modern socio-economic challenges.

2. Literature Review

The concept of *asnaf fi sabillah*, one of the eight categories of *zakat* recipients mentioned in the *Quran*, has undergone significant evolution in its interpretation and application within contemporary Islamic finance. This transformation reflects broader changes in Islamic jurisprudence as scholars and institutions attempt to maintain fidelity to core principles while addressing the complex challenges of modern society. This analysis examines how *fi sabillah* interpretations have evolved through institutional practices, scholarly rulings (*fatawa*), and academic research, highlighting areas of consensus, points of contention, and research gaps requiring further investigation.

2.1. Evolution of Institutional Interpretations

Institutional interpretations of *fi sabillah* demonstrate a clear trajectory from narrow, military-focused definitions toward more expansive understandings. Traditionally, as exemplified by the American Zakat Foundation, *fi sabillah* was primarily associated with "*fighters who have gone out to fight the enemy to elevate the word of Allah*" (American Zakat Foundation, n.d.). This interpretation aligns closely with classical understanding of jihad as armed struggle, reflecting historical contexts where defending Islamic territories represented a primary concern.

However, contemporary *Zakat* institutions have progressively broadened this definition to accommodate modern contexts. The Majlis Agama Islam Melaka argues that while *fi sabillah* primarily refers to *jihad*, it should not be limited to military engagements, proposing that it can include jihad through "*writings or words, encompassing jihad in the fields of thought, education, social matters, economics, and politics*" (Majlis Agama Islam Melaka, n.d.). This expanded interpretation acknowledges the multifaceted nature of contemporary struggles facing Muslim communities.

The Majlis Agama Islam Johor further develops this concept by defining *fi sabillah* as those who "*strive, make efforts, defend, and enhance the understanding and propagation of Islam*" (Majlis Agama Islam Johor, n.d.). Similarly, the Majlis Agama Islam Dan Adat Melayu Terengganu extends the definition to "*any person or party involved in activities to uphold, defend, and propagate the Islamic religion and its welfare*" (Majlis Agama Islam Dan Adat Melayu Terengganu, n.d.). These definitions reflect a shift toward understanding fi sabillah as encompassing various efforts that strengthen and advance Islamic values and communities.

Perhaps the most expansive institutional interpretation comes from the National Zakat Foundation in

London, which suggests that *fi sabillah* can cover "*promoting the Islamic value system*" and "*community development, through building faith-based understanding and through support for key community institutions*" (National Zakat Foundation, n.d.). This broad conception acknowledges the unique challenges facing Muslim minority communities in Western contexts, where establishing and maintaining Islamic institutions requires significant resources.

Despite this general trend toward broader interpretations, institutional approaches reveal both consensus and divergence. Most institutions agree that *fi sabillah* extends beyond military engagement, encompasses activities related to Islamic propagation, and includes efforts to defend Islam and Muslim communities. However, significant disagreements persist regarding the scope of eligible activities, the inclusion of community development initiatives, the permissibility of funding infrastructure projects like mosques and schools, and the extent to which general interests of Muslims qualify under this category.

The Zakat Fund of the United Arab Emirates explicitly states that zakat cannot fund infrastructure projects, citing the principle of exclusivity in defining zakat recipients (Zakat Fund of the United Arab Emirates, n.d.). This position reflects concerns about maintaining clear boundaries around zakat usage to ensure compliance with traditional interpretations of Shariah principles. Conversely, institutions like the Majlis Ugama Islam Singapura specifically include mosque management under *fi sabillah*, demonstrating how geographical and cultural contexts influence institutional interpretations (Majlis Ugama Islam Singapura, n.d.).

2.2. Contemporary Scholarly Rulings (Fatawa)

Scholarly interpretations of *fi sabillah*, as reflected in contemporary *fatawa*, reveal similar diversity and evolutionary tendencies. Traditional perspectives persist alongside more expansive interpretations, creating a complex landscape of scholarly opinion. Darul Fatwa of Australia (2024) represents the conservative view, maintaining that *fi sabillah* refers exclusively to volunteer fighters and explicitly excluding other charitable projects. This position attempts to preserve historical interpretations and prevent what some scholars consider inappropriate expansion of the concept.

In contrast, the Jabatan Mufti Negeri Perlis (2023) fatwa reflects evolutionary thinking, acknowledging that while *fi sabillah* originally meant those fighting in *jihad*, contemporary applications include efforts to spread da'wah and uphold Islamic Shariah among both Muslim and non-Muslim communities. The Jabatan Mufti Negeri Pulau Pinang (1995) goes further, interpreting *fi sabillah* as covering all good deeds pleasing to Allah, including building mosques and religious schools.

Some *fatawa* showcases particularly innovative approaches in addressing specific contemporary challenges. The Palestinian Fatwa House (2014) considered using *zakat* for planting fruit-bearing trees on land threatened with confiscation as a form of *jihad* in the way of Allah. This ruling illustrates how scholars apply traditional concepts to address modern political and economic challenges facing Muslim communities, recognizing that defending land rights represents a legitimate struggle within the broader concept of *jihad*.

The International Union of Muslim Scholars, represented by Ali al-Qaradaghi (2018), offers a comprehensive modern interpretation, allowing zakat to be used for da'wah centers, including mosques and their facilities, that work to spread Islam, preserve Muslim minorities, and educate Muslims in moderate Islam, particularly in non-Muslim countries. This interpretation recognizes the unique challenges facing Muslim minority communities and applies traditional principles to address contemporary circumstances.

Areas of scholarly consensus include recognizing Islamic propagation activities as falling under *fi sabillah*, acknowledging that efforts to defend Islam and Muslim communities qualify, and accepting that interpretation must consider contemporary contexts and challenges. This contextual sensitivity is particularly evident in *fatawa* addressing Muslim minority communities, where maintaining Islamic identity and institutions often requires substantial resources and innovative approaches.

However, significant scholarly disagreements persist. The scope of eligible activities varies considerably across different *fatawa*, with some scholars like Al-Ashqar (1989) arguing for broad inclusion of all efforts supporting Islam, while others maintain more restricted views. Infrastructure projects represent a particular point of contention – while the Jabatan Mufti Negeri Kelantan (1996) and the Assembly of Muslim Jurists of America (2011) permit using zakat for building educational facilities, the Jordanian Fatwa Department (2012) and Darul Fatwa of Australia (2014) explicitly prohibit such applications.

Scholars also differ regarding whether general welfare activities qualify under *fi sabillah*, how to balance competing priorities among zakat recipients, and whether different standards should apply in Muslim-majority versus Muslim-minority contexts. These disagreements reflect deeper theological differences regarding zakat's primary purposes and appropriate application in contemporary societies.

2.3. Academic Research Perspectives

Academic scholarship on *fi sabilillah* has evolved along three distinct but interconnected trajectories: theological reinterpretation, contextual application, and institutional implementation frameworks. These scholarly contributions collectively demonstrate a progressive broadening of the concept while maintaining connection to core Islamic principles.

The theological reinterpretation trajectory is exemplified by Ab Rahman et al. (2017), who advocate applying the *Maqasid Shariah* approach to evaluate zakat distribution schemes for *fi sabillah*. This framework fundamentally shifts the evaluation criteria from strict textual adherence to alignment with higher objectives of Islamic law, enabling more flexible yet principled applications in modern contexts.

Simultaneously, the contextual application trajectory explores how these theoretical frameworks manifest in specific environments. Solehah and Adnan (2018) document this evolution in Malaysia, noting the shift from individual to organizational recipients. This institutional approach recognizes the structural changes in how modern societies organize charitable activities, adapting traditional principles to contemporary organizational realities.

The institutional implementation trajectory, represented by scholars like Hakim (2020), focuses on practical mechanisms for operationalizing these broader interpretations while maintaining Shariah compliance. These scholars bridge theoretical discussions with practical applications, developing frameworks that guide zakat institutions in implementing expanded *fi sabilillah* interpretations responsibly.

Alaidin and Abdullah (2020) analyze Yusuf al-Qaradawi's influential interpretation expanding jihad to include intellectual, educational, and social dimensions. Al-Qaradawi's approach has gained significant traction among contemporary scholars and zakat institutions, providing theological grounding for more expansive applications. His work demonstrates how prominent scholars can shift consensus through rigorous engagement with traditional sources while acknowledging modern contexts.

More recent scholarship continues this expansive trend. Achmad (2024) argues strongly against limiting *fi sabillah* to armed struggle, suggesting such narrow interpretation lacks relevance in contemporary contexts. Fauzi et al. (2024) propose utilizing *fi sabillah* funds to support Islamic boarding school students with international achievements, connecting the concept with educational excellence and global competitiveness. These interpretations demonstrate ongoing scholarly efforts to make traditional concepts meaningful within contemporary educational and social contexts.

Scholarly consensus generally supports understanding *fi sabillah* as extending beyond military engagement, encompassing Islamic propagation activities, including educational initiatives, and requiring context-specific application. However, significant disagreements persist regarding eligible activity scope, infrastructure project funding, inclusion of general welfare activities, prioritization among zakat recipients, and appropriate application methodologies.

These academic disagreements reflect deeper questions about how Islamic jurisprudence should adapt to contemporary circumstances. Some scholars emphasize maintaining historical continuity and restricting interpretation to minimize innovation, while others advocate for more flexible approaches that preserve underlying principles while accommodating modern contexts. Herlina et al. (2018) highlight these tensions in their analysis of controversies surrounding mosque construction funding through zakat, revealing how practical questions about resource allocation connect to deeper theological perspectives.

2.4. Significant Research Gaps

The research on the interpretations of *fi sabillah* within Islamic Banking and Finance Institutions (IBFIs) reveals several notable gaps. Firstly, there is limited empirical research on how IBFIs specifically channel zakat to *fi sabillah* compared to other Islamic organizations. Studies examining the economic impacts of different interpretations within financial institutions are needed to understand their effects on resource allocation, economic development, and community welfare. Additionally, there is a lack of consistent regulatory frameworks to guide IBFI interpretation of *fi sabillah*, which could help institutions navigate complex theological questions while ensuring compliance with both religious and regulatory requirements. Comparative studies across jurisdictions could inform more effective policy development.

Another gap is the underdevelopment of research exploring synergies between *fi sabillah*-based zakat distribution and broader corporate social responsibility initiatives. Integrating these approaches could enhance overall impact but remains largely unexplored. The technological dimension is also underdeveloped, with limited research on how IBFIs can leverage fintech for more efficient, transparent, and effective zakat distribution through applications like blockchain and artificial intelligence.

Another critical gap concerns the absence of comprehensive frameworks for evaluating the long-term socio-economic impact of various *fi sabilillah* interpretations. While numerous studies have documented the diversity of interpretations, there is limited empirical research measuring how different applications affect community development, financial inclusion, and poverty reduction outcomes. This gap is particularly significant for IBFIs, which face unique regulatory and market pressures that may influence their zakat distribution priorities.

Additionally, there is insufficient research on how differing interpretations of *fi sabilillah* might create regulatory inconsistencies across jurisdictions where IBFIs operate, potentially hampering cross-border Islamic financial development and standardization efforts. These gaps highlight the need for a more structured approach to understanding and applying *fi sabilillah* in contemporary Islamic finance contexts.

Perhaps the most significant gap is the lack of research on utilizing *fi sabillah zakat* for academic purposes, such as funding Islamic finance scholarship, supporting academic conferences developing, educational programs, enabling research publication, advancing technological innovation, and assessing their impact. Addressing this gap could strengthen the connection between Islamic financial institutions and academic development.

Overall, addressing these research gaps would enhance the theoretical understanding and practical application of *fi sabillah* in contemporary contexts, ensuring that zakat remains an effective instrument for social justice and community development within evolving economic systems.

3. Conceptual Framework

The theoretical framework for this study is grounded in three interconnected pillars:
Maqasid al-Shariah (Objectives of Islamic Law): This fundamental Islamic legal theory, as developed by scholars like Al-Ghazali and Al-Shatibi, provides the overarching framework for understanding the purpose and objectives of Islamic rulings, including zakat distribution. The five essential objectives (preservation of faith, life, intellect, lineage, and wealth) serve as a lens through which contemporary interpretations of *fi sabillah* can be evaluated. This framework allows for an analysis of how different interpretations align with or diverge from these core objectives.

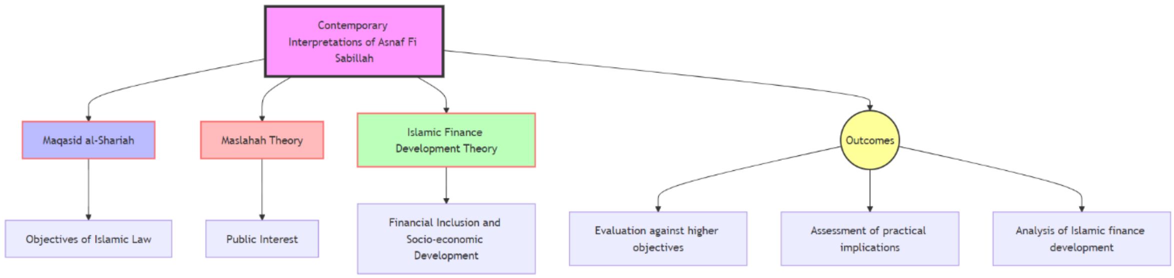
i. *Maslahah (Public Interest) Theory:* Building on the work of scholars like Al-Ghazali and Al-Tufi, this theory emphasizes the importance of considering public welfare in Islamic legal rulings. In the context of *fi sabillah* interpretations, this theory provides a basis for examining how different interpretations serve the broader interests of Muslim communities in contemporary contexts. It allows for a subtle analysis of the balance between textual adherence and contextual application.
ii. *Islamic Finance Development Theory:* Drawing on contemporary works in Islamic economics and finance, this aspect of the framework focuses on the role of zakat, particularly the *fi sabillah* category, in supporting the development of Islamic financial systems. It incorporates concepts of financial inclusion, socio-economic development, and the unique challenges faced by Islamic financial institutions in a global economy.

These three pillars are integrated to form a comprehensive theoretical framework that allows for:

i. Evaluation of *fi sabillah* interpretations against the higher objectives of Islamic law.
ii. Assessment of the practical implications of different interpretations on public welfare.
iii. Analysis of how *fi sabillah* can be leveraged for the development of Islamic finance.

By utilizing this theoretical framework, the research can systematically analyze various interpretations of *fi sabillah*, assess their alignment with Islamic principles and contemporary needs, and evaluate their potential impact on Islamic finance development. This approach provides a structured yet flexible basis for conducting a comparative analysis that is both academically rigorous and practically relevant.

Diagram 1: Theoretical Framework for Contemporary Interpretations of *Asnaf Fi Sabillah*



4. Research Methodology

This study employs a comprehensive methodology that encompasses data collection, data analysis, theoretical framework, and the anticipated outcomes. The research aims to explore contemporary interpretations of "*asnaf fi sabilillah*" by comparing various scholarly and institutional perspectives, thereby providing a deeper understanding of the term and its practical implications.

4.1. Data Collection

The data collection process consists primarily of library research. Library research will involve an extensive review of documented practices by zakat institutions both within and outside of Malaysia, contemporary fatwas issued by individuals or institutions, and recent academic studies conducted by scholars in the field. This research will draw on a combination of printed and online sources, providing a broad spectrum of viewpoints on the concept and interpretation of "*fi sabilillah*". By utilizing library research, the study will gather detailed information on the theoretical frameworks established by scholars and the practical application of "*fi sabilillah*" by relevant institutions.

4.2. Data Analysis

Data analysis will employ two distinct but complementary methods: qualitative analysis and thematic analysis. Qualitative analysis will be used to examine and interpret the data obtained from the library research. This method allows for a detailed exploration of the underlying meanings, concepts, and interpretations related to "*fi sabilillah*" in both theory and practice.

Thematic analysis will be applied to analyze the data collected from the library research. This method will help identify, analyze, and report patterns or themes within the data, providing a structured approach to understanding the diverse perspectives on the topic. Together, these analytical methods will provide a comprehensive understanding of the contemporary interpretations of "*asnaf fi sabilillah*" from both academic and practical viewpoints.

5. Results and Discussion

5.1. Classical Shariah Scholars' Opinions on Interpretations of Asnaf fi Sabillah

The classical interpretation of *asnaf fi sabillah* primarily focused on its association with military jihad. This perspective was rooted in the traditional understanding of the term as it appeared in the Quranic verse outlining the categories of zakat recipients. According to the Majlis Agama Islam Melaka (n.d.), the majority of classical scholars interpreted *sabilillah* in the context of zakat as jihad. This interpretation aligned closely with the concept of armed struggle to defend and elevate Islam.

The American Zakat Foundation (n.d.) echoes this classical view, stating that *fi sabilillah* "*refers to the fighters who have gone out to fight the enemy to elevate the word of Allah.*" This interpretation excludes those who engage in struggle due to patriotic or worldly motivations, emphasizing the religious nature of the category.

However, even within classical interpretations, there were nuances. Some scholars extended the concept to include those dedicated to seeking Islamic religious knowledge (American Zakat Foundation, n.d.). This slight broadening of the definition hints at the potential for a more inclusive interpretation, even within traditional frameworks.

5.2. Contemporary Shariah Scholars' Opinions on Interpretations of Asnaf fi Sabillah

Contemporary scholars have significantly expanded the interpretation of *asnaf fi sabillah* to encompass a broader range of activities that serve the cause of Islam. This evolution reflects the changing needs and contexts of Muslim communities globally.

Yusuf al-Qaradawi, a prominent contemporary scholar, has been influential in broadening the concept. According to Alaidin and Abdullah (2020), al-Qaradawi interprets *fi sabillah* as *jihad* in its broader sense, including intellectual, educational, and social jihad, alongside the traditional military understanding. This expanded interpretation allows for a more flexible application of zakat funds in modern contexts.

The Jabatan Mufti Negeri Perlis (2023) fatwa reflects this contemporary trend, stating that *fi sabilillah* includes "*all efforts to spread da'wah (Islamic outreach) or uphold Islamic Shariah among both Muslim and non-Muslim communities*." This broadened interpretation allows for a wide range of activities to be funded under this category, as long as they serve the purpose of defending and propagating Islam.

Similarly, the Dar al-Ifta of Egypt (2015) has adopted a stance that expands the concept to include "*all acts of worship, charitable causes, and general public interests*." This broad interpretation reflects the contemporary understanding that serving the cause of Allah can take many forms beyond military struggle.

However, it's important to note that not all contemporary scholars agree with this expansive interpretation. For instance, Darul Fatwa of Australia (2024) maintains a more conservative view, limiting *fi sabillah* to volunteer fighters and explicitly excluding other charitable projects. This diversity in contemporary opinions highlights the ongoing debate and the need for careful consideration in applying these interpretations.

While the theoretical interpretations provided by contemporary scholars establish the conceptual foundation for understanding *fi sabilillah*, examining how these interpretations are operationalized by institutions offers valuable insights into practical application challenges and solutions. The following section analyzes current institutional practices across various jurisdictions, revealing both commonalities and differences in implementation approaches.

5.3. Current Practice of Interpretations of Asnaf fi Sabillah from Local/Other Countries/ Zakat Institutions/ Others

The practical application of *fi sabillah* interpretations varies significantly across different countries and institutions, reflecting the diverse understandings of the concept.

In Malaysia, there is a general trend towards a broad interpretation. The Majlis Agama Islam Johor (n.d.) defines *fi sabillah* as "*those who strive, make efforts, defend, and enhance the understanding and propagation of Islam*." This definition allows for a wide range of activities to be funded under this category. Similarly, the Lembaga Zakat Selangor (n.d.) interprets *fi sabillah* as referring to "the struggle, effort, and activities aimed at establishing and defending the religion of Allah."

In Singapore, the Majlis Ugama Islam Singapura (n.d.) includes "*religious programmes, mosque leadership and management, and dakwah and public education*" under the *fi sabillah* category. This interpretation reflects a holistic approach to supporting Islamic causes through zakat funds.

However, some institutions maintain a more conservative approach. The Zakat Fund of the United Arab Emirates (n.d.) explicitly states that it is not permissible to spend zakat on causes other than those specified by Allah, such as building mosques and schools. This stance reflects a stricter interpretation of the Quranic verse defining zakat recipients.

In Indonesia, Badan Amil Zakat Nasional (n.d.) includes da'wah (Islamic outreach) and other similar efforts within the scope of *fi sabillah*, indicating a focus on propagation and education. This aligns with the broader trend of including educational and outreach activities under this category.

Having examined established institutional practices, it is equally important to explore emerging innovative applications that push the boundaries of traditional interpretations while remaining grounded in Shariah principles. These new implementation scopes demonstrate the dynamic nature of Islamic jurisprudence in responding to evolving societal needs.

5.4. New Scopes of Implementation Based on the Interpretations

The evolving interpretations of *fi sabillah* have led to new and innovative applications of zakat funds in this category. These new scopes of implementation reflect the diverse needs of contemporary Muslim communities and the changing landscape of Islamic finance and social development.

One emerging area is the use of *fi sabillah* funds for educational purposes. Fauzi et al. (2024) propose using zakat funds from the *fi sabillah* category to support Islamic boarding school students with international achievements. This approach links the concept of *fi sabillah* with educational excellence and global competitiveness, reflecting a modern interpretation of striving in the cause of Allah.

Another innovative application is the hybrid use of waqf and *zakat* funds. Mohd Ali et al. (2019) explore the combination of waqf land and zakat funds for the development of *asnaf fi sabillah* needs. This approach demonstrates how traditional Islamic financial instruments can be combined in new ways to serve the broader objectives of *Shariah.*

The Palestinian Fatwa House (2014) provided a unique interpretation by allowing the use of *zakat* for planting fruit-bearing trees on lands threatened with confiscation. This ruling demonstrates how the concept of *fi sabillah* can be applied to contemporary political and economic challenges facing Muslim communities.

In the context of Muslim minorities, the Assembly of Muslim Jurists of America (2011) allows for zakat to be used to support Islamic schools in the West. This interpretation recognizes the unique challenges faced by Muslim communities in non-Muslim countries and adapts the concept of *fi sabillah* to address these needs.

These new scopes of implementation demonstrate the flexibility of the *fi sabillah* concept when interpreted in light of contemporary realities. However, they also highlight the need for careful consideration and scholarly consensus to ensure that these new applications remain true to the spirit of Islamic teachings and the objectives of zakat.

5.5. Proposed Recommendations

5.5.1. Guidelines for IBFIs in Channelling Zakat to Fi Sabillah group of Recipients

i. The principle of distributing zakat across all eligible categories is fundamental to Islamic jurisprudence. This approach ensures a balanced and comprehensive fulfilment of zakat's objectives. As noted by the Zakat Fund of the United Arab Emirates (n.d.), "*Allah named the eight categories to indicate that charity should not be directed outside of these categories*." This implies that while *fi sabillah* is an important category, it should not overshadow other recipients.

   Hassan and Nasir (2016) highlight the need for careful consideration in prioritizing *fi sabillah* recipients over other categories. Their study of zakat distribution in Selangor and the Federal Territory of Malaysia revealed that *fi sabillah* recipients were receiving the highest percentage of zakat funds. This raises concerns about potential imbalances in zakat distribution and emphasizes the importance of a holistic approach that considers all recipient categories.

ii. While the interpretation of *fi sabillah* has expanded in contemporary times, many scholars and institutions emphasize the importance of prioritizing the poor and needy (faqir and miskin). This prioritization aligns with the primary objective of zakat in alleviating poverty and reducing economic disparities within Muslim communities.

   Zubir et al. (2023) in their analysis of *zakat* distribution priorities in Malaysia, found that poverty groups were indeed the top priority of Malaysian zakat institutions. This finding supports the recommendation to prioritize faqir and miskin categories when distributing zakat.

   The Dar al-Ifta of Egypt (2015) also cautions against over-expanding the *fi sabillah* category at the expense of the poor and needy. They emphasize that while the concept of *fi sabillah* can be broad, care must be taken "so as not to result in the loss of the rights of the poor and needy."

iii. Given the evolving interpretation of *fi sabillah*, there is potential for zakat funds to be utilized in ways that contribute to the development of Islamic banking and finance or the halal industry. This approach aligns with contemporary understandings of striving in the cause of Allah, which can include economic and social development within Islamic frameworks.

   Mohammad et al. (2018) argue that a broader interpretation of *fi sabillah* could play a crucial role in revitalizing the economy and improving social progress in Muslim-majority countries. They suggest that *fi sabillah* "*should be applied in the broader meaning of jihad covering all activities that contribute to the development of da'wah for the sake of Allah*."

iv. In today's digital economy, financial technology (fintech) offers unprecedented opportunities for IBFIs to optimize zakat distribution under the *fi sabilillah* category. Blockchain technology can enhance transparency and traceability of zakat funds, ensuring they reach intended recipients while maintaining accountability. Smart contracts can automate distribution according to predetermined Shariah-compliant criteria, reducing administrative costs and improving efficiency.

Mobile banking platforms can expand financial inclusion by connecting previously unbanked *asnaf* to formal financial services, creating pathways out of poverty beyond immediate zakat assistance. Data analytics can help IBFIs identify underserved communities and optimize resource allocation based on evidence rather than assumptions.

These fintech applications align with contemporary interpretations of *fi sabilillah* as encompassing efforts that strengthen and advance Islamic values and communities in modern contexts. By investing zakat funds in developing and implementing these technologies, IBFIs can create sustainable infrastructure that serves both immediate distribution needs and long-term financial inclusion goals of Muslim communities.

In the context of Islamic Banking and Finance Institutions (IBFIs), this could translate into using *fi sabillah* zakat funds for activities such as:

i. Funding research and development in Islamic financial products
ii. Supporting education and training programs for Islamic finance professionals
iii. Providing seed funding for Islamic fintech startups
iv. Sponsoring academic conferences and publications on Islamic finance

However, it's crucial to ensure that such applications remain within the bounds of Shariah and serve the broader community's interests.

5.5.2. Aligning Implementation of the Guidelines with Maqasid Shariah

i. The concept of *Maslahah Ammah* (public interest) is central to the implementation of zakat distribution, especially in the context of *fi sabillah*. Ab Rahman et al. (2017) emphasize the importance of using the *Maqasid Shariah* approach in evaluating zakat distribution schemes. They argue that each scheme should be assessed based on how it complements the needs of the *asnaf* and aligns with the preservation of religion, life, intellect, lineage, and property.

   In the context of IBFIs channelling zakat to *fi sabillah* recipients, the impact on the broader Muslim community should be a key consideration. Activities funded under this category should aim to benefit the ummah as a whole, rather than serving narrow interests.

ii. The five essential objectives (*daruriyat)* of Shariah – preservation of faith, life, intellect, lineage, and wealth – provide a framework for prioritizing zakat distribution within the *fi sabillah* category. When considering projects or initiatives to fund, IBFIs should evaluate how they align with these objectives, giving preference to those that address higher-order needs.

   For example, initiatives that strengthen the Islamic financial system's integrity (preserving faith and wealth) might be prioritized over those that simply increase profitability. Similarly, programs that enhance financial literacy and education among Muslims (preserving intellect) could be given precedence over purely commercial endeavors.

iii. In implementing guidelines for *fi sabillah* zakat distribution, IBFIs must be cautious not to inadvertently cause harm (*mafsadah*) or neglect more pressing needs within the Muslim community. This principle is reflected in the fatwa by the Jordanian Fatwa Department (2012), which cautions against using zakat for purposes that, while beneficial, may not align with the primary objectives of zakat.

   Haruna et al. (2023) discuss the application of *Maslahah Mursalah* in expanding the definition of zakat recipients, including *fi sabillah*. They emphasize the need to consider the consequences of broadening definitions, particularly in addressing contemporary poverty crises. This underscores the importance of balancing innovative applications of *fi sabillah* with the core objectives of zakat.

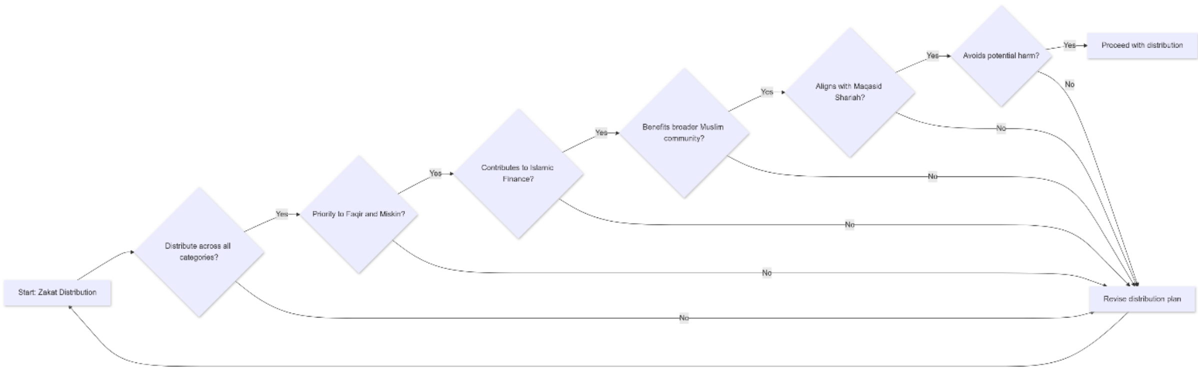
In the context of Islamic banking and finance development, this principle would require IBFIs to carefully assess the potential negative impacts of their zakat distribution strategies. For instance, over-investment in speculative financial products, even if Shariah-compliant, might be considered *mafsadah* if it diverts resources from more pressing community needs or exposes the Muslim community to unnecessary financial risks.

Moreover, the development of Islamic banking and finance should not come at the expense of neglecting higher *maslahah*. For example, while funding research in Islamic finance is important, it should not overshadow more immediate needs such as providing financial assistance to struggling Muslim-owned businesses or supporting financial inclusion initiatives for underserved Muslim communities.

The practical implications of these guidelines extend beyond theoretical alignment with *Maqasid Shariah*. For IBFIs, implementing these recommendations would result in more balanced zakat distribution that maintains focus on core recipients while strategically supporting Islamic finance development. This approach can generate measurable outcomes including: (1) increased financial literacy among vulnerable populations, (2) expanded access to Shariah-compliant financial services in underserved communities, (3) development of innovative financial products addressing specific needs of Muslim communities, and (4) strengthened research capacity supporting evidence-based Islamic finance policies. By documenting and measuring these outcomes, IBFIs can demonstrate the effectiveness of their *fi sabilillah* zakat allocations in achieving both immediate relief and sustainable development objectives, potentially creating models for wider adoption across the Islamic finance industry.

In conclusion, the proposed recommendations offer a framework for IBFIs to direct zakat to *fi sabillah* recipients in a way that is both *Shariah*-compliant and aligned with contemporary needs. By adhering to these guidelines and aligning their implementation with *Maqasid Shariah*, IBFIs can ensure that their zakat distribution strategies contribute meaningfully to the development of Islamic banking and finance while fulfilling the broader objectives of zakat in Muslim societies.

Diagram 2: Guidelines for IBFIs in Channelling Zakat to *Fi Sabillah* Recipients



6. Conclusion and Recommendation

This study has examined the evolving interpretations of *asnaf fi sabillah* within Islamic Banking and Finance Institutions (IBFIs) and its implications for zakat distribution. The findings align closely with the research objectives, offering a nuanced understanding of how *fi sabillah* has been redefined from its classical military association to a broader framework encompassing educational, social, and economic development.

The first research objective aimed to explore the evolution of *fi sabillah* from traditional to modern perspectives. The study revealed that classical scholars predominantly associated *fi sabillah* with military jihad, whereas contemporary scholars and institutions have expanded its meaning to include activities such as Islamic education, da'wah, economic empowerment, and community welfare initiatives. This shift demonstrates the dynamic nature of Islamic jurisprudence in responding to changing socio-economic realities while maintaining alignment with Shariah principles.

The second research objective sought to investigate the practical implementation of *fi sabillah* interpretations by zakat institutions worldwide. The findings indicate that while many institutions, particularly in Malaysia, Indonesia, and Western Muslim communities, have adopted a broad application of *fi sabillah*, others, such as some Middle Eastern fatwa bodies, continue to adhere to a restrictive definition. This diversity underscores the jurisdictional variations in Islamic legal thought, reinforcing the need for clearer guidelines to ensure a balanced and Shariah-compliant approach to zakat distribution.

The third research objective aimed to examine how *fi sabillah* can be applied to support the growth and development of Islamic financial institutions. The study found that IBFIs play a crucial role in directing zakat toward financial inclusion, Islamic finance education, and capacity-building initiatives, all of which align with the broader objectives of *Shariah*. However, the research also highlighted concerns about potential misallocations, lack of regulatory frameworks, and the risk of overlooking other zakat recipients, particularly the faqir (poor) and miskin (needy) categories.

The final research objective sought to develop practical guidelines for IBFIs in applying *fi sabillah* in a manner consistent with *Maqasid Shariah* while addressing contemporary socio-economic challenges. The study established that IBFIs must ensure that *zakat* distribution aligns with the preservation of religion, intellect, and economic well-being, without compromising the fundamental goal of poverty alleviation. A structured and transparent framework is essential to maintain accountability, prioritize urgent needs, and enhance the socio-economic impact of zakat within the Islamic financial system.

In light of these findings, several key recommendations are proposed:

i. Standardized Guidelines for IBFIs – Clear, Shariah-compliant frameworks should be developed for IBFIs to ensure *fi sabillah* zakat allocation supports Islamic finance development, education, and socio-economic welfare while maintaining balance with other zakat categories.

ii. Prioritization of Core Zakat Beneficiaries – IBFIs must ensure that the faqir (poor) and miskin (needy) remain the primary recipients, with *fi sabillah* funds allocated to initiatives that have measurable benefits for the broader Muslim community.

iii. Integration of *Maqasid Shariah* Principles – The five higher objectives of Shariah should serve as the benchmark for evaluating IBFIs' zakat allocation, ensuring that the funds contribute to preserving faith, intellect, wealth, and community well-being.

iv. Transparency and Accountability – IBFIs must implement robust monitoring mechanisms, ensuring that zakat funds are efficiently managed and ethically distributed, with clear reporting on their impact.

v. Continuous Scholarly Engagement – Given the evolving nature of Islamic finance and zakat practices, ongoing *ijtihad* (independent reasoning) and academic research are essential to refining *fi sabillah* applications in IBFIs.

By adhering to these recommendations, IBFIs can ensure that *fi sabillah* remains a relevant and effective category *in zakat* distribution, serving both traditional Islamic legal principles and contemporary financial needs while upholding the overarching objectives of Islamic law.

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Analysing the Significance of Maqasid-Al-Shariah in Islamic Microfinance: A Narrative Review

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Abstract

Islamic microfinance (IsMF) is a method of financing that offers small loans to the underprivileged and impoverished on an interest-free, frequently non-collateralized basis. The IsMF gives the poor access to financial resources, making it possible for them to advance their economic and social well-being. As a novel and effective financial tool, Islamic microfinance can also help the impoverished escape the cycle of poverty. While there may be several IsMF models, the procedure generally entails providing the underprivileged with small loans and technical support while also encouraging compassion and charity through abiding by Islamic *Shariah's* guidelines. This study aims to analyse the basic tenets of Maqasid-al-Shariah and how these tenets help shape the concepts of Islamic microfinance. In this study, a narrative literature review approach was used, and to that end, 36 peer-reviewed articles published in various peer-reviewed journals over the last ten years were gathered and examined to get the essential information. It is expected that the findings of this study will be useful for Shariah scholars and financial experts to evaluate how the concepts of *Maqasid-al-Shariah* are vital in explaining the framework of Islamic microfinance.

Keywords: *Maqasid-al-Shariah, microfinance, Islamic microfinance.*

1. Introduction

Microfinance can significantly contribute to the reduction of poverty by offering financial services to the destitute and underprivileged people of a nation who are unable or unwilling to embrace official banking systems. In the long run, it might make it possible for the underprivileged to contribute to society and the economy. Islamic microfinance, in particular, has the ability to aid poor people in escaping the cycle of poverty as a new financial system. Islamic microfinance is a practical and Shariah-compliant way to help the poor people improve their socioeconomic conditions. Islamic microfinance may also help those who suffer from extreme poverty if it is properly executed.

The protection of religion (*hifzh al-din*), the mind (*hifz al-'aql*), the soul (*hifz al-nafs*), the descendants (*hifz al-nasl*), and the property (*hifz al-maal*) are the components of Maqasid or goals of Shariah. Due to the implementation of *Maqasid-al-Shariah*, Islamic microfinance organisations differ from conventional microfinance companies. According to Rohman et al. (2021), an Islamic Microfinance Institution (IMFI) is made in a way that complies with *Shariah* to benefit the greater community.

2. Literature Review

2.1 Microfinance and Islamic Microfinance

To narrow the gap between the poor and the rich, Allah *Subhanahu wa Ta'la* (SWT) has emphasised the importance of sharing wealth, as He said in the Holy Quran (70: 24-25). To aid the less fortunate, Muslims are

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asked to give to organisations like Zakat and Waqf (Nabi et al., 2017). Islam genuinely encourages economic empowerment through capacity building, providing for the needs of the impoverished, and converting idle assets into income-generating assets.

Traditional microfinance programmes often give small loans on a short-term basis. These programmes also guarantee prompt distribution of follow-up loans when prior loans are repaid on time, simple service scheduling and delivery, and streamlined investment and borrower appraisal. In most cases, microfinance providers work to ensure that the loan money reaches people who are experiencing severe hardship and poverty. According to Gallenstein et al. (2020), the shared responsibility model, which employs group financing to handle problems like the selection of unfavourable borrowers and promote the right kind of borrowers, is the foundation for microfinance.

The microfinance system, particularly the increasingly popular microcredit system, stands apart in different countries for a number of reasons. Due to its distinct method of handling collateral, which is based on joint liability, it differs from normal financial systems. People begin to organise small groups and submit small loan applications. The microfinance companies will describe the requirements for obtaining loans and how those loans must be repaid. All of the group's members share the risks or duties for these loan repayments. Every member of the group makes an effort to help the member who is in default make timely loan repayments. Delinquency and default-related risks may be reduced as a result (Muhammad, 2022).

However, according to by Nabi et al. (2017) when compared to its conventional counterpart, Islamic microfinance (IMF) offers a number of unique characteristics. Islamic principles, for instance, are at the core of Islamic microfinance, which presents a superior solution for eradicating poverty via the advancement of social justice and human potential. Islamic microfinance provides better solutions in terms of both economic and social issues. On the other hand, the traditional microfinance system frequently fails to help the poor escape the debt cycle, and as a result, they are unable to significantly better their economic circumstances.

As highlighted by Imam As Shatibi, *"every human being who wants to live a happy life both in the world and in the hereafter, must fulfill 5 (five) basic goals of Maqasid-al-shariah, namely: protecting religion (al-deen), life and soul (nafs), and intellect or mind (aql), family or ancestors (nasl) and wealth or wealth (maal)"* (Bahri et al., 2019).

The Higher Objectives of Shariah, also known as *Maqasid al-Shariah*, are a clear priority of the *Shariah* but are nevertheless occasionally overlooked. *Shariah's* essential principles are generally concerned with the welfare of both individuals and the community, and the law is intended to safeguard these advantages and to make it easier to raise standards of living. According to another definition, *maqasid* is the propensity to have qualities of constancy and permanence. It may be the main goal of *maslaha* and is in a class by itself. In addition to drawing individuals toward benefits and keeping them away from harm, Maqasid-al-Shariah includes these concepts. The *Shariah* has supported and established *maqasid* as the ultimate objective that looks for repercussions and meanings. *Maqasid* is the ultimate objective that continuously strives to realise, materialise, and attain the implications and meanings that the Shariah has defended and created via its rules at all times and places (Awang et al., 2014).

According to Abdullahi et al. (2022) Islamic microfinance is the provision of financial services to low-income individuals in conformity with Islamic *Shariah*. It bases its operations on *"Islamic law, which opposes dealing in interests, avoiding gharar (ambiguity), participating in risk-sharing activities, and ensuring the welfare of all members of society"* (Abdullahi et al., 2022). This makes it the *"Shariah-compliant method of distributing money to those rejected by the regular financial institutions, to help them start up microenterprises or sustain their existing businesses"* (Hassan, 2015). Islamic microfinance additionally promotes social inclusion in addition to financial inclusion through the use of the complementary tools of loan and zakat (Abdullahi et al., 2022).

Key components of Islamic microfinance include contracts that adhere to *Shariah* law, avoiding debt, charitable giving, economic empowerment, teamwork and solidarity, family unity, and freedom from *Gharar* (uncertainty) and *Riba* (interest). By utilizing Islamic microfinance, low-income people can boost their income, accumulate assets, and shield themselves from outside shocks. A great deal of unfortunate and impoverished people is also unable to obtain financial assistance or credit from traditional financial organisations or banks because of their unique needs, which include land and wealth, collateral, and so forth. These obstacles may be addressed with the aid of the Islamic microfinance system (Fianto et al., 2018).

The majority of Muslims frequently choose to avoid standard microfinance services, notably microcredit, due to religious requirements, according to Cameron et al. (2021). Due to the ban of riba and the fact that Shariah law favours risk sharing between lenders and borrowers under the profit-sharing principle, in their opinion, both giving and receiving interest-bearing loans are generally regarded to contravene its principles. While borrowers are exposed to the risk of unpredictable returns, typical microcredit contracts are structured to give the microfinance organisation a guaranteed return on each contract (Cameron et al., 2021). For this reason, many religious people are often interested in using Islamic microfinance products (Muhammad et al., 2023).

2.2 Islamic Microfinance in Different Countries

Islamic microfinance institutions (IMFIs) have expanded quickly in recent decades in a number of nations with a majority of Muslims. For instance, Malaysia offers its residents, especially women, microfinance products in a variety of sectors so they can start their own microbusinesses. In this nation, efforts have been made to use microfinance to give all citizens the chance to participate in the formal financial system. In Malaysia, a large number of conventional and Islamic financial institutions, including Amanah Ikhtiar Malaysia (AIM), EONCap Islamic Bank, Bank Simpanan Nasional, CIMB Islamic Bank, Agro Bank, and Bank Rakyat, among others, are now providing microfinance services (Ibrahim et al., 2016).

As found by Haque et al. (2021) through a survey involving 381 AIM borrowers from Terengganu, Pahang, and Kelantan, the AIM microfinance program has improved the borrowers' freedom in making decisions overall and had a favourable impact on their social, economic, and household empowerment. Moreover, AIM and other IMFIs in Malaysia take seriously the importance of spirituality and religion within their community, as noted by Amran et al. (2014). For instance, in order to receive Allah SWT's blessings, the weekly gatherings of all AIM centres in Malaysia begin with *Salawat, dua,* and *zikr*.

Bangladesh's Islamic microfinance industry is still relatively young because the country's biggest microlenders have not yet begun enforcing Islamic *Shariah* (Nabi et al., 2017). However, despite the fact that some financial institutions in Bangladesh, such as Islami Bank Bangladesh Limited (IBBL), have created initiatives like the Rural Development Scheme (RDS), their involvement in Islamic microfinance is negligible, as argued by Hossain and Abdullah (2018). Different other Islamic banks and conventional banks' Islamic windows have not been as aggressive in promoting Islamic microfinance products because they have not yet begun implementing rural-targeted IBBL-style programmes (Nabi et al., 2017). Islamic microfinance is still in its infancy in Bangladesh due to all of these factors (Muhammad et al., 2022).

Muslim Aid Bangladesh is another prominent player in the Islamic microfinance sector. It is a globally recognised organisation that has been functioning in this country since 2004. To provide microcredit facilities to its customers, this IMFI uses public donations, subsidized money from multilateral organizations like the Islamic Development Bank (IsDB), as well as from regional commercial banks (Uddin & Mohiuddin, 2020). The profit rate that Muslim Aid charges for its SME credit product, called *"bai-muajjal"* is approximately 13%. For Qard, or cash financing for individuals and microbusinesses, the service price is approximately 12% (Uddin & Mohiuddin, 2020). This rate, however, is about 10% for RDS (Uddin & Mohiuddin, 2020). Additionally, Uddin and Mohiuddin (2020) found that over 98% of loans are repaid for RDS and Muslim Aid. However, Islamic microfinance is not significantly impacted by IMFIs like Muslim Aid and RDS (Hossain & Abdullah, 2018). The RDS of IBBL and other successful programs have not been developed by other Islamic banks or the Islamic branches of conventional banks, nor have they been able to effectively promote Islamic microfinance products. All these reasons mean that Islamic microfinance in Bangladesh is still relatively new.

Muslim households in rural Indonesia can choose from a wide range of goods provided by several Islamic microfinance organisations (MFIs). With the goal of assisting the disadvantaged in overcoming poverty and raising their standard of living, these MFIs provide financial aid to the underprivileged (Fianto et al., 2018). Moreover, Islamic microfinance has successfully increased people's income levels in Indonesia. Additionally, it has become simpler for Indonesia, a nation with a majority of Muslims, to adopt Islamic microfinance principles, such as refraining from employing interest. The organisation in charge of regulating these issues is the Indonesian National Shariah Board (Fianto et al., 2018). In addition, there are many Islamic microfinance models in nations including Pakistan, Nigeria, Sudan, Egypt, and Turkey (Mukhlisin et al., 2020).

Jimoh et al. (2024) investigated how the Islamic microfinance system affects attempts to eliminate poverty in Kwara State, Nigeria. The study primarily examined how low-income and small business owners in Kwara State's incomes and productivity were affected by charity, microcredit, and microequity. The findings showed that the microcredit, microequity, and charity products of the Islamic microfinance system were positively correlated with income levels. The factors also significantly impacted efforts to combat poverty in Kwara State, Nigeria. Based on the findings, the research concluded that microcredit products, microequity, and charity (social finance) had a significant impact on lowering poverty in Kwara State, Nigeria. An adequate quantity of shariah-compliant microcredit, microequity, and charitable financial resources, such as mudarabah, murabahah, zakat, musharaka, and sadaqa, were also recommended in the report. This will raise the productivity and income levels of low-income workers and small business owners in the State.

2.3 Islamic Microfinance for Poverty Alleviation

Islamic microfinance programmes are linked to investments with a social conscience, in which the money of investors is only used for Halal endeavours that advance society as a whole. Waqf, zakat, and other forms of investment are frequently used in these programmes. In the end, these activities help close the wealth gap and reduce poverty (Dhaoui, 2015).

Ahamad et al. (2016) concluded in their study that the Islamic microfinance programme is definitely raising the standard of living for the underprivileged in Bangladesh. They discovered through their research that Muslim Aid Bangladesh (MAB) had raised borrower income and expenditure. Impressively, 94 percent of the respondents said they had seen an improvement in their income as a result of getting the loan. Additionally, the respondents' overall food consumption has increased. The authors discovered a similar outcome in regard to the increase in borrowers' income and spending.

Aslam (2014) found that Islamic microfinance increased borrowers' daily income by $3 per capita and found similar results for Pakistan. Khan and Sulaiman (2015) also showed that Pakistani clients' income somewhat increased after signing up for the IMF programme. Additionally, they came to the conclusion that the severely poor population does not benefit from conventional microfinance. They also asserted that the participants' monthly income and food expenditure have both increased significantly as a result of borrowing from an IMFI.

2.4 The Concept of Maqasid-al-Shariah

Al-Khadimi asserts that whereas *Shariah* is the source of soul life and happiness that can contribute to the world and world security, *maqasid* is the mean and purpose. This interpretation is consistent with what Ar-Raisuni reveals, according to which the definition of *Maqasid-al-Shariah* is the goal set forth by Islamic law for the good of humankind (Bahri et al., 2019). Syed Nawab Naqvy makes it clear that the aim of *Maqasid al-Shariah* is *maslahat*, which is essentially anything that does not contravene Shariah law (Bahri et al., 2019).

According to *Maqasid*, the Islamic system bases its rationale on enhancing human welfare as opposed to the Western culture's profit-driven goal. This sophisticated welfare system is yet another example of how to strike the right balance and guarantee ethical primacy for all stakeholders based on equity, trust, and excellence. It is possible to picture Islamic welfare maximisation when inner self-development is only possible with a well-coordinated, intensive effort. In exchange, society gains from the fair distribution system and environmental enrichment, or, to put it simply, safety for the environment at a harmonious level. This moral, effective, and value-based approach has the power to create true social harmony. The supporters of *Maqasid* and sustainable development may benefit equally from this shared understanding.

Maidawa et al. (2024) opined that Muslim scholars primarily employ the *Maqasid al-Shariah* to select and ascertain the favoured viewpoint to be followed (*tarjih*). *Maqasid al-Shariah* has a broader purpose and significance since it can serve as a useful framework for the growth of an Islamic state by ensuring that its social, political, and economic policies adhere to Shariah principles. The Islamic teachings propose that positive qualities be promoted in all fields of human activity using *Maqasid al-Shariah*. Researched by Muslim scholars (*mujtahid*) from the shariah books, *Maqasid al-Shariah* carries the meaning of values and meanings that are made the goal and want to be achieved by Allah SWT behind shariah and law. In order for succeeding generations to comprehend and expand upon the knowledge of *Maqasid al-Shariah*, it was Al-Shatibi who was the first scholar to properly compile and revitalize the discipline. In the same way, *Maqasid al-Shariah* experts Izzuddin ibn Abdul Salam and Muhammad Tahir ibn Ashur have long been cited. Without a doubt, these three influential people in the field of *Maqasid al-Shariah* have made a significant contribution to researchers today.

3. Research Methodology

In this study, a narrative literature review approach was used, where information is presented in a narrative format. According to Byrne (2016), narrative reviews "*offer breadth of literature coverage and flexibility to deal with evolving knowledge and concepts*". 34 peer-reviewed articles published in various peer-reviewed journals were gathered and examined to get the essential information. The search terms included 'Microfinance', 'Islamic Microfinance', 'Maqasid-al-Shariah', and 'Maqasid-al-Shariah in Islamic Microfinance'.

The inclusion and exclusion criteria regarding the selection of research papers are listed in Table 1:

Table 1: Inclusion and Exclusion Criteria

Included	Excluded
Articles published between 2014-2024	Published before 2014
Written in English	Written in other languages
Full Text	Full text not available
Topics covering Islamic Microfinance and Maqasid-al-Shariah	Topics avoiding Islamic Microfinance and Maqasid-al-Shariah

4. Results and Discussion

4.1. Results Presentation

The following Table 2 lists the 36 papers used as the source of information for this article:

Table 2: List of Source Papers

Paper no.	Name of the Authors (Years of Publication)	Title of the Paper	Book/ Journal/ Conference Proceedings	Type of Study
1.	Abdullahi, A., Othman, A. H. A., & Kassim, S. H. (2022).	Promoting the Adoption of Islamic Microfinance in Nigeria: The Moderating Role of Religiosity.	*Proceedings of the International Conference on Business and Technology*	Mixed-Method Study
2.	Ahamad, S., Bakar, R., & Lubis, Z. (2016).	Economic impact of MAB microfinance program on borrowers household: Evidence from rural area of Bangladesh.	*International Journal of Economics, Finance and Management Sciences*	Quantitative Analysis
3.	Alam, M. M., Hassan, S., & Said, J. (2015).	Performance of Islamic microcredit in perspective of Maqasid Al-Shariah: A case study on Amanah Ikhtiar Malaysia.	*Humanomics*	Mixed-Method Study
4.	Alkhan, A. M., & Hassan, M. K. (2021).	Does Islamic microfinance serve maqāsid al-shari'a?	*Borsa Istanbul Review*	Quantitative Analysis
5.	Amran, A. M., Rahman, R. A., Yusof, S. N. S., & Mohamed, I. S. (2014).	The current practice of Islamic microfinance institutions' accounting information system via the implementation of mobile banking.	*Procedia-Social and Behavioral Sciences*	Qualitative Analysis
6.	Awang, M. D., Asutay, M., & Jusoh, M. K. A. (2014).	Understanding of Maslaha and Maqasid al-Shariah concepts on Islamic banking operations in Malaysia.	*Proceedings of the International conference of global Islamic studies.*	Qualitative Analysis

Paper no.	Name of the Authors (Years of Publication)	Title of the Paper	Book/ Journal/ Conference Proceedings	Type of Study
7.	Bahri, E. S., Aslam, M. M. A., Hasan, A. A. H., & Wibowo, H. (2019).	Maqasid al-shariah in micro-entrepreneurs development: An overview.	*Proceedings* of the *Indonesian Conference of Zakat*	Qualitative Analysis
8.	Cameron, A., Oak, M., & Shan, Y. (2021).	Peer monitoring and Islamic microfinance.	*Journal of Economic Behavior & Organization*	Qualitative Analysis
9.	Dhaoui, E. (2015).	The role of Islamic microfinance in poverty alleviation: Lessons from Bangladesh experience.	MPRA	Qualitative Analysis
10.	Fianto, B. A., Gan, C., Hu, B., & Roudaki, J. (2018).	Equity financing and debt-based financing: Evidence from Islamic microfinance institutions in Indonesia.	Pacific-Basin Finance Journal	Mixed-Method Study
11.	Gallenstein, R. A., Flatnes, J. E., & Sam, A. G. (2020).	The Role of Social Capital in Risk-Taking Decisions under Joint Liability Lending.	*The Journal of Development Studies*	Quantitative Analysis
12.	Haque, T., Siwar, C., Ghazali, R., Said, J., & Bhuiyan, A. B. (2021).	The contribution of non-conventional Microfinancing on economic, social and household empowerment of women borrowers in Malaysia.	*The Journal of Asian Finance, Economics*	Quantitative Analysis
13.	Hassan, A. (2015).	Financial inclusion of the poor: from microcredit to Islamic microfinancial services.	*Humanomics*	Qualitative Analysis
14.	Hossain, B., & Abdullah, M. F. (2018).	The Growth and Contemporary Challenges of Islamic Microfinance in Bangladesh.	*Asian People Journal (APJ)*	Qualitative Analysis
15.	Ibrahim, S. N., Kamaruddin, N. I., & Daud, S. (2016).	Assessing the determinants of profitability performance on Islamic microfinance in Malaysia.	*Journal of Economics, Business and Management*	Quantitative Analysis
16.	Ishak, M. S. I., & Asni, F. (2020).	The role of maqasid al-Shariʿah in applying fiqh muamalat into modern Islamic banking in Malaysia.	*Journal of Islamic Accounting and Business Research*	Qualitative Analysis
17.	Jaffar, M. A., & Musa, R. (2014).	Determinants of attitude towards Islamic financing among halal-certified micro and SMEs: A preliminary investigation.	*Procedia-Social and Behavioral Sciences*	Quantitative Analysis
18.	Jimoh, A., Bamigbade, D., & Kolawole, K. (2024).	Islamic microfinance as a panacea for poverty alleviation.	*European Journal of Islamic Finance*	Quantitative Analysis

Paper no.	**Name of the Authors (Years of Publication)**	**Title of the Paper**	**Book/ Journal/ Conference Proceedings**	**Type of Study**
19.	Kaleem, A., & Ahmed, S. (2014).	The Quran and poverty alleviation: A theoretical model for charity-based Islamic microfinance institutions (MFIs).	*Nonprofit and Voluntary Sector Quarterly*	Qualitative Analysis
20.	Khan, Z., & Sulaiman, J. (2015).	*Does microcredit help the poor and financially marginalized communities? Experience of Pakistan*	Springer Singapore	Quantitative Analysis
21.	Mahmood, H., Hassan, R., & Salman, S. A. (2019).	A survey on awareness and knowledge of Islamic microfinance in India.	*International Journal of Physical and Social Science*	Quantitative Analysis
22.	Maidawa, I., & Gokaru, S. U. (2024).	The Contributions of Al-Shatibi, Izzuddin ibn Abdul Salam and ibn Ashur on Maqasid Al-Shariah: An Exploration.	*Jurnal Usuluddin*	Qualitative Analysis
23.	Maikabara, A. A., Aderemi, A. M., & Maulida, S. (2020).	Investigating the viability of the charity-based model of Islamic microfinance for eradicating the impact of Covid-19 on social wellbeing in Nigeria: A descriptive analysis.	*Journal of Islamic Economics Perspectives*	Quantitative Analysis
24.	Miah, M. D., & Suzuki, Y. (2020).	Murabaha syndrome of Islamic banks: a paradox or product of the system?	*Journal of Islamic Accounting and Business Research*	Qualitative Analysis
25.	Mohamed, E. F., & Fauziyyah, N. E. (2020).	Islamic microfinance for poverty alleviation: a systematic literature review.	*International Journal of Economics, Management and Accounting*	Qualitative Analysis
26.	Muhammad, N. M. (2022).	Why Bangladesh is falling behind in implementing Islamic microfinance system? A systematic literature review.	*KQT eJurnal*	Qualitative Analysis
27.	Muhammad, N. M., Kassim, S., Mahadi, N. F., & Ali, E. R. A. E. (2022).	An Analysis of the Joint Liability Model in Bangladesh: Lessons for the Islamic Microfinance Institutions.	*Journal of Islamic Finance*	Qualitative Analysis
28.	Muhammad, N. M., Kassim, S. B., Mahadi, N. F. B., & Ali, E. R. A. B. E. (2023).	Role of Islamic Microfinance in Enhancing Financial Inclusion in Bangladesh: A Systematic Literature Review.	*Islamic Sustainable Finance, Law and Innovation: Opportunities and Challenges*. Springer, Cham.	Qualitative Analysis

Paper no.	Name of the Authors (Years of Publication)	Title of the Paper	Book/ Journal/ Conference Proceedings	Type of Study
29.	Mukhlisin, M., Tamanni, L., Azid, T., & Mustafida, R. (2020).	Contribution of Islamic Microfinance Studies in Achieving Sustainable Development Goals.	*Enhancing Financial Inclusion through Islamic Finance*	Qualitative Analysis
30.	Nabi, M. G., Islam, M. A., Bakar, R., & Nabi, R. (2017).	Islamic microfinance as a tool of financial inclusion in Bangladesh.	*Journal of Islamic Economics, Banking and Finance*	Qualitative Analysis
31.	Rohman, P. S., Fianto, B. A., Shah, S. A. A., Kayani, U. N., Suprayogi, N., & Supriani, I. (2021).	A review on literature of Islamic microfinance from 2010-2020: lesson for practitioners and future directions.	*Heliyon*	Qualitative Analysis
32.	Rulindo, R., & Pramanik, A. H. (2013).	Finding a way to enhance impact of Islamic microfinance: The role of spiritual and religious enhancement programmes.	*Developing Country Studies*	Qualitative Analysis
33.	Uddin, T. A., & Mohiuddin, M. F. (2020).	Islamic social finance in Bangladesh: Challenges and opportunities of the institutional and regulatory landscape	*Law and Development Review*	Qualitative Analysis
34.	Wijaya, I. F., Hakim, A. R., Saputro, N., & Mulyadi, M. (2020).	Religiosity level and saving decisions in Baitul maal wat tamwil: The case of Indonesia.	*Journal of Islamic Marketing*	Mixed-Method Study

4.2 Significance of Maqasid-al-Shariah in Islamic Microfinance

Allah SWT has emphasised the importance of sharing wealth to minimise the gap between the rich and the poor. For instance, Allah declared in the Holy Quran that "*the right of the [needy] petitioner and the deprived were [granted] from their properties*" (70:24-25).

Another famous hadith stated in the Book of Sunan Abu Dawood, as reported by Anas ibn Malik (Mahmood et al., 2019):

> *"A man from the Ansar came to the Prophet peace and blessings be upon him and begged from him. The Prophet said, "Have you nothing in your house?" The man said, "Yes, a piece of cloth, a part of which we wear and a part of which we spread on the ground, and a wooden bowl from which we drink water." The Prophet said, "Bring them to me." The man brought these articles to him and the Prophet took them in his hands, and he said, "Who will buy these?" Someone said, "I will buy them for one coin." The Prophet said twice or thrice, "Who will offer more than one coin?" Someone said, "I will buy them for two coins." He sold them for two coins and the Prophet said, "Buy food with one of them and give it to your family. Buy an axe and bring it to me." The man brought it to him. The Prophet fixed a handle on it with his own hands and he said, "Go gather firewood and sell it, and do not let me see you for a fortnight." The man went away and gathered firewood and sold it. When he had earned ten coins, he came and bought a garment and food. The Prophet said, "This is better for you than for begging to come as a blemish on your face on the Day of Resurrection. Begging is appropriate only for three people: one in severe poverty, one in severe debt, and one who must pay a difficult compensation."*

This well-known hadith not only highlights the importance of assisting the "*below-poverty-line sector*" in becoming self-sufficient, but it also demonstrates how to create a successful microfinance programme while keeping in mind the key ideas and elements of a poverty-reduction strategy (Mahmood et al., 2019). Muslims are urged to distribute their income to the needy through several channels, such as Zakat and Waqf. Islam encourages economic empowerment by generating money from idle assets, developing capacity, and meeting the needs of the underprivileged.

Alkhan and Hassan (2021) discovered through empirical research that Islamic microfinance supports these essential Maqasid al-Shariah elements:

i) economic development,
ii) wealth circulation and distribution
iii) reducing poverty,
iv) protecting social welfare; and
v) raising society's intellectual standards.

Application of the Maqasid al Shariah concept at IMFIs is believed to aid IMFIs in operating more sensibly, in a more balanced manner, paying attention to the needs of the poor while adhering to Islamic *Shariah* principles (Rohman et al., 2021). Ishak and Asni (2020) came to the conclusion that by using an exploratory qualitative technique that IMFI practices should make reference to the Maqasid in order to simplify life for the neighbourhood while still adhering to Shariah. For instance, it is believed that when implemented by an IMFI, the profit-sharing financing strategy will benefit the poor more and will be more in line with Maqasid al-Shariah (Miah & Suzuki, 2020).

The Islamic microfinance system does not frequently overlook the hardcore poor, in contrast to conventional microfinance projects. The researchers claim that Islamic microfinance is accessible in a number of forms and structures to address various demands and levels of poverty, including the very poor (Mohamed & Fauziyyah, 2020). The study by Mohamed and Fauziyyah (2020) also concluded that Islamic microfinance is one of the best poverty alleviation instruments, especially in Muslim society.

According to Maikabara et al. (2020), Islamic microfinance is an ethical financial institution that focuses on low-income earners, unbanked individuals, and small businesses that aren't qualified for loans from traditional commercial banks or microfinance banks because they don't have enough creditworthiness. All groups are financially included in Islamic microfinance programmes according to their demographic characteristics, which include age, gender, marital status, region, occupation, religion, and monthly income. Regardless of race or religious affiliation, Islamic microfinance generally benefits all parts of society, and it is crucial to emphasise this. Notably, numerous studies conducted on specific geographical regions in Nigeria have shown the significant impact and prospects of Islamic microfinance on socioeconomic development in Nigeria as it has contributed to the eradication of poverty and improved household income, children's education, the standard of living of the household, as well as the possibility of creating jobs (Maikabara et al., 2020).

Islamic microfinance also aims to concentrate on *Maqasid al-Shariah*, which encourages social justice and welfare. Additionally, it respects Islamic moral standards such as sincerity, cooperation, *amanah*, toleration, justice, and diligence (Mohamed & Fauziyyah, 2020). To maximise the benefits of Islamic microfinance, however, Rulindo and Pramanik (2013) pointed out that programmes for spiritual and religious development are required. Rulindo and Pramanik (2013) discovered that having a greater spirituality level generally can generate more income, while having a higher level of religiosity may improve clients' economic success. These results suggest that programmes for spiritual and religious development must be implemented in the capacity building services offered to clients by Islamic microfinance organisations.

Wijaya et al. (2020) focused on Islamic microfinance institutions [Baitul Maal wat Tamwil (BMT)] in Sukoharjo and Surakarta, Indonesia, in order to examine the relationship between religiosity degree and explanations for saving money. The authors looked at the level of religiosity and the reasons underlying transactions in both BMTs and conventional banking. The results of this study showed that consumers pick sharia microfinance products because they follow Shariah principles in their operations. Similar results were found in a survey conducted by Jaffar and Musa (2014), which revealed that 58 percent of those who used Islamic microfinance-based financing cited their confidence that Islamic finance will advance society and be more effective than conventional financing as their driving force. As a result, a strong sense of religion can affect how people feel about Islamic microfinance.

A further accomplishment of *Maqasid al-shariah* is the development of microentrepreneurs through the use of Islamic microfinance. In a company setting, ensuring societal and human advantages comes before maximising profit. *Maqasid-Al- Shariah's* primary goal is *maslahat*, which is the same as Islamic microfinance initiatives. Benefits and blessings make up *Maslahat*'s two fundamental components. The performance of microentrepreneurs will ultimately be impacted by the use of Islamic microcredits as working capital, which will assist in capacity building, mentoring, and spiritual counselling.

According to Alam et al. (2015), more than 80% of the borrowers who participated in Amanah Ikhtiar Malaysia's (AIM) Islamic microfinance programme reported that their indicators for *Ad-Din*, *Al-Nafs*, *Al-Mal*, and *Al-Nasb* all improved. Compared to the other principles, this programme did not considerably improve the *Al-Aql* indicators.

5. Conclusion and Recommendation

Focusing on *Maqasid al-Shariah*, which encourages social justice and welfare, is a crucial goal of Islamic microfinance. Furthermore, it respects Islamic moral principles including sincerity, cooperation, *amanah*, tolerance, and justice. However, in order to fully benefit from Islamic microfinance, programmes for spiritual and religious development are required. Higher levels of spirituality typically increase income, but higher levels of religion may boost clients' economic performance. These findings imply that Islamic microfinance organisations must incorporate programmes for customers' spiritual and religious growth into the capacity-building services they provide. The results of this study can be significant to the policymakers and Islamic microfinance practitioners who would get some important ideas to integrate the vital concepts of *Maqasid al-Shariah* with those of Islamic microfinance to improve the overall socio-economic conditions of the poor in a successful manner. Eventually, the efforts of integrating *Maqasid al-Shariah* with the concepts of Islamic microfinance can reinforce the values of benevolence and justice by fostering openness, equity, and responsibility.

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The Element of *Sad Zara'i* in Islamic Banking: A Study on *Shariah* Governance Approach in Malaysia

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Abstract

This paper examines the concept of *sad zara'i* through the *Shariah* governance approach implemented by regulators for Islamic banking operations in Malaysia. Since the establishment of its institution in 1983, the Islamic banking sector has experienced remarkable growth. Today, Islamic institutions are able to compete with their conventional counterparts. However, this sector has faced several challenges in sustaining its viability within the conventional finance environment. As a result, several aspects of *Shariah* need to be reconsidered, making Islamic finance look similar to the conventional finance. This includes imposing late payment charges, replicating conventional products to be Islamic, and implementing floating rates. While Islamic banking practices may be lenient in satisfying market needs, the regulator has taken several approaches to uphold *Shariah* principles in this sector. Some of those approaches seem to be embedded with *sad zara'i*, one of the popular sources of rulings in Islam, which applied to ban any means leads to *haram*. Thus, this study aims to analyze how *sad zara'i* is embraced in several policies by the regulator to ensure *Shariah* compliance within Islamic banking operations in Malaysia. Through library research, it is discovered that the element of *sad zara'i* can be manifested in several approaches through *Shariah* governance carried out by the regulator in Malaysia: presenting *urf fasid*, tightening so-called controversial practices, and providing guidelines on sensitive *Shariah* matters. While the data of this study may be limited since it relies on secondary data, practical issues on Islamic banking in Malaysia are discussed. Therefore, it is hoped that its findings can provide insight into how *sad zara'i* is applied in a new manifestation, especially in dealing with contemporary issues like Islamic banking.

Keywords: *Sad zara'i, Islamic banking, Islamic finance in Malaysia*

1. Introduction

It is widely known that *Shariah* is based on revelation, as the *Quran* and the *Sunnah* are the highest authorities in determining what is permissible and what is forbidden. Muslims are required to follow all *Shariah* rulings, as they are divinely revealed and integral to their faith, rather than being man-made laws. In other words, those rulings principally are unchangeable without being influenced by human needs and desires. At the same time, since most *Shariah* rulings are in the form of principles and general, they are always relevant and applicable to the change of time and place.

While *mujtahids* have no authority to determine *Shariah* rulings, they play a role in interpreting *Shariah* texts and implementing its rulings in the right situation (Al-Duraini, 2013). Thus, *Shariah* texts should not be literally understood, and the application context needs to be carefully considered. In other words, every ruling must be applied together in line with *Shariah*'s objectives, known as *maqasid Shariah* (Al-Kailani, 2008). As widely agreed by scholars, every *Shariah* ruling is revealed to bring *maslahah* (well-being) or to avoid *mafsadah* (harm), as this *maqasid* must be considered when the ruling is implemented (Al-Khadimi, 2010).

Sad zara'i (banning the means) is part of this tool to ensure permissible actions do not lead to *mafsadah* (Al-Burhani, 1985). It has become an essential discourse within scholarly works, especially in the *usul fiqh*

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discipline. Even though some of its technical aspects have become debatable issues, all scholars agree that what leads to haram is considered haram (Al-Qarḍawi, 1980). When a permissible action leads to *mafsadah*, either due to wrong individual intention or abuse of power, the action should not be allowed. In principle, if the action leads towards benefits, it is desirable commensurate with how appropriate it is in the quest for these ends, even if it is not the same as those benefits. In contrast, if an action is consequently directed toward evil, it will be forbidden, as it corresponds with the prohibition of these evils (Abu Zahrah, 1958). *Sad zara'i* ensures that *Shariah's* objective will not be compromised even under the name of *Shariah* permissibility (Al-Duraini, 2008). In addition, it plays a role in safeguarding *Shariah* from being misused or when permissible actions are out of control. In principle, *sad zara'i* is crucially required in the area where permissible actions are surrounded by prohibited ones, like the Prophet condemning those who were involved indirectly in alcohol and *riba* (interest).

Therefore, this paper aims to analyze the element of *sad zara'i* that can be identified through the approach of *Shariah* governance carried out by the regulator for Islamic banking operations in Malaysia. The Islamic banking industry has been an alternative to conventional banking for decades. However, since both serve the same customers in the same field and are monitored by the same regulator, it has been observed that Islamic and conventional share many similarities. For example, the financing rate for Islamic facilities is designed floating to ensure it remains competitive with conventional facilities (Lahsasna, 2013). This would be against the original contract in *Shariah*, which must be fixed to avoid the *gharar* (uncertainty) issue (Ishak, 2019a). Another example is the late payment charge in which the rate of *ta'wid* (late payment compensation) is set to be 1%, which is like conventional loan facilities (Yaakub et al., 2013).

While it is claimed that Islamic banking practices in Malaysia follow the trend of its conventional counterpart, *Shariah* governance plays a significant role in distinguishing between both, particularly on *Shariah* complaint aspects. These can be observed through several policy documents and *Shariah* resolutions issued by the regulator requesting Islamic banking players reconsider some of their practices. This includes *wadiah* (safekeeping), *rahn* (pawn), and *qalb dayn* (financing restructuring) to avoid the element of *riba*. At the same time, several so-called controversial practices, such as *bay' al-Inah* (buy and sell back) and *tawarruq* (commodity sale for liquidity), have been tightened phase by phase (Ishak, 2019b). In addition, some practices are modified to ensure their permissibility does not lead to harm, such as stipulating ibra (rebate) and its calculation in the financial agreement. This indicates how *sad zara'i* is still embedded through the approach of *Shariah* governance even though they did not mention it. In this regard, this study applies library research by analyzing related policies issued by the Malaysian regulator, namely Bank Negara Malaysia (BNM) as part of *Shariah* governance practice, to ensure Islamic banking operations remain *Shariah* compliant. Although this study's data may be limited since it is secondary data, issues on Islamic banking in Malaysia are practically discussed.

2. Literature Review

2.1. Sad zara'i in usul fiqh discourse

The term *sad zara'i* contains two Arabic terms: *sad*, which literally means to block, and *zara'i*, which can be understood as means. These combined words can be technically defined as the method to block something as it leads to an unlawful end (Al-Shatibi, 2004). Based on the concept of *sad zara'i*, there would be a situation in which a permissible action in *Shariah* can be forbidden as it is associated with something prohibited at the end (Al-Zuhaili, 1986). For instance, selling grapes is allowed. However, if a seller sells it to an alcohol manufacturer to produce wine, then this selling should not be allowed (Al-Zaidan, 1986). Thus, the fundamental assessment to ban permissible action through the *sad zara'i* method is since its outcome leads to a prohibited direction (Abu Zahrah, 1958).

Through classical and contemporary literature, scholars sometimes discuss the topic of *sad zara'i* and *hiyal* (legalistic trickery) (Al-Ashur, 2001). The latter means utilizing a legal way for a prohibited end that could not be achieved directly in the way allowed by *Shariah* (Khir, 2010). *Hiyal* occurs when people tend to do a prohibited thing or try to escape their obligation by hiding it within a permitted action, which is unacceptable in Islam (Sayyid Ubak, 2012). For example, to avoid paying zakat, a person gives a small portion of his property to others as a present or a loan to others. Therefore, his property amount would be below the minimum rate for the *zakat* requirement (Al-Shatibi, 2004).

Nevertheless, it is extremely difficult to determine the real intention of a person, and an action should not be judged due to an assumption of wrong intention without evidently proven (Shibayr, 2007b). At the same time, not all *hiyal* is prohibited; if its action is in line with *Shariah*, then it should be allowed. This can be observed when the Prophet SAW proposed a solution: exchanging different quantities between two types of dates: Medina and Khaibar. First, sell the dates for money, then use the money to buy the other dates (Muslim, 2000). Although this solution looks like *hiyal*, it is an alternative for *riba* exchange that should align with *maqasid Shariah*. Thus, *hiyal* should be banned only when its outcomes are against *Shariah* (Al-Shatibi, 2004).

From another perspective, al-Shatibi (2004) has linked the topic of *sad zara'i* to the general principle of *ma'alat al-Af'al* (considering the outcome of action). This principle aims to ensure that the outcome of *Shariah* rulings aligns with its objectives (Al-Sanusi, 2003). Since the basis for the assessment of blocking the permitted means in *sad zara'i* is examined based on their outcomes, regardless of their intention, this is part of *ma'alat al-Af'al* (Ishak, 2018).

In terms of the authority of *sad zara'i*, all Muslim scholars unanimously agree with the general principle that what leads to *haram* would be considered *haram* too (Al-Zuhaili, 1986). Exploring *Shariah* sources, many verses of the *Quran* indicate that an action should be stopped when it leads to *mafsadah* despite the prohibition of insulting non-Muslim religious practices in chapter al-An'am, verse 108. This verse indicates that insulting non-Muslims, particularly towards their worship or their practice, is prohibited since the consequences of this action would lead them to insult Allah back (Ibn Kathir, 2008). As for the Sunnah, it was reported that when the Prophet's companion offered to kill Abdullah Bin Ubay due to his action in creating a clash between Muslims, the Prophet responded that he would leave him alone. Let the people not say that Muhammad kills his companions (Muslim, 2000). It is learned that the Prophet refused to punish Abdullah bin Ubay due to its consequences that would make people think he killed his own companions, as well as it could cause chaos among people (Ibn al-Qayyim, 2006).

While scholars agree with the general principle of *sad zara'i*, they differ in how genuine *mafsadah* should be considered (Al-Zaidan, 1968). In more detail, an action could be claimed to cause *mafsadah*; however, it is uncertain. As a result, over-using *sad zara'i* may prohibit permissible action without a strong justification. In this regard, Muslim scholars have clarified the level of *mafsadah* based on four situations (Al-Shatibi, 2004).

Such a situation can be summarized as the following: -

i. An action leads to *mafsadah*. The first situation refers to an action that leads to *mafsadah*, as it is almost impossible to deny its negative impact, for example, insulting non-Muslim practices. This action would prompt them to insult Allah back. In this situation, all Muslim scholars unanimously agreed that this level of *mafsadah* is genuine, and those actions must be banned.

ii. An action most often leads to *mafsadah* and rarely leads to *maṣlaḥah*. In this context, even though *mafsadah* does not definitely occur like the previous, it is very likely to happen. For example, selling grapes to an alcohol manufacturer to produce wine. Like the first situation, Muslim scholars also agreed that it represents a genuine *mafsadah*, and this action must be banned.

iii. An action leads to *mafsadah*, but there is no certainty or even dominant probability. Unlike the previous situation, *mafsadah* in this situation could not be surely determined. In this case, an action that can lead to *mafsadah* if a person has bad intentions to legalize a prohibited action. For example, in the case of *bay' al-Inah*, this contract can be manipulated to legalize the *riba*. This situation created an argument between two groups: Hanafis and Shafi'is, who did not recognize this *mafsadah* unless it had been clearly proven, and a group of Malikis and Hanbalis who consider this situation as the real *mafsadah* as those actions need to be banned (Al-Shatibi, 2004).

iv. An action rarely leads to *mafsadah*. In this situation, the possibility of *mafsadah* to occur through this action is very rare. For example, digging a well in a place where it is not likely to cause harm. As for this *mafsadah*, Muslim scholars also agreed that it must be ignored since its consequences are doubtful.

This discussion of *sad zara'i* has been expanded into *fath zara'i* (open the means) since a group of late classical scholars have attempted to reconsider the meaning of *zara'i*. It is widely defined as a means that can be banned or allowed. Al-Qarafi, for example, has mentioned that zara'i can be mandatorily closed or obligatorily opened. An example would be a man who is given money to eat haram if that is the only way to prevent him from committing adultery (al-Qarafi, 2003). Similarly, another scholar, Ibn al-Qayyim (2006) clarified that *zara'i* was originally permissible even if it led to *mafsadah*, but the *maslahah* is more dominant. For example, this includes the permissibility for a man to look to a woman if he intends to marry (Ibn al-Qayyim, 2006).

In contemporary discussion, the International Islamic Fiqh Academy (IIFA) of the Organization of the Islamic Conference (OIC) has issued a special resolution on *sad zara'i* as it is a fundamental principle of *Shariah*. *Sad zara'i* can be divided into several categories:

i. An action is consensually agreed by scholars its prohibition since it is already stipulated in the Quran and the Sunnah,
ii. An action that unanimously agreed since the harm exceeds the benefit,
iii. An action that is subject to a different view.

IIFA has concluded that *sad zara'i* must not be applied if it rarely leads to *mafasadah* or the *maslahah* more dominant than *mafsadah* (IIFA, 1995). It can be concluded that *sad zara'i* plays a significant role in upholding *Shariah* by providing gaps between permissible and prohibited activities. If a matter leads to *mafsadah*, it should be banned based on the concept of *sad zara'i*, despite its original status is permissible. Even though the degree of considering *mafsadah* is not the subject of consensus among scholars, they all agree that what leads to haram must be prohibited.

2.2. Sad zara'i in Muamalat

Muamalat (financial transaction) is one of the main areas in which *sad zara'i* is mostly applied. In general, the main principle of this area is that 'the origin *muamalat* is permitted unless there is any evidence of its prohibition' (Al-Shatibi, 2004). Thus, according to *Shariah*, rulings pertaining to financial activities are more flexible. Exploring the Quran and the Hadith, most of the sacred texts related to financial activities usually are general principles or general rulings rather than detailed descriptions (Shibayr, 2007a). In addition, business, finance, and economic activities should be allowed if there is no clear evidence of their prohibition from *Shariah* sources (Al-Shatibi, 2004). In other words, any contract, condition, and innovation does not need special permission or recognition from the Quran or the Sunnah.

Nevertheless, the original status of *muamalat* activities can lead to haram or *mafsadah*. Analysing Hadith related to *muamalat*, several financial activities are banned not due to their original status but due to their outcome, which negatively affects society. For example, the Prophet has prohibited *bay' hadir lil badi* (sale by the urbanite for the nomadic) and *talaqin ruqban* (buying goods by intercepting the villagers' caravans) (Al-Nawawi, 1997). Both types of *bay'* could lead to monopoly, as it could harm society by increasing the price of goods and harm the original sellers by buying their goods at a low cost (Al-Duri, 2011). At the same time, several forms of *bay'* are prohibited since they can cause disputes among Muslims, like the prohibition of buying what has been outbid by others (Al-ʿAsqalani, 2000).

In addition, some permissible *muamalat* could be considered haram if they are associated with the element of haram, particularly *riba*. For example, the Prophet disallowed receiving gifts from borrowers to avoid *riba* if it is not a norm (Ibn Majah, 2007). Similarly, *bay'* wa salaf, which is a combination of *bay'* and *qard* (loan), is prohibited since it could create an increased amount for the repayment of the *qard* (Amanullah, 2018). In more detail, any benefit the lenders enjoy must not be derived from the *qard*. In this case, the *bay'* may give a buyer additional profit; when combined with *qard*, the profit may be part of the *qard* itself (Mahmud et al., 2018).

Nevertheless, not all cases of *sad zara'i* application in *muamalat* are the subject of agreement among scholars, as some have become debatable issues. The most popular one is bayʿ *al-Inah*. Most classical and contemporary scholars have condemned this contract as a trick to legalize *riba* (Al-Zuhaili, 2006). Bay *al-Inah* is practiced when a person sells an item for a deferred payment and then repurchases the item in cash at a lower price (ISRA, 2010). Although most scholars viewed *bay' al-Inah* as a form of a trick of *riba*, other scholars, including Ibn ʿUmar, Abu Yusuf, Imam Shafie, and Ẓahiris, did not see any *Shariah* issue with it (Lahsasna, 2014). For example, Imam Shafie did not accept the argument that *bay' al-Inah* is a form of a trick since this *bay'* contains two different contracts.

In modern times, *bay' al-Inah* is designed by some Islamic banking institutions as financial facilities to provide liquidity. Nevertheless, this contract has been criticized by many bodies, mainly IIFA, through their resolution on the issue of muwa'adah (bilateral promise) in a financial contract that must be free from *bay' al-Inah* (IIFA, 2009). In addition, the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) has issued its standard on *tawarruq*, requiring this contract to be free from *bay' al-Inah* (AAOIFI, 2010). However, the *Shariah* Advisory Council (SAC) of the BNM has taken a different approach as they allow *bay' al-Inah* based on *bay'* (BNM, 2010).

Similarly, *tawarruq* is banned by certain scholars due to *sad zara'i*. This contract is a financial instrument when a person who needs cash buys a commodity on credit from another person and then sells it to a third party for immediate cash (Alkhan & Hassan, 2019). Through two selling processes, the price of the second sale could usually be lower than the first since the person intends to obtain liquidity from this instrument, not to own the item. Although *tawarruq* has no issue among most scholars in comparison to *bay' al-Inah*, Ibn Taimiyyah and Ibn al-Qayyim are among the prominent scholars that rejected *tawarruq*, claiming it aims to legalize *riba* (Ahmed & Aleshaikh, 2014).

In modern times, the *tawarruq* has been designed uniquely as a financial instrument by Islamic banking institutions, making it slightly different from the classical one. *Tawarruq* has evolved to be organized and is known as *tawarruq munazzam* (organized). In more detail, Islamic banking institutions play a role in arranging the *tawarruq* process through commodity markets, and the process occurs immediately and systematically. *Tawarruq* is applied as a financial instrument in various products, including deposits, financings, investment, and money market instruments (Bilal & Mydin Meera, 2015).

This new *tawarruq* has received fierce criticism from several influenced bodies and prominent scholars. IIFA, for example, has forbidden *tawarruq munazzam* due to the utilization of spoiled commodities, the lack of genuine possession and delivery, and banks being appointed as the customers' agents, known as dual agencies. As a result, *tawarruq* is considered a trick of *riba* (IIFA, 2009). As for AAIOFI, despite the fact that this body does not clearly prohibit *tawarruq munazzam*, it provides strict conditions for this instrument, mainly from the perspective of the agency. Islamic banking institutions are not allowed to act as an agent on behalf of their customers if they buy the commodity from them. Instead, the commodity must be sold by the customers either themselves or through their own agent (AAOIFI, 2010).

While the *muamalat* area may enjoy flexibility regarding *Shariah* permissibility, their status is not guaranteed to remain *Shariah* compliant until the end. All contracts, terms, and activities must be carefully implemented to ensure they are not associated with haram elements such as *riba*, *gharar*, and *maisir* (gambling). On top of that, *muamalat*, which represents business, finance, and economic activities, should aim to bring well-being to humankind. Thus, it should not be misused to benefit a specific group and harm others.

2.3. Shariah Governance in Malaysia.

It is known that Malaysia is among the leading countries in Islamic finance. Even though it is not a large majority Muslim in comparison to other Muslim countries, Malaysia, through its government, has proven how serious this country is in supporting the Islamic finance industry. It is reported that Malaysia is the best country in terms of legal framework, supervision, education, and human resources development for Islamic finance, consisting of Islamic banking, the Islamic financial market, and the Takaful industry (IFDI, 2022). In terms of supervision, BNM is the sole authority in Islamic banking and Takaful, while the Security Commission plays a regulatory role in the Islamic financial market (Kamaruddin et al., 2020).

In general, Islamic banking institutions must ensure a strong institutional arrangement, effective oversight, responsibility, and accountability for public confidence, particularly on *Shariah* matters. Thus, *Shariah* governance is needed as a monitoring body to ensure these institutions do not compromise *Shariah* compliance. *Shariah* governance can be defined as a set of institutional and organizational arrangements through which Islamic financial institutions ensure that there is an effective independent oversight of *Shariah* compliance over the issuance of relevant *Shariah* pronouncements, dissemination of information and an internal *Shariah* compliance review (ISRA, 2010).

Shariah governance plays a crucial role in development, review, approval, auditing, and certification of *Shariah* compliance for any product or practice. This is vital to strengthening public confidence. Since this area requires special expertise and the financial practices are complex, *Shariah* governance needs to be institutionalized efficiently. Islamic banking institutions must establish effective *Shariah* governance arrangements that are well integrated with business and risk strategies of the institutions.

In the case Malaysia, *Shariah* governance in this country has adopted two-tier 'centralized model' which means that all Islamic banking institutions are monitored directly by the regulator in terms of *Shariah* requirements. Through this model, there are two layers of *Shariah* committees: at regulatory level known as Shariah Advisory Council (SAC) and Shariah Committees (SC) at institutions level. SAC, established in 1997, is the sole authority for *Shariah* matters for Islamic banking in Malaysia. Their decisions are also extending to the courts and arbitrators which all SAC rulings for any proceedings relating to Islamic banking on *Shariah* matters, shall be binding.

Having these two levels: the national and the internal have many advantages in terms of independence, integrity and competency. SAC as the highest regulatory authority is vital to ensure the integrity of internal SC as well as retain public confidence (Lahsasna, 2014). While SAC plays a vital role in harmonizing different standards and acting as the highest *Shariah* authority for Islamic financial institutions, internal SC are responsible to approve Islamic products and monitor their implementation in terms of *Shariah* compliance. Through this centralized model, many practices have been standardized for all Islamic banking rulings. For example, resolutions from SAC have become mandatory reference for developing, reviewing and approving any Islamic product. At the same time, BNM as the sole regulator, has issued *Shariah* based policy documents to ensure consistency in the application of *Shariah*. These documents outline the *Shariah* parameters and operational requirements that must be followed and reported. Among these policy documents are the following:-

Table 1: Policy Documents by BNM

Date of issuance	Title
03 Jan 2024	*Hajah and Darurah*
20 Sep 2019	*Shariah Governance*
28 Dec 2018	*Tawarruq*
19 Jul 2018	*Rahn*
11 Apr 2018	*Bai` al-Sarf*
14 Apr 2017	*Kafalah*
02 Feb 2017	*Wa'd*
19 Aug 2016	*Ijarah*
04 Aug 2016	*Hibah*
04 Aug 2016	*Qard*
04 Aug 2016	*Wadiah*
27 Jun 2016	*Wakalah*
07 Jan 2016	*Istisna'*
20 Apr 2015	*Mudarabah*
20 Apr 2015	*Musyarakah*
23 Dec 2013	*Murabahah*

Source: Bank Negara Malaysia

2.4. Previous studies and the gap

Among previous contemporary studies on *sad zara'i* in Islamic finance was from Al-Qaradaghi (2015), who comes up with several factors of *sad zara'i* that are widely applied in modern times, including in Islamic finance: firstly, due to the ignorance of *maqasid Shariah*, the general principle of *Shariah* in terms of permissibility. Secondly, there is an excessive sensitivity regarding women, and thirdly, the issue of corruption, which makes *sad zara'i,* plays a significant role in tackling these situations. However, when there is insufficient evidence to fulfill the application of *sad zara'i*, the principle of original permissibility must resort. Meanwhile, Marji (2024), in his research, indicates the importance of considering between *sad* and *fath zara'i* in financial transactions that involve the element of personal relationship that can lead to either *maslahah* or *mafsadah*. From another perspective, Sadiq (2024), in his study, has concluded two critical roles of *sad zara'i*: to preserve *Shariah* and to provide flexibility in its application. Another contribution to this topic is from Mustofa (2023), who specifies the role of *sad zara'i* in enhancing development and providing guidelines for issuing fatwas.

Regarding the application of *sad zara'i* on application, Faraj (2020) has analyzed two popular instruments in Islamic banking: *musharakah mutanaqisah* and *tawarruq*. Some scholars argue that both are banned because of *sad zara'i*. While he concluded that the justification to ban m*usharakah mutanaqisah* is weak, *tawarruq* prohibition based on *sad zara'i* is clear. Another study from Eletrebi, Suleiman, and Awang (2021) focuses on financial transactions that *Shariah* is concerned about with time in all its parts, past, present, and future; thus, all actions need to be considered their consequences. While this topic is still limited to be discussed through the previous literature, this study fills the gap in how *sad zara'i* is applied through the *Shariah* governance, mainly through the regulator approach.

3. Research Methodology

This study is based on library research that relies on literature to achieve its objective. In more detail, library research is understood as a systematic process for obtaining and presenting data in academic papers. On the one hand, library research through literature could be outdated, incomplete, and biased due to different objectives, and it could be difficult to interpret. On the other hand, library research did not involve high costs compared to fieldwork research. Library research is crucial for the beginning of the research, particularly to review the previous literature, identify the gaps, and propose a conceptual framework before moving on to fieldwork. Since this study is conceptual in nature, which aims to analyze implicit elements of *sad zara'i* through the *Shariah* governance approach carried out by the regulator of Islamic banking in Malaysia, analyzing literature and related documents is sufficient for its objectives.

Regarding data collection, as this is library research, this study relies on secondary data. The data includes classical and contemporary literature related to *sad zara'i* and selected SAC resolutions and BNM policy documents. As for data analysis, thematic analysis is applied to identify several essential themes related to the concept of *sad zara'i*, its foundation from *Shariah* sources, and its parameters. As for the second phase, this study analyses selected SAC resolutions and BNM policy documents to identify the element of *sad zara'i*. The findings of this study are presented in the form of several themes to obtain a better understanding of *sad zara'i* application by the regulator through *Shariah* governance.

4. Results and Discussion

On the one hand, the achievement of Islamic finance as a new industry in this country is impressive since Islamic institutions have successfully provided alternative facilities to their conventional counterparts. Conversely, this sector is still under the shadow of conventional finance. As a result, due to many restrictions and challenges, some Islamic finance operations are influenced by the conventional finance approach. This includes product development, risk management, and business operations. To ensure the viability of Islamic finance, several practices need to be tolerated. This includes considering controversial views like *bay' al-Inah*, *bay'* al-Din, and *tawarruq* as Islamic products, as well as providing exceptions like allowing reinsurance in the Takaful industry. As a result, their products look like conventional banks (Chowdhury et al., 2020).

Nevertheless, from another perspective, the regulator demonstrates their seriousness in ensuring Islamic finance operations are end-to-end *Shariah* complaints. This includes providing guidelines on *Shariah* through various policy documents that Islamic banking institutions must follow. Currently, there are 14 policy documents regarding *Shariah* contracts, such as *murabahah* (mark-up sale), *mudharabah* (partnership), and *bay al-Inah*. At the same time, Islamic banking institutions are required to fulfill *Shariah* resolutions issued by SAC. Through these approaches, it is discovered that not all matters are leniently tolerated.

Several themes that are in line with the spirit of *sad zara'i* identified as follows:

i. Theme I: Preventing *'urf fasid*

'Urf (custom) can be understood as a matter that is well known by the overwhelming most people, and they are consistent in practicing it (Abu Zahrah, 1958). The matter based on *'urf* is widely recognized by *Shariah* as long as it does not go against mandatory *Shariah* principles and rulings, especially what has been clearly mentioned in the Quran and the Sunnah. In fact, *'urf* plays a crucial role in addressing issues that are not explicitly covered by revelation. In addition, *'urf* is flexible as it can change the change of time and place (Bello & Hassan, 2013). In this regard, *Shariah* is revealed either to recognize, reject, or modify the *'urf*, as many practices have been recognized and continued since the time of the Prophet SAW. This includes respecting guests and avoiding conflicts during the holy months among them (Al-Zaidan, 1968).

Nevertheless, scholars have categorized *'urf* into *sahih* (acceptable) or *fasid* (corrupt), as only the former is recognized in *Shariah* while the latter is rejected. Thus, scholars have underlined special parameters to recognize *'urf*, one of them *'urf* must not contradict either the verse of the Quran or the text of Hadith. If not, the *'urf* will be rejected by *Shariah* (Sya'ban, 2008).

Regarding Islamic banking in Malaysia, the issue of granting *hibah* (gift) for deposit is an example of how *sad zara'i* is applied to overcome the potential of '*urf fasid*. At the beginning of the Islamic banking industry, *hibah* had been commonly practiced under deposit-taking products, including current and saving accounts. Most Islamic institutions at that time offered savings accounts based on *wadi'ah* (safekeeping) contracts and ensured that money was guaranteed. *Wadi'ah* then became *wadi'ah yad dhamanah* (guaranteed safekeeping), where its original concept should be treated as *qard* (loan) from depositors to Islamic banks (Lahsasna, 2014). Since Islamic banking institutions enjoyed these deposits as the cheapest capital for their business operation, they awarded *hibah* to their depositors.

However, granting *hibah* to depositors was claimed to be customary within the Islamic banking industry. It seemed wadiʿah was practiced similarly to conventional deposits. As a result, this custom had become *'urf fasid* since granting additional benefits towards loans against the *Shariah* principle (Ishak et al., 2021b). As a response, BNM, as the regulator, has issued a policy document on *qard*, which disallows using the *wadi'ah* term for deposits designed based on the concept of *qard*. In addition, the *hibah* is required to be based on the actual rate, and a clear disclaimer must be provided that a depositor may or may not receive a *hibah*.

This approach indicates how the spirit of *sad zara'i* is embraced through this policy document to remove controversial elements through Islamic deposits. Since the practice of *qard* is sensitive in terms of receiving additional from its original amount, stressing these requirements can create a gap in ensuring *qard* practice does not fall under the non-*Shariah* element. At the same time, it is crucial to ensure that deposit practices among Islamic banking institutions are clearly different from what has been practiced by their conventional counterparts.

ii. Theme II: Tightening controversial practices

Its fact *Shariah* rulings were not revealed at once. Rather, this legal system was completed over 23 years and 5 months, spanning two distinct periods: *makiyyah* (the period of Mecca) and *madaniyyah* (the period of Medina). While the majority of *makiyyah* verses stress the element of faith, humanity, and general rulings, *madaniyyah* verses provide details of *Shariah* rulings in various aspects. This is due to the different reality between Mecca and Medina (Al-Qaḥṭan, 2006).

Shariah strongly considers the reality of people before introducing its rulings, as many of them are revealed step by step, like the prohibition of *riba*. While *Shariah* rulings have been completed in terms of the revelation process, their application still needs a gradual approach by considering the situation. This includes legalizing *Shariah* rulings into the form of modern laws like family laws, commercial laws, and criminal laws (Al-Zuhaili, 2010). In fact, the gradual approach aims to ensure that *Shariah* rulings can be implemented pragmatically and that the real problem can be overcome wisely (Al-Qarḍawi, 2005). In this regard, even if a ruling cannot be completely applied, it should not be completely left. Instead, it should develop pragmatic solutions to ensure the ruling can be implemented.

Considering the importance of a gradual approach, the Islamic banking industry has been introduced gradually in Malaysia. This includes licensing awards and regulatory development (Ishak et al., 2021a). As for *Shariah* compliance, the element of *sad zara'i* seems to be applied gradually and carefully. For example, in dealing with the *bay' al-Inah* issue. This instrument is among the earliest contracts utilized by Islamic banking institutions as financing facilities, particularly in Southeast Asia countries, including Malaysia and Brunei (Yusoff et al., 2019).

While *bay' al-Inah* has been fiercely condemned by majority bodies and scholars, Malaysia took a different approach. If the original concept is permissible and only with strong evidence, then should it be prohibited? Meanwhile, the *maslahah* through *bay' al-Inah* seemed to be realized at that time since there were many restrictions in terms of alternatives, particularly during the first period of this industry. This is due to *bay' al-Inah* being simple and easier in practice for Islamic banks as a financier. This contract was also utilized in structuring Islamic credit cards, which today are crucial for daily business dealings and commercial transactions (Shaharuddin, 2012).

However, due to the controversial issue associated with *bay' al-Inah*, BNM seems to discourage Islamic banking institutions from utilizing this contact as their financial facility (Ishak, 2019b). BNM has gradually reviewed the application and the operational requirements of *bay' al-Inah* so as to fulfill scholars' requirements for this contract. For example, among the strict requirements is to ensure *bay' al-Inah* is practiced with two separate contracts without mentioning a condition to repurchase the asset after selling it. In addition, both contracts must occur at two different times (BNM, 2013). This spirit of *sad zara'i* can be identified through this policy as the regulator aims to ensure that even though bay *al-Inah* is a debatable issue. Hence, it must be practiced according to *Shariah* principles, as mentioned by its proponent, so that it is not like a trick to legalize *riba*.

Rahn could be another example to illustrate this point. This facility has been widely offered not only by Islamic banking but also by Islamic non-banking institutions. In general, *rahn* consists of several contracts: *qard*, *wadi'ah* yad damanah, and *ujrah* (fee). Since a customer needs liquidity, the institutions provide financing under the name of *qard*. Consequently, the customers pawn their items as collateral based on *wadi'ah yad dhamanah*. Lastly, *ujrah* is implemented with a fee for the safekeeping of the items (Sharif et al., 2013). While*rahn* has become a popular *Shariah*-compliant financing facility as it provides an immediate service, potential *Shariah* issues have been detected. Although the fee that has been imposed does not refer to the *qard*, it is unclear how it has been charged. It seemed that *ujrah* for safekeeping is charged based on the pledged item value. As a result, it could lead to the element of *qard jar naf'an* (a loan that begets an advantage) when the core of this product is *qard*.

In 2018, BNM issued a new policy on *rahn*. The policy clearly mentions that any charge imposed on customers must be based on the cost of safekeeping, not the percentage. To be precise, it must be based on the expenses incurred directly for the maintenance of the pledged item. These include safekeeping costs, documentation, liquidation, and discharging collateral. The element of *sad zara'i* is identified when the regulator intends to stop the potential of the *riba* element, even though it is still uncertain.

iii. Theme III: Providing a General Guideline of *Shariah*.

While it has been proven that Islamic financial institutions are able to become competitive players in the financial industry, many *Shariah* aspects need to be tolerated due to the challenges faced in adapting Islamic finance into the modern financial system. Certain aspects need exceptions, such as Takaful operators considering reinsurance to manage risk (Ab. Ghani et al., 2019). In principle, *Shariah* recognizes hardship or any unusual situation as an exemption that may be allowed or some obligation that may be reduced.

In 2024, BNM issued a special policy document on *hajah* (need) and *darurah* (necessity) which serves as a guideline in allowing exceptions of *Shariah* ruling due to hardship situations. Neglecting hardship may have a detrimental effect on the operation of Islamic banking. This policy is required to ensure the viability of the Islamic finance industry by allowing Islamic banking institutions to reconsider the application of *Shariah* rulings. Such examples given by the policy are utilizing a conventional nostro account and financing *Shariah* non-compliant business by a prescribed institution (BNM, 2024).

From the *sad zara'i* perspective, the approach conducted by BNM is crucial to avoid any potential misuse of the principle. In fact, not every hardship qualifies under the situation of *hajah* and *darurah* since the hardship could be certain, or it may just be based on assumption. Thus, this policy document is timely, outlining its expectations and the requirements for applying these concepts in carrying out Islamic banking and Takaful businesses. This regulatory framework clearly emphasizes the parameters of different categories of *hajah* and *darurah*, and it strengthens the governance and oversight of Islamic banking institutions by providing detailed operational guidance for the decision-making process and implementation plan.

5. Conclusion and Recommendation

This paper examines the *sad zara'i* element identified through the *Shariah* governance approach implemented by the regulator in Islamic banking operations in Malaysia. The Islamic banking sector has experienced an impressive development in this country since its first establishment in 1983. Today, Islamic banking sectors have become strong competitors to their conventional counterparts. While this sector is growing fast, it has faced challenges due to the modern financial environment. As a result, several aspects of *Shariah* need to be reconsidered to maintain the viability of the Islamic banking industry. Although it may seem that Islamic banking practices are lenient in satisfying market needs, the regulator has taken several approaches to uphold

Islamic principles and rulings in this sector. Some of those approaches seem to be embedded with *sad zara'i*. Based on library research, it was discovered that the element of *sad zara'i* can manifest in several approaches carried out by BNM. This includes preventing *urf fasid* by requiring Islamic banking institutions to reconsider their deposit concept, tightening so-called controversial practices such as *bay' al-Inah*, *tawarruq*, and *rahn*, and providing general guidelines on *Shariah*, especially *hajah* and *darurah* policy. Although this study is limited by the use of secondary data, it effectively addresses current issues in Islamic banking in Malaysia. Future research encourages to explore this topic issue through field studies using qualitative methods.

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Islamic Social Finance for Sustainable Economic Growth in Bangladesh

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Abstract

Islamic social finance (ISF) instruments such as *Zakat, Waqf, Sadaqah*, and Islamic Microfinance play a vital role in enhancing the standard of living and addressing financial difficulties the impacted community faces during challenging times. This paper attempts to analyze the role of Islamic social finance in sustainable economic growth in Bangladesh; specifically, it examines the role of *Zakat* and Islamic Microfinance. *Zakat* and Islamic microfinance are crucial in achieving sustainable economic growth in Bangladesh by offering targeted financial solutions for the underprivileged. This study used a quantitative research method, and data was collected from the capital city of Bangladesh. Data collection used a questionnaire containing 20 questions that utilized a Likert scale and aimed to assess independent and dependent variables. The research used SmartPLS version 4 and SPSS version 25 for extensive data analysis. The findings of this study illustrate that Zakat and Islamic microfinance are significantly positive in terms of sustainable economic growth in Bangladesh. Data sampling is one of this study's research limitations because it only collected data from Bangladesh's capital city. To conduct the rigorous analysis, data should come from other sources.

Keywords: *Islamic social finance, zakat, Islamic microfinance, Sustainable Economic Growth, poverty*

1. Introduction

According to Bangladesh Bureau of Statistics (BBS) food security statistics 2023, 26.5 percent of households dependent on agriculture in the country suffer from food insecurity. Due to deprivation and discriminatory state policies, this rate is only 11.45 percent in the city. However, in the village where farmers live, this rate is 24.12 percent. Similarly, division-wise, the highest food insecurity prevails in Haor-Baoor and agricultural land-locked divisions (Sylhet division). Because of this, agriculture is becoming the most dangerous profession. This depression of family's dependent on agriculture can impact the entire agriculture sector. As a result, Bangladesh may fall into food insecurity (Hossain, 2024; Roy, 2024).

However, according to the World Food Programme (WFP) report in August 2023, 24% of people in Bangladesh are suffering from food insecurity, which is increasing yearly. The WFP investigation exposed that 47 percent of the food insecure were in low-income households, compared to nine percent in medium-income households and less than three percent in high-income households (Raihan, 2023).

The economy of Bangladesh is supposed to grow rapidly, but there is still an issue of unequal wealth across the country. Extreme inequality is a major threat to fairness, social stability, and justice, especially for disadvantaged groups that are having a harder time meeting their regular needs. To make sure that economic growth in Bangladesh is secure and benefits everyone, it is essential to fix the issues of unfair wealth sharing between the rich and the poor (Siddiqui, 2024).

Islamic social finance (ISF) notably accelerates socioeconomic advancement by effectively using *Zakat*,

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Waqf, *Sadaqah*, Islamic Microfinance, and *Qarḍ-Ḥasan*. The use and adoption of these social well-being tools have been seen since the prophet Muhammad's time in Muslim communities and cultures outside the Islamic world (Hossain et al., 2024).

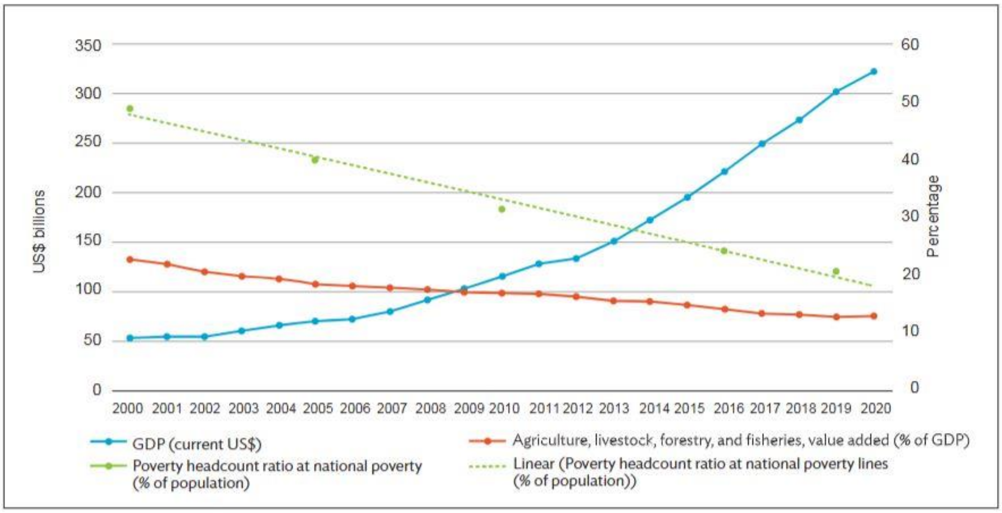
This paper examines an intensive segment of ISF, specifically *Zakat* and Islamic microfinance, to assess their potential role in fostering sustainable economic growth in Bangladesh. Islamic social finance, which adheres to equity, compassion, and community welfare principles, offers unique opportunities for addressing poverty and financial exclusion. This study investigates *Zakat*, the mandatory almsgiving for Muslims, and Islamic microfinance, a form of financial support based on Islamic principles, as tools for social empowerment and economic development. The study aims to evaluate the impact of these tools in Bangladesh's context, where significant segments of the population remain underbanked. By leveraging Zakat and Islamic microfinance, this paper argues that Bangladesh could make strides toward reducing poverty and advancing sustainable economic growth. Additionally, the findings may have broader implications, potentially guiding policy frameworks and financial strategies in other Muslim-majority countries seeking to harness Islamic social finance for development objectives.

2. Literature Review and Hypothesis Development

Bangladesh constitutes a portion of the South Asian subcontinent. It is situated on the eastern shore of the Bay of Bengal, next to India to the north and east, and Myanmar to the southeast. It has an area of 147,570 square kilometers and a population of 167.6 million (as of 2020), 61.8% of which live in rural areas. It is the most populous and the largest of the 10 most densely populated countries in the world. The country is located within the floodplains of the rivers Ganges, Brahmaputra, and Meghna and is vulnerable to natural hazards such as seasonal flooding, droughts, and cyclones. The Global Climate Risk Index ranked Bangladesh as the seventh most susceptible to natural hazards between 1999 and 2018. Despite these challenges, Bangladesh possesses a year-round favorable environment for agriculture with fertile soils, flat topography, and ample water resources(Asian Development Bank, 2023).

Bangladesh has made significant strides in poverty reduction, decreasing the poverty rate from 48.9% in 2000 to 20.5% in 2019. This achievement can be attributed to an increase in per capita income, enhanced agricultural productivity, improvements in the quality of education and healthcare services, and advancements in information and communication technology (ICT). As a result of these developments, Bangladesh attained the status of a lower middle-income country in 2015. The nation aims to sustain this growth trajectory, aspiring to achieve upper middle-income country status by 2031 and high-income country status by 2041. However, it is essential to note that the poverty headcount in rural areas, which stands at 17.4% of the rural population, is more than double that of urban areas at 6.2% of the urban population. The manufacturing and services sectors have primarily propelled recent substantial growth in gross domestic product (GDP). The contribution of agriculture to GDP has consistently declined since Bangladesh's independence in 1971, dropping from 58.4% in the fiscal year 1973-1974 to 12.6% of total GDP in the most recent figures (Figure 01). Despite the reduction in agriculture's contribution to GDP over the past two decades, the agriculture and natural resources (ANR) sector remains pivotal. The country has achieved a significant level of self-sufficiency in staple food production, particularly rice, due to increased agricultural output. Notably, the sector employs approximately 40% of the labor force and plays a crucial role in poverty alleviation and food security through its extensive forward and backward linkages to the broader economy. Therefore, the economic implications of the ANR sector extend far beyond what is indicated solely by its share of GDP(Hamadeh, 2021; Rahman, 2017).

Figure 1: Bangladesh's Gross Domestic Product, Agriculture, and Poverty, 2000-2020



GDP = gross domestic product, US = United States.

Source: World Bank (2020)

Bangladesh remains a least developed, overpopulated, and economically disadvantaged country. The government and non-government organizations are employing diverse strategies and approaches to uplift the country and cut poverty by 50 percent by 2019 (Raquib, 2020).

Unlike traditional poverty alleviation programs, institutionalized ISF programs have recently emerged globally and in Bangladesh. However, the lack of adequate policy support and private sector investment has hindered the ability of Islamic social finance to scale and operate efficiently. Consequently, innovative anti-poverty programs in Bangladesh, such as social enterprises (e.g., BRAC) and microfinance institutions (e.g., Grameen Bank), present significant competition for Islamic social finance. Despite existing since the inception of Islam, Islamic social finance instruments continue to play a vital role across the Muslim world, including in Bangladesh. Unfortunately, comprehensive database records on the number and scale of Islamic social finance institutions in Bangladesh are currently unavailable (Uddin and Mohiuddin, 2020).

The Center for Zakat Management (CZM) in Bangladesh was established on 14th September 2008, previously known as 'Zakat Forum' (ZF). It originated on 21st March 1993 with the active support of Rahim Afrooz Bangladesh Ltd., aiming to utilize Zakat as a significant tool for improving the lives of the disadvantaged in Bangladesh. Initially, the forum collected Zakat funds and distributed them based on the guidance and principles of the Holy Qur'an. The CZM has started some projects to mitigate the humanitarian crisis; Jeebika is a Zakat-based program focused on livelihood and human development. The primary objective is to enable sustainable community development utilizing Zakat funds. The program aims to enhance the living conditions of the poor and needy by providing economic opportunities through livelihood strengthening, marketing access, and various Income Generating Activities (IGA). It also prioritizes improving mental and physical health, enhancing access to education, and reducing disaster risks, particularly for vulnerable households, including women and girls. The approach involves savings accumulation, access to business capital, healthcare, education, water, sanitation, training, and moral education. The project encompasses a series of initiatives designed to uplift the living standards of impoverished communities (Mohammad Osmani and Al Masud, 2021).

The Baitul Mukarram complex, situated in Bangladesh, consists of a national mosque and a shopping mall spread over 8.3 acres of Waqf land. The *Waqf* administrator earns rental income from the shopping complex to support the mosque's maintenance and various non-mosque activities, which include an auditorium, and a publishing house focused on Islamic teachings and job opportunities. Maximum income is directed to the state-supported Islamic Foundation to assist social welfare projects. These projects include providing *Qard Hassan* loans, medical care, literacy programs, vocational training for unemployed youth, and aid for the underprivileged and orphans (MDEC, 2020).

2.1. The role of Islamic social finance in sustainable economic growth

Islamic social finance has the potential to significantly contribute to the development of social well-being and sustainable environments. This study measured the contribution of ISF in Malaysia and Pakistan. Comparing *Zakat*, *Sadaqa*, and *Waqf* features in these countries revealed similarities and differences in their practices. Indonesia had the highest population of 285 million in 2017, followed by Pakistan with 204.9 million and Malaysia with 31.3 million. Indonesia boasts the world's largest Muslim population, estimated at 224.5 million individuals. In contrast, Malaysia and Pakistan have populations of approximately 19.3 million and 197.5 million Muslims, respectively. Regarding gross national product (GNP), Indonesia leads the region with a reported GNP of US$1,015.4 billion for the year 2017, followed by Malaysia at US$314.7 billion and Pakistan at US$304.9 billion. Notably, Malaysia outperforms its regional counterparts in total Zakat collection, amassing around US$547 million in 2011. In the same year, Indonesia and Pakistan collected US$231.6 million and US$105 million in *Zakat*, respectively. In Indonesia, Zakat and Sadaqa were managed by the BAZNAS, private agencies, and other institutions. In Pakistan, government and private organizations administered the mobilization of *Zakat* and *Sadaqa*, while governmental institutions collected compulsory *Sadaqa* or *Zakat*. In Malaysia, *Zakat* management falls under the jurisdiction of each state's Islamic Religious Council. In terms of innovative Islamic instruments, Indonesia used Baitul Maal wat Tamwil (BMT), which collected funds from various sources, such as members' deposits and Islamic charities. Government subsidies primarily funded Amanah Ikhtiar Malaysia, while donations and Islamic charities supported Akhuwat Pakistan (Hamed, 2020; Razak and Dawami, 2020; World Bank, 2019).

2.2. Practices of ISF in Selected Countries

The ISF instruments, including *Zakat*, *Waqf*, and *Sadaqa*, are crucial in addressing social crises such as poverty, education, and health. Effective fund management is essential for ISF institutions to achieve their goals. This section will analyze the operational mechanisms of ISF institutions in particular countries, specifically Indonesia, Malaysia, and Pakistan.

2.2.1. Indonesia

Indonesia, recognized as the most populous nation in Southeast Asia, had an estimated population of around 258 million in 2017, with nearly 224.5 million Muslims constituting 87 percent of the overall populace. Boasting a Gross Domestic Product (GDP) of US $1015.4 billion in 2017, it ranks as the preeminent island nation globally (World Bank, 2019). The administration of *Zakat*, *Infaq*, and *Sadaqa* (ZIS) in Indonesia employs a dual institutional framework, incorporating both governmental entities such as BAZNAS and private organizations including LAZ, Dompet Dhuafa Republika, and Rumah Zakat Indonesia in its governance (Razak and Dawami, 2020).

The management of *Zakat* in Indonesia has shown significant growth, with total *Zakat* collections increasing by 32 times over the past decade, reaching nearly US$ 0.2316 billion in 2012. BAZNAS distributes *Zakat* funds across four primary programs: education, philanthropic aid, health, and economic initiatives. The efficacy of *Zakat* administration in Indonesia can be credited to Dompet Dhuafa Republika. This charitable organization leverages contributed resources to aid economically disadvantaged individuals through initiatives such as Zakat-based microfinance and community enhancement projects. As a predominantly Muslim nation, Indonesia significantly plays a role in achieving the *Waqf* potentiality, which is managed by Badan Wakaf Indonesia (BWI). The allocation of *Waqf* resources supports *Ibadah* (worship) and societal welfare initiatives, encompassing religious activities, educational and health services, assistance for the impoverished and orphans, scholarships, and economic and communal development by Shariah guidelines (Musa et al., 2020).

Baitul Maal wat Tamwil (BMT) is a leading Islamic Microfinance Institution (MFI) in Indonesia, operating under the Islamic cooperative system. It consists of Baitul Maal, which oversees social funds, and Baitul Tamwil, which handles business operations. Internal and external operational challenges currently hinder BMT's impact on social welfare. BAZNAS partnered with UNDP 2017 to implement a social enhancement program in Jambi to optimize the distribution of Islamic charities, focusing on renewable projects benefiting around five thousand people in eight hundred three households across four villages in Jambi province.

Moreover, the value of Waqf land and property in Indonesia is estimated to be nearly US$27 billion, suggesting significant potential for supporting the government's social objectives, including poverty reduction and inequality mitigation (Modéer, 2019).

2.2.2. Malaysia

Malaysia is a federal constitutional monarchy consisting of 13 states and the federal territories of Kuala Lumpur, Putrajaya, and Labuan. The estimated population of Malaysia was 31.1 million in 2017, with approximately 19.3 million Muslims. Over the past 20 years, Zakat mobilization and management in Malaysia have increased significantly, reaching 28 times the initial amount of US$ 0.547 billion in 2011. Malaysia is also a newly industrialized market economy, with a Gross Domestic Product of US$314.7 billion in 2017 (Ali, 2023).

The State Islamic Religious Council (SIRC) oversees the management of *zZakat* institutions, including offices such as Baitul Maal, the *Zakat* department, and the Zakat Committee. The governance of *Waqf* and *Sadaqa* is overseen by the State Islamic Religious Council (SIRC) in each state. This is done to uphold Islamic law and regulations regarding the administration of *Waqf* and *Sadaqa* and enhance the effectiveness of Islamic religious programs. Furthermore, Amanah Ikhtiar Malaysia (AIM) is the most prominent Islamic microfinance institution, founded in 1987 as a clone of Grameen Bank. Its primary source of finance is government subsidies. The SIRC effectively used *Zakat*, *Waqf*, and *Sadaqa* money to address social and welfare concerns. For example, the Johor Islamic Council has partnered with *Waqf* An-Nur Corporation Berhad (WANCorp) to enhance the impact of *Waqf* in several important initiatives, such as Mosque Management, Healthcare, Providing start-up financing for small businesses, and Disaster assistance. Malaysia is widely recognized as the global hub for Islamic finance. Therefore, the progress of Islamic social finance in this nation has been noteworthy in recent years. The milestone event occurred in July 2017 when Tadau Energy in Malaysia became the first entity in the world to issue SRI sukuk. In April 2018, five green sukuk issuances took place, amounting to about RM3.7 billion. Of this sum, RM2.4 billion has been allocated to support renewable energy projects and green construction initiatives. HSBC Amanah Malaysia is the first private bank in the world to issue a large sum of $120 million in sukuk connected to social finance. The monies will be allocated towards poverty alleviation and implementing sustainable energy solutions for eligible communities (Dinar Standard, 2022; Ismail et al., 2020; The Twelfth Malaysia Plan and The Twelfth Malaysia Plan 2021-2025, 2021).

2.2.3. Pakistan

The rising tide of *Zakat* collection in Pakistan is showcasing a positive trajectory, surging nearly 40 percent over three years, equating to an increase of US$105 million in 2011. Furthermore, the MoRA in Pakistan disclosed that the Zakat is earmarked for various initiatives, including treatment and welfare nets, societal well-being, education, and ensuring expertise in the respective sector, healthcare, and managerial costs. Waqf organizations across Pakistan operate under separate *Waqf* management in each province, namely Punjab, Sindh, Baluchistan, and Khyber-Pakhtunkhwa. A chief *Waqf* administrator leads each of these four administrations, collectively called the Central Waqf Council (Razak and Dawami, 2020).

2.2.4. Achieving Economic Empowerment Through Zakat and Islamic Microfinance

Economic empowerment means managing, allocating, and controlling one's financial resources. It paves the way for people to participate in the economy, be charitable with money, and participate in possibilities that improve their lives. When people oversee their finances, they may make well-informed decisions that reflect their beliefs and ambitions. Economic empowerment often leads to increased financial security, self-assurance, and the ability to support one's family and community. In addition, it helps alleviate poverty, promotes equality, and adds to considerable societal benefits. Empowered individuals can advocate for their financial interests, leading to a multiplier effect that benefits everyone (Golla et al., 2011).

According to the Oxford English Dictionary, "empowerment" is developing confidence in one's judgment and capacity to advocate for one's values and principles. Economic empowerment enables people to enhance their enterprises, raise their income, and achieve financial independence through *zakat* and Islamic Microfinance. By being financially self-sufficient, *Mustahiq* can enhance their quality of life and lessen economic stress (Mahadi et al., 2021).

The monetary institutions emphasized that there are two aspects in direct method financing: supply and demand. For supply, *Zakat* functions in financing production aspects of developing activity through its fair and impartial allotment. It provides dependability and security, which is considered required to commence developmental activity, a requirement for its accomplishment and stability (Eletrebi et al., 2019)

Muslim nations can use their Zakat fund to build factories, estates, trade institutions, etc. People with low incomes can then use these to generate revenue, but they don't have the right to sell the instruments or have any ownership stake in them, just like endowment properties. Therefore, the Zakat fund is seen to ensure continuous sufficiency and improve its utilization (Hossain et al., 2023).

The distribution of productive *zakat*, *infaq*, *alms*, and *waqf* (ZISWAF) is a key part of boosting the agricultural economy and has big benefits for communities and national food security efforts. A portion of ZISWAF funds should be distributed consumptively; a strategy focused entirely on consumptive distribution is insufficient. It is imperative that a segment of these funds be allocated for investment purposes, fostering economic initiatives that empower recipients and enhance future economic prospects(Mohamed and Shafiai, 2021).

Numerous empirical investigations highlight the role of ISF tools in preventing scarcity. For instance, (Anis and Kassim, 2016) Evaluated the success of the CZM in Bangladesh, focusing on how *Zakat* funds fostered entrepreneurship and empowered impoverished women in rural communities. Their findings indicated a notable rise in nominal and real monthly income, fixed assets, and average household spending among Zakat recipients. Additionally, (Nashir and Nurzaman, 2019) explored a *Zakat*-driven poverty alleviation initiative launched by BAZNAS Serang Regency in Indonesia. Their research demonstrated that the initiative significantly empowered beneficiaries between 2016 and 2017. Likewise, (Sumai et al., 2019) studied *Zakat's* role in eradicating poverty and enhancing food security in Indonesia. Their results revealed that Zakat funds provided essential capital to struggling households, thus making a positive impact on poverty reduction and food stability in the nation. (Suprayitno, 2020) conducted an ECM analysis to evaluate how *Zakat* distribution influenced economic growth across five Indonesian regions. Their study confirmed a significant positive correlation between *Zakat* distribution and the economic development of these regions. (Bouanani and Belhadj, 2019), employed a fuzzy methodology to assess the potential impact of *Zakat* on poverty alleviation using data from individual well-being surveys in Tunisia from 2010. The simulation outcomes indicated a substantial decrease in the poverty index across seven nationwide regions. According to the above literature review, we propose our first hypothesis as follows:

Hypothesis-01: Zakat has a positive impact on sustainable economic growth in Bangladesh.

A dedication to promoting economic progress and thriving socio-political frameworks based on Islamic principles is the source of Islamic microfinance. Trade, business, investment, and finance are all fundamental to Muslim communities. Microfinance concepts are in perfect harmony with Islamic ideals of fair opportunity, encouragement of entrepreneurship, shared risk, giving loans without collateral, and including the least fortunate (Saad and Anuar, 2009).

The efficacy of Islamic microfinance has been notably encouraging. The performance of the RDS (Rural Development Scheme) of IBBL surpassed that of three conventional microfinance leaders—Grameen Bank, ASA (Association for Social Advancement), and BRAC (Bangladesh Rural Advancement Committee)—in terms of growth (12.5%), drop -out rate (5%), and operational efficiency. Imposing a reduced rate of return (10% with a 2.5% rebate for timely payments) compared to other microfinance options (16-22.5% interest) provides a benefit to the impoverished. Additionally, this type of microfinance provides an active spiritual development program that enhances members' understanding of social rights and obligations, fostering stronger connections with others (Riwajanti and Asutay, 2015).

Akhwat is an interest-free Islamic microfinance organization in Pakistan, based on the Islamic concept of *Qard Hassan*. Akhwat's primary mission is to raise the living standards of those economically disadvantaged and ignored by society as a whole. Living standards, per capita income, ethical values, profitability, infrastructural position, employment level, society's capacity to regulate inflation, and wealth inequality are all areas where Akhwat is making a significant impact. Consideration of these elements is directly involved in alleviating poverty (Silva Afonso and Khan, 2019).

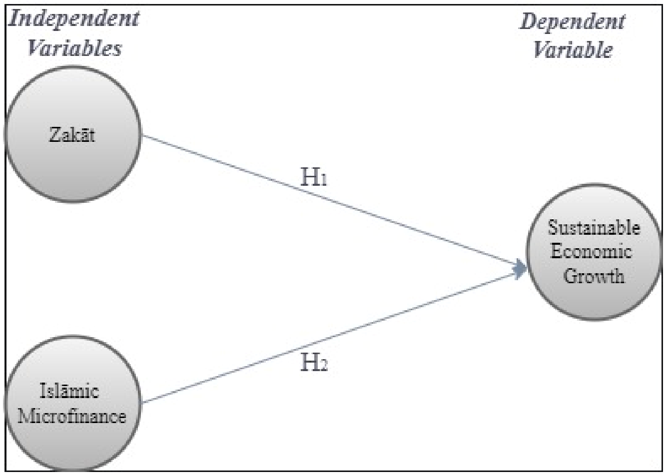
An idealistic microfinance system founded in Indonesia, BMT seeks to relieve socio-economic restrictions and the complex challenges of poverty by incorporating the moral teachings and principles of a heavenly religion, local cultures and values, and a unique financial technique.

It is comparable to the income of low-income people before and after receiving the financing plan from Baitul Maal wat Tamwil (BMT) to evaluate the program's effectiveness in assisting people experiencing poverty. Those with a monthly per capita income of around Rp211,726 are considered inadequate. Many kinds of funding are available from BMTs. Typically, they promote various forms of finance, such as Mudarabah, Musharaka, murabahah, bai'bitsamanil Ajil, and qard hasan, as social intermediaries (Anwar et al., 2023).

Amanah Ikhtiar Malaysia (AIM) was established on September 17, 1987, as a revised version of the Trust (Incorporation) Act 1952. It's an Islamic microfinancing institution whose primary mission is to alleviate rural poverty through a microcredit program for low-income families. AIM's primary goal is to provide microcredit facilities to societies that are very impoverished. Most traditional banks won't give loans to people in this category since they do not have the collateral or guarantors that these institutions typically demand. AIM works on research and consulting projects with several nearby institutions. To end poverty, AIM has assisted several nations in establishing microcredit organizations. AIM, an Islamic microfinance organization, dedicates itself to eradicating poverty. AIM's distinctive delivery method, appropriate human resources, sufficient service benefits, and good work environment have positively impacted its entire success (Aziz et al., 2022). According to the above literature review, we propose our second hypothesis as follows:

Hypothesis-02: Islamic Microfinance has a positive impact on sustainable economic growth in Bangladesh.

Figure 2: Conceptual framework, drawn by Authors



3. Data Source and Methodology

This study used a quantitative research method, and data was collected from the capital city of Bangladesh. Data collection used a questionnaire containing 20 questions that utilized a Likert scale and aimed to assess independent and dependent variables. The question was distributed through Google Forms to different types of people who had expertise in their respective areas. The researchers chose 350 respondents and received 210 responses out of that. The research used SmartPLS version 4 and SPSS version 25 for extensive data analysis. Using SPSS, we could do early descriptive and inferential statistical analyses, allowing us to closely examine the data distribution, core patterns, and variability. The study also accomplished variable correlations and hypothesis testing using SmartPLS.

4. Results and Discussion

4.1. Normality Test

When data following a normal distribution forms a bell curve, with the mean, mode, and median being equally distributed. We say that distribution is symmetric when none of the three measures are skewed; we say that it is asymmetric and skewed to one side when any one of the three is skewed. Skewness may have positive or adverse effects. Assume that the range of the skewness is -1.96 to 1.96 (Jammalamadaka *et al.*, 2021). Most entries classified as variables demonstrate consistent distribution, as depicted in Table 1. Figures 3 and 4 show the Effects of Zakat, Islamic Microfinance, and Sustainable Economic Growth.

Table 1: Normality Tests: Skewness and Kurtosis

Item	Mean	Median	Standard deviation	kurtosis	Skewness
ZKT1	3.138	3	1.311	-1.165	-0.041
ZKT2	4.095	4	1.005	1.986	-1.383
ZKT3	4.067	4	0.778	-0.799	-0.3
ZKT4	4.086	4	0.852	1.962	-0.91
ZKT5	4.114	4	0.892	1.964	-1.199
IMF1	3.89	4	0.977	-0.414	-0.827
IMF2	3.924	4	0.968	1.974	1..956
IMF3	3.971	4	0.946	1.967	-0.895
IMF4	4.162	4	0.847	1.977	-1.960
IMF5	4.129	4	0.925	-0.337	-0.914
SEG1	3.771	4	1.102	-0.127	-0.826
SEG2	3.8	4	0.994	-0.552	-0.789
SEG3	3.995	4	0.865	-0.301	-0.659
SEG4	4.071	4	0.828	-0.54	1.49
SEG5	3.981	4	1	-0.483	-0.566
Zakat	3.9	4	0.607	-0.98	-0.83
Islamic Microfinance	4.015	4.2	0.589	1.975	-1.209
Sustainable Economic Growth	3.922	4	0.616	2.085	-1.143

Figure 3: Effects of Zakat and Sustainable Economic Growth

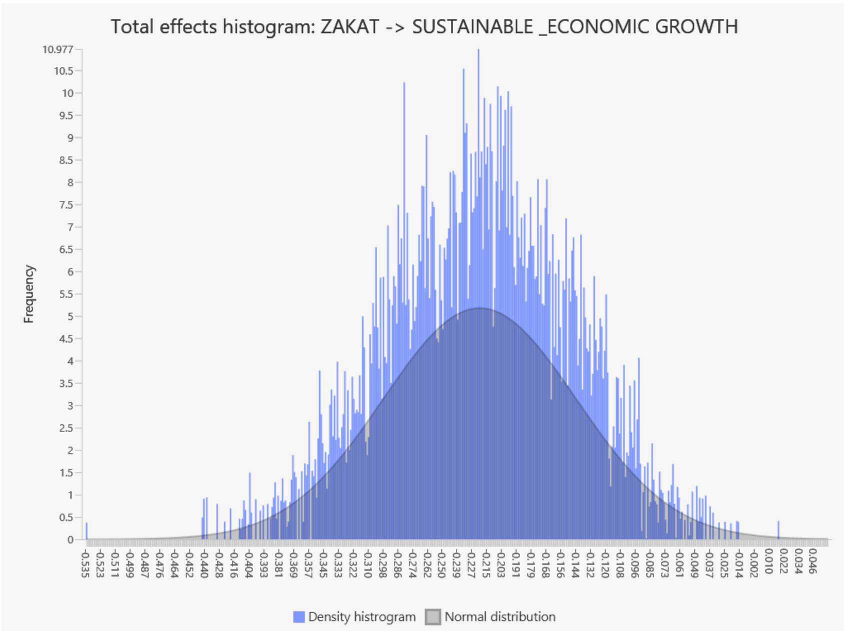
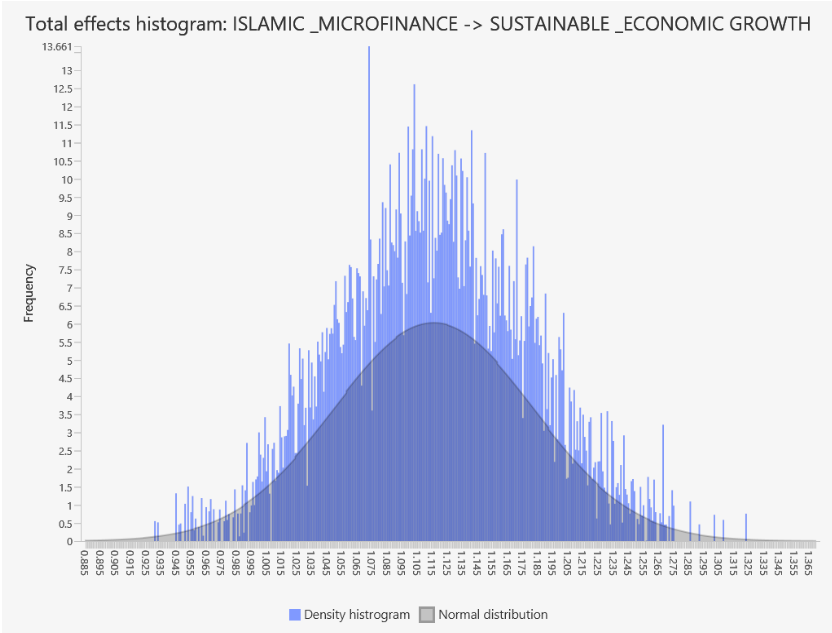


Figure 4: Effects of Islamic Microfinance and Sustainable Economic Growth



4.2. Reliability and validity analysis

The researcher mainly uses the SEM model to measure cause and effect. The SEM model is divided into two models: the Measurement model and the Structural model. The measurement model is used for analyzing Reliability and Validity, and the structural model is used for Hypothesis testing. Composite dependability (CR) and Cronbach's Alpha confirmed the construct's dependability. Table 2 displays the specific construct reliability and convergent validity. According to (Sarstedt et al., 2021; Wasko and Faraj, 2005;) the desired values of Cronbach's alpha, rho_A, Average Variance Extraction (AVE), and Composite reliability are respectively greater than or equal to 0.70, 0.70, 0.70, and 0.50. The outcomes of our three constructs meet the minimum values and make the significance of our study.

Table 2: Reliability and validity analysis

Construct	Cronbach's alpha	rho_A	CR	AVE
Zakat	0.732	0.780	0.867	0.512
Islamic Microfinance	0.720	0.756	0.762	0.599
Sustainable Economic Growth	0.737	0.749	0.775	0.611

4.3 Hypothesis Test

The 'P' value is a statistical measure that evaluates the likelihood of obtaining a result equal to or greater than the observed outcome, assuming that the null hypothesis of no effect or difference holds. In this context, the variable 'P' represents probability, indicating the chance that an observed difference between groups arises from random variation. The T-value suggests the degree of deviation in the variability present in the sample data. 'T' is the computed contrast expressed in units of standard error. As the size of 'T' increases, the strength of the evidence against the null hypothesis also grows (Russo and Stol, 2021).

The model's efficacy is assessed by the robustness of each structural route, shown by the ‘R’ and ‘R^2’ values for the dependent variable; these values should be at least **0.70** and **0.10**, respectively (Sahibzada *et al.*, 2022).

Table 3: Path coefficients

	Original sample (O)	Sample mean (M)	Standard deviation (STDEV)	T statistics (|O/STDEV|)	P values
Zakat > Sustainable Economic Growth	-0.237	-0.221	0.077	3.078	0.002
Islamic Microfinance > Sustainable Economic Growth	0.136	1.116	0.066	2.061	0.000

Hypothesis-01:
Zakat has a positive impact on sustainable economic growth in Bangladesh.

Table 4: Regression Analysis (Zakat)

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.705[a]	.497	.494	.43903

a. Predictors: (Constant), Zakat

Table 4 illustrates the correlation between *Zakat* and sustainable economic growth in Bangladesh. The analysis reveals that the R value is 0.705, with an R-squared value of 0.497, indicating that Zakat accounts for 49.4% of the sustainable economic growth in the country. Additionally, the SmartPLS analysis report presented in Table 3 indicates a 'P' value of 0.002 and a 'T' value of 3.078. The hypothesis is deemed supported and significant when the 'P' value is less than 0.05 and the T-value exceeds 1.96. Therefore, the first hypothesis posits that *Zakat* has a significant impact on sustainable economic growth in Bangladesh.

Hypothesis-02:
Islamic Microfinance has a positive impact on sustainable economic growth in Bangladesh.

Table 5: Regression Analysis (Islamic Microfinance)

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.898[a]	.806	.805	.27221

a. Predictors: (Constant), Islamic Microfinance

Table 5 presents the correlation between Islamic Microfinance and sustainable economic growth in Bangladesh. The analysis reveals a correlation coefficient (R) of 0.898 and a coefficient of determination (R^2) of 0.806, indicating that Islamic Microfinance accounts for approximately 80.6% of the variance in sustainable economic growth within the region. According to the SmartPLS analysis outlined in Table 2, the p-value is 0.00, and the t-value is 2.061. These findings provide strong support for our hypothesis, as the statistical significance is affirmed by the p-value being less than 0.05 and the t-value exceeding 1.96. Ultimately, the results substantiate the assertion that Islamic Microfinance exerts a significant influence on sustainable economic growth in Bangladesh.

5. Conclusion

Zakat and Islamic microfinance are crucial in achieving sustainable economic growth in Bangladesh by offering targeted financial solutions for the underprivileged. *Zakat,* a form of obligatory almsgiving, provides a steady flow of resources that can fund welfare programs, healthcare, and education, directly supporting low-income communities. Islamic microfinance, adhering to *Shariah*-compliant principles, provides interest-free loans, empowering entrepreneurs and small businesses. Together, they address poverty, reduce inequality, and support financial inclusion, which is essential for long-term economic stability. These programs enhance social welfare, foster self-sufficiency, and contribute significantly to Bangladesh's financial resilience by aligning with sustainable development goals. The results of this study revealed a statistically significant relationship between the factors influencing sustainable economic growth in Bangladesh. This study has limitations concerning data issues because data was collected from the capital city of Bangladesh. Still, to ensure a rigorous analysis, data should come from the various cities. Secondly, Bangladesh's Islamic social finance authority is impersonal in assisting the researchers in achieving a significant outcome. This study will influence the conduct of more research in the field of Islamic Social Finance in Bangladesh.

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Assessment of Sharia-Compliant Risk Management Framework for Sukuk

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Abstract

This study critically examines the *Shariah*-compliant risk management framework of *Sukuk*, a prominent Islamic financial instrument used to mobilize capital for diverse economic ventures. Risk occupies a central role in Islamic finance, serving as a key differentiator between lawful and unlawful profit. While *Sukuk* offer asset-backed, interest-free alternatives to conventional bonds, they are not immune to multifaceted risks, ranging from *Shariah* non-compliance and legal ambiguities to market, credit, and operational challenges. Employing a qualitative research approach, the study is grounded in the content of secondary data drawn from academic literature, institutional reports, *Shariah* standards, and regulatory frameworks. The analysis categorizes the risks associated with *Sukuk* and evaluates both general and specific strategies for their mitigation, including feasibility studies, *Shariah* governance, diversification, cooperative insurance (*takaful*), and regulatory harmonization. The findings reveal that while *Sukuk* are generally considered lower-risk instruments due to their asset-backing and risk-sharing nature, the effective management of *Shariah* and legal risks is crucial for their sustainability and credibility. The study underscores the importance of strengthening *Shariah* compliance mechanisms, enhancing legal frameworks, and developing robust risk management protocols tailored to different *Sukuk* structures. The main recommendation calls for the integration of standardized *Shariah* governance, institutional capacity-building, and the development of an active secondary market to improve liquidity and investor confidence. This research contributes to a deeper understanding of *Sukuk* risk dynamics and offers practical insights for policymakers, issuers, and investors seeking to enhance the resilience of Islamic capital markets.

Keywords: *sukuk, risks, methods, controlling.*

1. Introduction

In recent years, the Islamic financial industry has experienced a remarkable surge in growth and has garnered an unprecedented level of trust, particularly following the global economic crisis. This newfound prosperity has not only instilled confidence in Islamic finance but has also given rise to a pressing need for financial instruments capable of financing major projects and enhancing liquidity in the market. It is in this context that *Sukuk* has emerged as an ideal solution, satisfying the demands and inquiries of both investors and the global financial ecosystem. However, it is essential to recognize that engagement in economic activities within the framework of the Islamic financial system inherently carries a distinct set of challenges and risks compared to conventional, interest-based economies. The cornerstone of Islamic finance lies in the principle of risk-sharing, where both profits and losses are shared among the parties involved. This stands in stark contrast to the non-Islamic model, which revolves around capital guarantees and interest-based returns. As the Islamic financial industry continues to expand and diversify, it necessitates a specialized approach to risk management within the context of *Sukuk*. Islamic financial engineering now shoulders the added responsibility of addressing and mitigating the risks associated with *Sukuk*, which can take various forms based on the specific structure of the *Sukuk*. Moreover, *Sukuk* compositions involving multiple contracts exhibit distinct risk profiles compared to simpler sukuk structures grounded in a single contract. These disparities in risk are further compounded by the

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heterogeneity of assets underlying *Sukuk*, encompassing both tangible and intangible assets, as well as services and benefits. It is imperative to acknowledge that absolute risk elimination is an unattainable objective in any economic system. Risk is an inherent element of financial transactions, permeating all aspects of economic life. Nonetheless, the paramount goal is not to eliminate risk entirely, but rather to implement effective strategies for its management and mitigation, safeguarding the interests of all stakeholders involved in sukuk transactions. This paper embarks on an exploration of these risks within the Islamic financial landscape, seeking to illuminate the nuances of risk management, and thereby, contribute to the stability and integrity of *Sukuk* as a pivotal financial instrument within the Islamic finance domain.

The research aims to assess the significance of risk management in the context of Islamic financial systems and its impact on the sustainability and growth of *Sukuk*, identify the principal risks inherent in *Sukuk* and examine their sources and underlying causes, and to investigate and evaluate the various instruments and strategies employed for the management and mitigation of *Sukuk*-related risks.

This study declares the significance of risk management in Islamic financial systems which is crucial for maintaining the growth and integrity of sukuk. Risk management plays a key role in ensuring stability, adherence to *Shariah* principles, and fostering investor confidence. The primary risks linked to *Sukuk* encompass market risk, credit risk, liquidity risk, operational risk, *Shariah* compliance risk, legal and regulatory risk, and asset performance risk, each stemming from distinct sources or triggers. A range of financial instruments and strategies, including *takaful*, currency swaps, profit rate swaps, asset diversification, and *Shariah*-compliant derivatives, are employed to effectively manage and mitigate these risks (Jamel, 2022).

2. Literature Review

Sukuk is the plural of *Sakk* (صك), meaning a 'severe beating' which is derived from the verse in the Holy Qur'an: " *Then his wife came forward with a loud voice, she smote her own face, and said: "A barren old woman"* (*Surah Adh-Dhariyat*; 29). The word '*sakk'* in this verse means 'strike' or 'beat'. However, 'sakk' was also mostly used in the Middle Ages to refer to 'certificates' or 'papers' denoting financial obligations from commercial activities. *Sukuk* is a term according to traditional Islamic jurist Imam Al-Nawawi who noted: "*it is a document to prove a right or a loan*" (Al- Nawawi, 2009). , it is defined by the contemporary Muslim scholars too who accept the comprehensive definition of AAOIFI as: "*Investment Sukuk are certificates of equal value representing undivided shares in ownership of tangible assets, usufruct and services or (in the ownership of) the assets of particular projects or special investment activity."* (AAOIFI, 2017).

i. Types of *Sukuk*

In theory, all *Sukuk* represent a form of equity as they represent a certificate conferring to holder's ownership of an asset or a pool of assets or a claim to its cash flows. In practice, there are various classification of sukuk from different perspective, the most common are rely on the following bases: *Sukuk* based on the underling *Shariah* contracts which includes sale-based, lease-based, partnership-based, *wakalah*-based and hybrid *Sukuk* based on technical and commercial features which includes nature of the issuer, underlying asset, complexity of structure other additional features. There is also*Sukuk* based on the nature and type of assets which combines debt or receivable *Sukuk*, tangible assets, intangible assets, usufruct and services, and rights in investment projects (ISRA, 2017). The AAOIFI has extensively outlined the various asset classes, which include almost 14 types of sukuk.

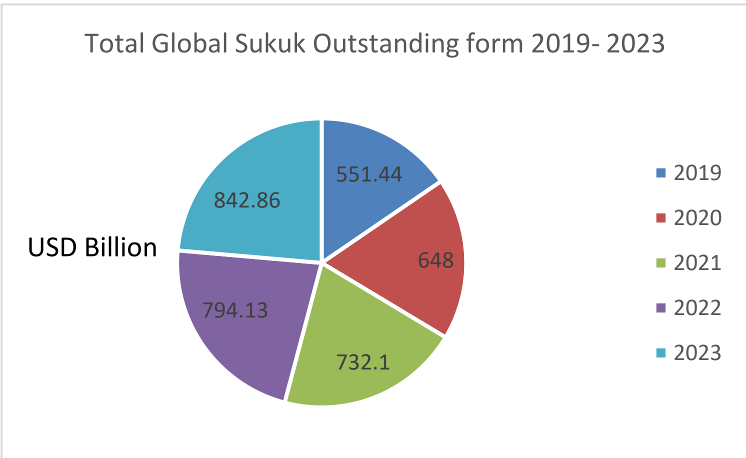
ii. The parties of the *Sukuk*

Even though, each structure of *Sukuk* has its parties but the most common parties for *Sukuk* are issuer SPV, *Sukuk* holders, originator, obligor, *Shariah* advisers, *Shariah* approving authority (formal authority or centralized body who has the responsibility to approved *Sukuk* formally such as SAC and SC in Malaysia (ISRA, 2017). Other key stakeholders may include arrangers, bookrunners, underwriters, trustees, rating agencies, legal counsel, external auditors, and asset custodians, depending on the structure of the *Sukuk*.

iii. The role of *Sukuk* in economic development and risk reduction

Sukuk is a unique product of the capital market and has its own structure and features which are different from other products like conventional bonds and shares (Rubaiyat & Burehan, 2020). Sukuk is an important Islamic instrument for financial intermediation that contribute to achieving economic development through their ability to mobilize financial resources to finance large development projects such as infrastructure projects such as oil and gas, roads, train stations, ports, airports, and others, as well as to finance capital expansions of companies (Shirian, 2013). It also contributes significantly to eliminating poverty, increasing the level of employment, putting idle funds to work, supporting the general budget, and fulfilling the desires of both investors and savers alike. It should be mentioned that, if the *Sukuk* are compared to bonds, it will be known that *Sukuk* are less risky compared to bonds because the most important strategy for managing risks is distributing them to a wide segment of investors, which is represented by the instruments, as for the loan, it is obligatory to pay, which means that the state, company, or financial institution bears all the risks alone (Al-Amari, 2017). On the other hand, *Sukuk* is also not exposed to interest rate risks, as they do not deal with it at all, and is not exposed to inflation risks either, but rather is affected by inflation positively, because the *Sukuk* represent real assets in the form of assets and services, the prices of which rise with the rise in the general level of prices, which leads to an increase in the returns on the *Sukuk* representing those assets (Mahmoud & Shuaib, 2015). Development of *Sukuk* and its rapid growth in recent years have proved the validity of the Islamic financial system and its ability to meet modern business and challenges, but maintaining this growth may be impossible without proper risk management of the *Sukuk* structure. Outstanding global sukuk as at the end of 2023 maintained double-digit growth (+11.2%) to USD794.13 billion, despite lower issuances during the year amid global tightening of monetary policy. The chart 1 below shows the outstanding of global *Sukuk* all over the world.

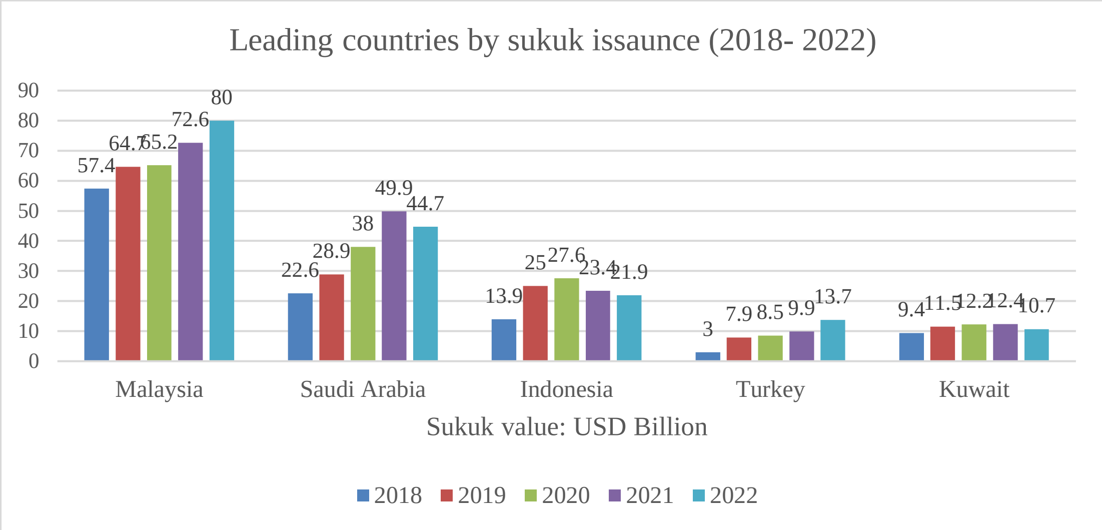
Chart 1: The outstanding of Global *Sukuk* all over the world



Source: IIFM (2024)

While Malaysia remains the world’s largest issuer of *Sukuk*, **Saudi Arabia** is also a top scorer in terms of total issuance as well as average issuance size, so the chart 2 below illustrates the ranking of the five top issuer countries in all over the world.

Chart 2: Top five issuer countries of sukuk in all over the world



Source: Refinitiv (2022)

3. Definition of Risk

Risk, in its literal meaning, denotes uncertainty between two options: potential destruction or similarity. In the terminology of *fiqh* jurists, it is used for two meanings: in the sense of gambling, and in the sense of the possibility of profit or loss in trade resulting from market events and price fluctuations, not the original contract. This is what Ibn Qayyim Al-Jawziyyah mentioned: "*there are two types of risk: the risk of trade, which is buying a commodity with the intention of selling it and making a profit and relying on Allah SW in that, and the second risk is gambling which involves consuming money unlawfully*" (Ibn al Qayyim, 1994). According to economists, risk is the possibility of loss by the investor (Sawa, 2016), or risk is usually measured as a standard deviation or variation of outcomes, and as a result, the risk is uncertainty of future outcomes.

4. The Relationship between Investment and Risk Tolerance from the Shariah Perspective

Islam recognises that risk can never be entirely eradicated; however, it allows and encourages its reduction through different preventive measures and this is the aim of Islamic financial securities (Khan & Saeed, 2020), So there is a robust relationship between Islamic investment and risk-bearing, and this correlation between them is due to the investor's risk-bearing being the most important characteristic of Islamic investment that distinguishes it from a usurious transaction guaranteed to return interest to the lender. There is a *fiqh* maxim, which states that everything that is obtained in terms of gains is entitled to bear the responsibility for the loss or damage in the case it occurs from *Shariah* perspective (Al-Tirmidhi, 1998). The origin of this maxim is the *hadith* narrated by Aisha (PBH), that a man bought a slave and took advantage of him, then he found a defect in him and returned him to the seller, and the seller said: "*O Messenger of Allah (SW), he has taken advantage of my slave*". The prophet (PBUH) said: "*bearing the loss is due to gaining benefit"* (Al-Sijistani, 2009). Considering this *hadith*, the *fiqh* jurists formulated the well-known general maxim which means that: *whoever suffers a loss/damage deserves a profit* (Al-Zuhaili, 2006). It will be extracted from this *Shariah* maxim that if the risks are naturally absent or if some mechanisms are used to move the risk, then the investment is not permissible, so according to *Shariah* every transaction must include risk (Ibn Ashour, 2001). It is worth noting that the concept of risk in *Shariah* differs from its meaning in economics, the risks in *Shariah* are related to the nature of investments, and in the economy are related to economic conditions, political events, and environmental factors that lead to fluctuating returns on investment that are marred by uncertainty (Sawa, 2016). Risk in Islamic finance has its unique attributes and distinctive characteristics, it does not mean the possibility of harm and adverse impact at all, instead, it will decrease the burden on contractors, unlike conventional contracts, which put all damages on the loser at the beginning (Khan & Saeed, 2020). *Shariah* jurists have used the concept of risk into two directions: the permissible direction and the forbidden direction, and the meaning of risk in the permissible direction is bearing the results of the investment process for both parties to the contract and the principle of parity is achieved in it, and this is indicated by the mentioned maxims. The concept of risk in this direction is the performance of specific and *Shariah* legitimate actions by the investor by placing money in an investment project in any of the *Shariah* contracts, bearing the consequences of that project, whether profit or loss. From this standpoint, we see in *Sukuk* that investors (*Sukuk* holders) offer their money at risk and bear the consequences of the *Sukuk* process. This confirms the principle of equality and reciprocity between loss and profit in sharia and the entitlement to profit in it in preparation for bearing loss as well (Iyad, 2020). There are many examples in *Shariah* that indicate the necessity of risk in work and business, that the Messenger of Allah SWT, said that "*you must pay the wage of worker before his sweat dries up*" because he has accepted the risk and now he has to get the benefit as well (Al-Bayhaqi, 2011), As for the risks in the forbidden direction, it is taking risks and undertaking something whose existence is not known and hesitating between existence and non-existence regarding obtaining a profit or not, and this involves deceiving investors. This type of risk leads to unlawful consumption of people's money, sin and aggression, and does not involve the principle of equality (Iyad, 2020). Islamic *Shariah* approves the first direction, which is permissible because of the equality between the parties in the investment process and equality in the gains and losses (Zakariyah & Syllah, 2020).

5. Causes and Various Types of Risks Related to the Sukuk

It should be mentioned that the risks to which the *Sukuk* are exposed differ according to the structure of the *Sukuk*, for instance the risks of *Murabaha Sukuk* are different from *Musharaka Sukuk*, and the risks of *Istisna Sukuk* are different from *Ijarah Sukuk* and so on. These risks also vary depending on the assets that make up the *Sukuk*, such as fixed, non- moveable/ movable assets, benefits and services, and there are some other risks which the *Sukuk* are exposed like legality risk, operational risk, market risk, capital market risk, inflation risk, securities risk, credit risks and liquidity risk, it can be said that, since sukuk is not structured without *Shariah*, economic and legal controls, violating them is considered a risk, so there are many risks that have been identified while reviewing the literature (Jamel, 2022) in general the risks of *Sukuk* can be abstracted in the following elements:

5.1. Shariah Non-Compliance Risk

This is the risk to which Islamic financing instruments are exposed, which are represented in violating *Shariah* standards in investment activity and violating the nature of the financing instruments on the basis of which Islamic investment *Sukuk* is issued for example, One of the risks that is considered a violation of *Shariah* standards in benefits and services sukuk is the trading of *Sukuk* of ownership of services that are fulfilled by a party described in the liability before appointing the party from whom the service is to be gained. And the trading of ownership *Sukuk* for the benefits of the assets described in the liability before specifying the property from which the benefit is derived (AAOIFI, 2017). Also, this kind of risk include contradiction to the sharia provisions, as *Sukuk* is a *Shariah* financial instrument, it must be dealt with and traded within the framework of specific and controlled provisions, and based on complete and partial evidence, and general and specific sharia objectives. Therefore, the violation of the *Sukuk* to these *Shariah* provisions at any stage leads to the invalidation of the *Sukuk* in whole or in part, or the annulment of the transaction because of the illegality that occurs in process of the securitization. There are many forms of violation of *Shariah* rules in *Sukuk*, and it is impossible to enumerate and restricted them in this article. Each *Sukuk* structure has its own *Shariah* principles and rules, and the violation of which is one of the risks which must be studied and the possibility of occurrence, how to be restricted, and ways to address them. For example, if Islamic financial institutions borrow mortgages from their clients, if they securitize these mortgaged assets in the form of *Ijarah* or *Musharakah Sukuk* or other possible forms of securitization, this type of *Sukuk* is invalid, because the institution sold to the *Sukuk* holders what it did not own, which is one of the prohibited sales in *Shariah*. Utilizing the *Sukuk* proceeds in forbidden purposes such as forbidden goods and services, usury, gambling, deception, fraud, deception and/or betrayal is not acceptable (Sawa, 2016). Perhaps one of the most prominent elements of *Shariah* risks is the weakness of *Shariah* supervision in some Islamic financial institutions. However, this type of risk varies in strength and weakness from country to country, and financial institution to another. The analysis of this risk is so important considering criticism by some Muslim scholars regarding non-Islamic nature of some of the *Sukuk*. Therefore, the issuing Islamic financial instruments non-compliant with *Shariah* is very damaging to the reputation of issuer and may require extensive efforts to regain the confidence of investors (Alswaidan, 2017).

5.2. Legal and Regulatory risk

It is evident that every financial product and instrument, including *Sukuk*, requires proper regulation to maximize its benefits. However, *Sukuk* markets remain underdeveloped and lack uniform standardization globally. Therefore, lack of the standardized regulations governing the Islamic finance is a major impediment to further development of the whole market, including *Sukuk*, also lack of clarity about the financial contracts implemented in the *Sukuk* leads to the emergence of legal risks, they are linked to the statute, legislation, and supervisory orders that govern compliance with contracts and transactions (Iyad, 2020). The nature of these risks may be external, such as supervisory controls that affect some types of activities practiced by banks or they may also be of an internal nature related to the bank's management and its employees, such as Fraud and non-compliance with controls and laws. The legal system of many Islamic countries is not consistent in many aspects with the *Shariah* rules, especially the laws of money, loans, the collection and taxes, and many provisions of civil law, which makes the process of *Sukuk* exposed to great difficulties, especially in drafting the necessary contracts for the process, and the issue even become more difficult if it transferred to the courts, where there is the ruling of statues laws not *Shariah* (Alswaidan, 2017).

5.3. Operational and management risk

It is related to functional dysfunctions in transaction systems, reporting systems, and risk monitoring rules. This type of risk is mostly derived from the weak financial infrastructure in which sukuk are issued and traded (Mahmoud & Shuaib, 2015).

These risks arise because of human errors, technical errors, or accidents, for instance, the structures of tradable sukuk must be based on assets, and the return on this type of sukuk comes from these assets, and the operational risks of these assets must be carefully studied. For example, we know that the rental return in *Ijarah Sukuk* is the return of the *Sukuk*, if the benefits of the rented property are suspended, so the tenant does not have to pay the rent; as a result, the *Sukuk* will not have any return. Thus, it is evident that rental estate-based rental *Sukuk* carries a lower risk of return loss due to benefit disruption than the *Sukuk* back by vehicles, factories, airplanes, or ships (Dwabah, 2016).

5.4. Market risk

The instruments and assets that are traded in the market are considered the source of this type of risk. This is either for reasons related to macroeconomic variables or because of the conditions of institutions and banks. We can say that the general market risks are the result of general changes in prices and policies at the level of the economy, and special market risks arise when there is a change in the prices of specific assets and traded instruments, because of special circumstances (Gharbi & Jabalahi, 2018). These risks include general risks, as they are due to the ups and downs trends that occur in the markets due to economic, social, or political factors, whether they are real asset markets, or financial markets, which consist of Money markets and capital market which includes both, issuance market and the trading market (Dwabah, 2016).

5.4.1. Real Asset Market Risk

All *Sukuk* issues should be backed by tangible assets, but there are some difficulties in identifying the appropriate underlying asset and the main asset used for *Sukuk* issuance is a real asset; it should meet *Shariah* requirements and be able to provide attractive returns (Ola, 2013). These risks are related to the nature of *Sukuk* as they represent a common share in the ownership of assets, and since the real assets including goods and services are sold in the markets, they may be exposed to a decrease in their value due to factors of supply and demand, or government economic policies, and other market factors (Bittar, 2015).

5.4.2. Capital Market Risk

This type of risk can be classified according to the following:

i. Exchange rate risk: This risk arises in the money market because of currency exchange rate fluctuations in futures transactions. If goods are purchased in a foreign currency and the price of that currency decreases, this will result in losses to the extent of the decrease in the price of the foreign currency against other currencies (Abu Umar, 2019).The exchange rate risks also appear when issuing sukuk in a specific currency and investing their proceeds in other currencies, or if the issuing institution of sukuk maintains open positions towards some foreign currencies or payment obligations, especially in Murabaha and international trade operations (Barqawi, 2018).

ii. Interest rate risk: This risk arises because of changes in the level of interest rates in the market in general, and they affect all investments regardless of the nature and circumstances of the investment itself. Generally, with other factors remaining the same, whenever the levels of interest rates increase in the market, the market value of the securities decreases, and vice versa, which affects the rate of return on investment (Hindi, 2016). Even though Sukuk are not directly affected by the interest rate, in their activities and areas of investments, because they are not dealt with, they may be affected by the interest rate if they take it as a reference rate in *Murabaha* financing, such as LIBOR (Ali Arsalan, 2006).

iii. Securities risk: This risk arises because of fluctuations in securities prices in the capital markets, whether these fluctuations are due to real factors, or artificial and immoral factors such as rumors, monopoly, gambling, embarrassment, fake buying and selling, and so on, which affects the market value of Islamic *Sukuk* (Roslen & Zaghlol, 2022).

iv. Inflation risks: These systematic risks arise because of the decrease in the purchasing power of money due to rising prices, which means that the invested funds are exposed to a decrease in their real value. As *Sukuk* has a variable return and consists of money, debts, assets, and benefits, its vulnerability to inflation is directly related to the increase in its money and debt components (Ali Arsalan, 2006).

5.5 Credit risks of sukuk

This type of risk of sukuk is as follows:

i. Risk of delay in fulfillment: If investors expect that the returns on the sukuk distributed to them will be delayed several months due to the debtor's desire to delay payment, they will be disappointed, which will not only affect the prediction of the assets' ability to repay, but this will reflect negatively on confidence in the securitization deals (Barqawi, 2018).

ii. Risk of default: This risk depends on the creditworthiness of the debtor, as the debtor is unable to fulfill his contractual obligations in full and on time, and it is considered a very weak risk for *Sukuk* (Khan & Saeed, 2020).

iii. The client's failure to fulfill his contractual obligations in full on the due date: The source of these risks may be the result of the client's poor choice, whether by not fulfilling the obligations of the work assigned to him for investments in the *Musharaka Sukuk, Mudaraba, Mazara, Musaqat, Mugharasa* and *Istisna'*, or his unwillingness to receive the commodity purchased. It could also be his desire to renege on his promise to invest in the *Murabaha Sukuk*, or his unwillingness to receive the manufactured commodity in the *Istisna Sukuk* investments. Another possible cause is the customer's failure to fulfil his obligations under *Murabaha Sukuk* and *Ijarah Sukuk* investments, failure to supply goods as specified for *Salam Sukuk* investments, or the customer's incompetence, poor financial standing, or bankruptcy (Badroni, 2018).

5.6 Risk of securitization of sukuk for real assets

The risk is that investors expect that these assets will not be able to generate sufficient cash flows to distribute the expected returns to the holders of the *Sukuk* that were specified in the prospectus, which would negatively affect investors' confidence in those sukuk. This risk can be averted by conducting comprehensive studies on securitized assets, accurately estimating their cash flows, and performing a sensitivity analysis on them to discover the dangers and put in place the necessary measures to avert the risk, including insurance on those assets (Barqawi, 2018).

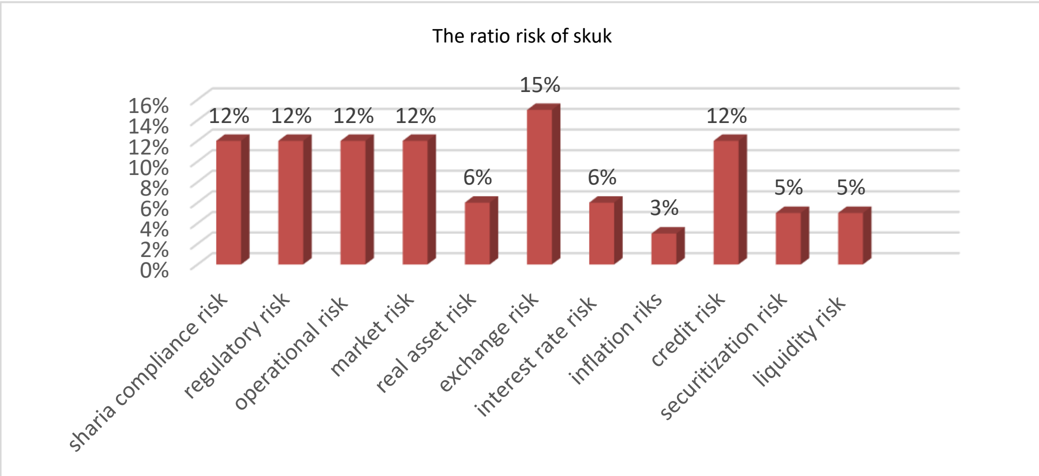
5.7 Liquidity risk

Liquidity is vital for International Financial Institutions (AFA), particularly for Sukuk as it is difficult for them to manage their liquidity, due to *Shariah* restrictions on trade of debt and other securities, and as short-term interbank lending is not available because of the existence of *riba,* With the exception of Malaysia who has developed interbank lending based on profit and loss sharing. This type of risk is related to the issuer of the *Sukuk*, and not to its counterparty, as it appears when the issuer is unable to meet its obligations for *Sukuk* payments on time in an effective manner due to insufficient liquidity - to meet normal operating requirements, or to pay periodic returns to *Sukuk* holders, or to pay the increase in the value of the *Sukuk* at maturity - as a result of the project's cash flows suddenly declining, which reduces the issuer's ability to fulfill its obligations that have come due (Bittar, 2015).

6. Conceptual Framework

Whereas the paper aims to explain the risks of sukuk and its mechanism to control them from the *Shariah* perspective, the chart below illustrates the ratio rate of the risk for the *Sukuk.*

Chart 3: The ratio rate of risk for the sukuk



Source: Roslen & Zaghlol (2022)

7. Research Methodology

This study adopts a qualitative research approach to explore and assess the *Shariah*-compliant risk management framework specific to *Sukuk*. Given the complexity and multifaceted nature of risks in Islamic financial instruments, particularly *Sukuk*, the qualitative method provides a suitable platform to capture the conceptual, regulatory, and *Shariah*-related dimensions of risk management comprehensively and contextually. The research primarily relies on secondary data sources, including peer-reviewed journal articles, regulatory standards (such as AAOIFI and IFSB guidelines), industry reports, and relevant legal and *Shariah* literature. These documents were selected based on their relevance, credibility, and contribution to understanding the theoretical and applied dimensions of *Sukuk* risks. Data triangulation was employed to ensure the validity and reliability of interpretations. To analyze the collected data, the researchers utilized a thematic content analysis, focusing on identifying, categorizing, and interpreting key types of risks (e.g., Sharia non-compliance, operational, credit, and market risks) and their mitigation mechanisms within *Shariah* parameters. The analysis also considers general and specific risk-control strategies, such as *Takaful*, diversification, feasibility studies, and legal structuring, aligning them with Islamic jurisprudential principles. The study further integrates conceptual mapping to illustrate the relationship between risk categories and the tools used to mitigate them, highlighting the distinctiveness of Islamic finance in handling financial uncertainty through shared risk and ethical constraints. Ultimately, the qualitative methodology enables a deep examination of how Islamic financial institutions manage *Sukuk*-related risks while maintaining compliance with *Shariah*, thereby enhancing investor confidence, financial integrity, and sustainability of Islamic capital markets.

7.1. Data Analysis and Content Analysis Discussion

This study employs content analysis as a systematic method to interpret and categorize textual data related to the risks and Sharia-compliant risk management frameworks associated with *Sukuk*. The primary sources analyzed include regulatory standards, AAOIFI and IFSB, academic literature, fatwas, institutional reports, and empirical studies from reputable Islamic finance bodies and scholars. Through this approach, the study identifies recurring patterns, concepts, and terminologies central to the discourse on *Sukuk* risk management. The analysis categorizes risks into thematic groups such as *Shariah* non-compliance, legal and regulatory risks, credit and market risks, asset-related risks, and operational challenges. Each category is further examined for its underlying causes, frequency of mention in the literature, and the diversity of mitigation strategies proposed.

Shariah non-compliance emerges as a dominant concern in the literature, frequently linked to weak governance structures, misapplication of contracts, or a lack of unified *Shariah* interpretations across jurisdictions. The study highlights how this risk is addressed through mechanisms such as Shariah Supervisory Boards, standardization efforts by AAOIFI, and enhanced documentation protocols. Similarly, legal and operational risks are consistently discussed in the context of jurisdictional fragmentation and insufficient legal recourse for enforcement action, particularly in cross-border *Sukuk* structures. The content analysis reveals a growing emphasis on the need for regulatory harmonization and the development of robust legal infrastructures tailored for Islamic finance.

By critically synthesizing the textual content across diverse sources, this analysis enables a comprehensive understanding of both the conceptual and practical dimensions of risk management in *Sukuk*. It also helps identify knowledge gaps and inconsistencies in practice, providing a foundation for further empirical inquiry and policy recommendations aimed at strengthening the *Sukuk* ecosystem.

7.1.1. General methods

There are some ways to treat the risks of *Sukuk* generally, including sharia, economic, and technical methods. We can categorize them into two parts: general methods, which contain all types of risks, and private methods, which contain particular risks to manage.

Feasibility study: Studying the feasibility of the projects to which the funds from the sukuk proceeds are directed is of great importance to reduce and even avoid risks as much as possible, as evaluating the feasibility of the project from an Islamic perspective is governed by what can be called (Islamic profitability) by directing funding towards projects committed to Islamic legitimacy in terms of halal activity (Bourahli, 2019). As well as economic efficiency, to achieve optimal allocation of resources through saving and developing money. Observing the Islamic priorities in investment according to necessities, needs, and beautifications, and always following up with clients (Iyad 2020). All of these would contribute to reducing the risks of sukuk in general.

7.1.2. Efficiency of management and monitoring

The efficiency of *Sukuk* management is considered the essence of their profitability and growth, and the more efficient the management is, the more these *Sukuk* combine the dilemmas of profitability, liquidity, and security, in addition to considering ethical considerations and social responsibilities. Islam urges the manager to combine ethical and technical aspects. It also urges the proper selection of partners, *Mudarib*, and workers who are competent and known for their good morals. One of the factors for reducing risks is giving the *Sukuk* holders the right to monitor the management through a general assembly that represents them, taking into account that in the *Mudaraba Sukuk*, the sukuk holders are not permitted to interfere in the management except in some conditions, although they have the right to follow the actions of the *Mudarib* to ensure his compliance with the conditions of the *Mudaraba* (Badroni, 2018).

7.1.3. Establishing an Accounting and Auditing System (AAS) for issuing and trading Sukuk

The AAS has a significant impact on managing the risks from all dimensions, it must be an independent, strong, and efficient system, and robust investment appraisal as well (Iyad, 2020). Measuring and determining the degree of risk: The entity that manages the risks must be aware of the nature of the risks to which the sukuk are exposed, by measuring the risks to determine whether their degree is high or low to prepare to bear them because the concept of risk has no value from a scientific standpoint if it is not capable of measuring and classifying risks in a way that enables one to identify their degree (Dwabah, 2016).

7.1.4. Establishing and developing secondary markets

Having developed appropriate secondary market is very crucial to decrease the risk of liquidity because high demand of *Sukuk* require enough supply, in this case the government should be active to issue variety of maturity of risk bearing sukuk like short term maturity sukuk and provide suitable regulatory standards for transparent and sound in secondary market (Hasangholipoure, 2021).

7.1.5. Appointment of the (SSB) Sharia Supervisory Board

This is to ensure compliance with the provisions of Sharia, which is through the formulation of *Shariah* contracts on which the Sukuk is based upon issuance, and work procedures to ensure their compliance with *Shariah* regulations. *Shari'a* Supervisory Boards (SSBs) certify *Sukuk* instruments with a *fatwa* and play a vital role in managing such risk. To avoid the risk of violating the provisions of *Shariah*, Islamic financial institutions must appoint a Sharia Supervisory Board to supervise all necessary steps for dealing with *Sukuk* (Al-Amari, 2017).

7.1.6. Guarantees

There are many types of guarantees in Islamic economic thought through which the risks of *Sukuk* can be dealt with, including the guarantee (*kafalah*), which is through the commitment of one party to bear the burden of another party as a donation. The guarantee of the wealthy person is an effective means of reducing the risks of investing the proceeds of the *Sukuk*, especially the credit and legal risks and the risks of assets and their returns. A mortgage is also a protection mechanism against risks, especially credit risks. As for the guarantee, whether it is a *kafalah* or a mortgage, it cannot be retracted in trust contracts, such as in *wakalah* investments, *Mudarabah*, or *Musharakah Sukuk*, unless the conditions are transgression, negligent, or violated the condition by the agent, the *Mudarib*, or the participant, as stated in the decision of the International Islamic Fiqh Academic. It is not permissible for the entity to issue the *Mudaraba*, *Musharaka*, or *wakalah Sukuk* to guarantee the nominal value to the sukuk holders, because it is a guarantee of capital, and this is not permissible in trust contracts (Zakariyah & Syllah, 2020).

7.1.7. The state contributing to guarantee capital or profit

The state can announce its commitment to guarantee the capital or a percentage of the profit to the sukuk holders. The state usually contributes to the sukuk holders in a specific project that is in line with its economic plans, so the state should allocate a special budget for this purpose, because it establishes a balance between the various activities.

7.1.8. A third party contributes to guarantee capital or profit

This process is done through the prospectus, stipulating the approval of a third party outside the contract parties to guarantee capital or a certain percentage of profits. It may be an individual or a company with an interest in encouraging a certain type of activity, and there is no sharia obstacle or objection to that, even if it was a contribution contingent/ pending on the condition that all or part of the capital is destroyed or that the profit decreases below a certain limit. The *Shariah* basis for this permissibility is the maxim of obligation of donations (Aznan, 2011).

7.1.9. Mudarib guarantees the capital for the owner voluntarily

If the *Mudarib* volunteers guarantee the capital in the *Mudarabah*, it is permissible under two basic conditions: It is not permissible to mention voluntary work in a *Mudaraba* contract, either explicitly or implicitly, and volunteering takes place after concluding the *Mudaraba* contract, not before (Aznan, 2011).

7.1.10. Cooperative insurance/Takaful

The risks of investing in sukuk can be insured with Islamic cooperative insurance companies/institutions, as a result of the *takaful* and solidarity of others in bearing the risks, this insurance is considered an Islamic mechanism to protect against sukuk risks, even though sometimes the domestic insurance capacity does not cover this volume of risk and the need for external ways to manage the risk (Hasangholipoure, 2021).

7.1.11. Diversification of investments

There are default and return risks for *Sukuk*, but the default risks can be reduced and managed through diversification of portfolios. It means the diversification of *Sukuk* investments is necessary to invest in more than one project to reduce the degree of risk to which the return of the *Sukuk* is exposed (Abu Umar, 2019). The purpose of diversification is to reduce the standard deviation of the total portfolio by increasing the number of securities included in the portfolio. There are different foundations for diversification, the most important of which are issuer diversification, maturity date diversification, sectoral diversification, and international diversification (Nurfaiza, 2023).

The diversity of Islamic *Sukuk* makes them suitable for many different economic sectors and helps reduce risks. For example, Murabaha *Sukuk* is commercial business *Sukuk*, and *Salam Sukuk* is most suitable for financing agricultural projects, extractive industries, and craftsmen, and *Istisna sukuk* is used to finance the construction and infrastructure sector, and *Musharakah Sukuk* is the most suitable for financing all types of long, medium and short-term investments, whether commercial, agricultural or industrial businesses, as well as *Mudaraba Sukuk*, but it is distinguished from *Musharakah Sukuk* in that its separate project management from its ownership (Badroni, 2018).

7.1.12. Treating the risks of Islamic financing instruments

To mitigate these risks, *Sukuk* holders may impose restrictions in the prospectus, such as limiting specific types of trade, a practice allowed under *Mudarabah* contract. They may also require that if the client delays payment, all remaining installments become due, or impose a fine for the delay, provided the fine is directed to a charitable fund and used accordingly and is acceptable under the *Murabahah* contract (Iyad, 2020).

7.1.13. Treating the risks of investment projects

To effectively mitigate the risks associated with *Sukuk* issuance and investment, it is essential to establish robust project standards that collectively guarantee the success and sustainability of the underlying ventures. Central to this process is the notion of *Shariah* soundness, which serves as the foundation for legitimacy in Islamic finance. A project must not only avoid prohibited elements such as riba, *gharar* (excessive uncertainty), and haram activities, but also ensure that its structure and operations uphold the ethical and legal principles of Islamic jurisprudence (Al-Amari, 2017). Without adherence to these fundamentals, the project risks invalidation from a *Shariah* perspective, compromising investor trust and institutional reputation.

Equally critical is the legal soundness of the project, particularly in jurisdictions where the alignment between civil law and Islamic financial contracts remains inconsistent. Legal clarity and the presence of enforceable investment protections are indispensable to ensure that contractual obligations can be upheld under both *Shariah* and national law frameworks.

Furthermore, organizational and administrative efficiency play a pivotal role in risk reduction. Projects lacking competent leadership, clear financial planning, and adequate governance mechanisms are more vulnerable to operational disruptions and managerial failures (Abu Umar, 2019). In parallel, technical soundness, including access to skilled human resources, raw materials, and infrastructure determines the project's capacity to function effectively in its intended environment.

From a financial standpoint, the economic viability of a project must be rigorously evaluated. This entails ensuring a reasonable return on investment that aligns with industry benchmarks, a capital structure that balances risk and reward, and overall financial resilience. Finally, broader economic and social considerations such as employment generation, equitable income distribution, and environmental impact are essential for aligning project goals with the *Maqasid al-Shariah*, reinforcing the ethical mission of Islamic finance (Abu Umar, 2019).

7.1.14. Establishing a reserve fund to confront investment risks

It is possible to establish a reserve fund to confront investment risks with no objections from Shariah to be stipulated in the prospectus, provided that the *Sukuk* holders agree to deduct a portion of their profits each year. This amount is allocated to pay off any shortfall or profit that falls below a predetermined during a particular year (Dwabah, 2016). When viewed as a donation from the capital owner, any surplus beyond the compensation for loss or reduced profit is allocated to a charitable purpose at the end of the project, and the new *Sukuk* owner's consent may be sought for the donation at the time of purchase. The formation of reserves is one of the guarantees that are suitable for dealing with all *Sukuk* risks. For example, a profit rate reserve can be formed from the income of *Mudarabah* funds before deducting the *Mudarib's* share to maintain a certain level of sukuk returns. It is also possible to create an investment risk reserve by deducting a portion of the profits of the sukuk holders after deducting the *Mudarib's* share to protect against future losses that the sukuk may be exposed to (Dwabah, 2016).

7.2. Establishing legal frameworks

Addressing the unique risks inherent in *Sukuk* requires a multifaceted and context-sensitive approach, particularly when dealing with regulatory, operational, and structural vulnerabilities. A critical challenge remains the lack of harmonized regulatory frameworks governing *Sukuk* issuance across jurisdictions. Without a standardized legal infrastructure, inconsistencies in *Shariah* interpretations and contractual enforcement pose significant risks to investor confidence and cross-border *Sukuk* transactions. Although global institutions such as AAOIFI and IFSB have made strides in issuing guiding standards, their adoption remains uneven, with countries like Malaysia, Saudi Arabia, and Turkey developing localized frameworks that may not always align. Therefore, establishing unified legal and regulatory norms is not just advisable, it is imperative for long-term market stability and scalability (Abu Umar, 2019).

In addition to legal risks, foreign exchange volatility introduces another dimension of uncertainty, particularly for cross-border investors. Issuing *Sukuk* in multiple currencies and maintaining diversified investment portfolios serves as a practical strategy to hedge against exchange rate fluctuations and promote greater international participation in *Sukuk* markets. Furthermore, asset-related risks, especially in structures like *Ijarah Sukuk*, demand innovative mechanisms. For instance, allowing the originator or lessee to substitute assets of equivalent value during the *Sukuk's* tenure offers both flexibility and continuity in cash flow generation, thereby reducing exposure to asset depreciation or obsolescence (ISRA, 2017).

Equally significant is the risk governance of the Islamic financing instruments themselves. Be it *Mudarabah, Musharakah, Istisna'*, or *Ijarah* contracts, effective risk mitigation relies on the choice of partners, precise contractual terms, and the suitability of the environment. Operational diligence, such as choosing competent *Mudaribs,* ensuring enforceable lease terms, and carefully vetting manufacturers, can significantly reduce default risk (Hassan, 2020). Moreover, the practice of binding promises to repurchase assets by *Sukuk* managers, under specific conditions and without violating *Shariah* principles, introduces a layer of contingent protection. While not equivalent to capital guarantees, these mechanisms offer practical reassurance to investors, provided they are exercised within the boundaries of non-committal trust-based contracts and only triggered under permissible scenarios.

8. Conclusion

Sukuk has emerged as a pivotal and dynamic Islamic financial instrument, offering a *Shariah*-compliant alternative to conventional bonds and playing a transformative role in financing real economic activities. Its versatility, structural diversity, and alignment with asset-backed financing principles have positioned it as a preferred tool for both deficit units seeking capital and surplus units pursuing ethical investment opportunities. As such, *Sukuk* contributes significantly to financial deepening, infrastructure development, and the broader objectives of Islamic economic justice. However, the rapid growth and increasing complexity of *Sukuk* structures also expose the instrument to a range of risks, both conventional and *Shariah*-specific. Market volatility, operational inefficiencies, credit exposures, and legal and regulatory ambiguities can undermine the integrity and performance of *Sukuk* instruments. More critically, *Shariah* non-compliance risks stemming from improper structuring, weak governance, or misapplication of Islamic contracts pose existential threats to their legitimacy and investor confidence. While empirical evidence suggests that *Sukuk* may be less risky than conventional securities due to their asset-backed and profit-loss sharing nature, risk is inherent and must be systematically addressed.

To ensure the long-term sustainability and resilience of the *Sukuk* market, a proactive and integrated risk management framework is essential. This should include rigorous feasibility studies before issuance, enhanced *Shariah* governance through independent supervisory boards, the use of *Takaful*, deployment of credible guarantees, diversification of *Sukuk* structures and portfolios, and the development of active secondary markets to address liquidity constraints. Furthermore, harmonization of legal and regulatory standards across jurisdictions will be vital in minimizing legal uncertainties and enhancing cross-border investor participation. Ultimately, the effective mitigation of these risks not only safeguards stakeholder interests but also strengthens the role of *Sukuk* as a cornerstone of ethical and inclusive Islamic finance.

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The Potential for Micro-Takaful in Sudan: Understanding Public Perception and Adoption Challenges

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Abstract

This study explores the perceptions and barriers to Micro-*Takaful* adoption among Sudanese citizens, based on a quantitative survey of 428 respondents. Understanding public perceptions is essential for promoting health Micro-*Takaful* as a practical alternative for financial protection among low-income individuals in Sudan. Despite health Micro-*Takaful's* potential to provide financial protection to low-income populations, its adoption in Sudan remains limited. Data was collected through an online questionnaire targeting Sudanese adults aged 18 and above and then the analysis was conducted using SPSS version25. The survey findings highlight that health *Takaful* coverage increases with age, likely due to greater health awareness or employment benefits, but significant gaps remain, especially among younger and middle-aged adults. This highlights the need for targeted strategies to improve *Takaful* uptake across all age groups, and targeted interventions to increase health *Takaful* access in less covered areas, which affect the acceptance of Micro-*Takaful* products. This paper presents a detailed analysis of Sudanese perception towards *Takaful* and Micro-*Takaful* adoption in Sudan.

Keywords: *Awareness, perception, takaful, micro-takaful, adoption, Sudan*

1. Introduction

Takaful (Islamic insurance) is defined as a contractual arrangement among a collective of individuals to jointly manage the financial consequences of specific risks that may affect all of them. Once initiated, the process involves making donations, which subsequently leads to establishing a fund that is legally distinct and has its financial obligations. These funds are utilized to compensate any participant who experiences harm, contingent upon a specific set of regulations and a prescribed documentation procedure. The fund is overseen by either a designated group of policyholders or a corporate entity that oversees the activities and strategically allocates the fund's assets in exchange for a specified fee. *Takaful* was also defined by scholars (Salman et al.,2015) as a program, a plan, or an arrangement grounded on brotherhood, harmony, and mutual assistance that provides financial support and service to the participants in case of need, and it is meant for all no matter what the religion is. Salman et al. (2019) defined *Takaful* as the ethical and *Shariah* form of insurance.

Islamic insurance sector in Sudan faces challenges, particularly in the scope of health *Takaful*. Despite the existence of both social and private health *Takaful* schemes, the country struggles to achieve universal coverage (Haroun & Yusoff, 2024), this is due to many obstacles include the high cost of healthcare, economic inflation, and the low affordability of premiums for many individuals, particularly those in the informal sector and among low-income populations (Salim & Hamed, 2018; Yesuf, 2017). The National Health Insurance Fund (NHIF) aims to provide health *Takaful* coverage but currently reaches only a smaller portion of the population, with out-of-pocket payments over 70% of health expenditures (Bashir & Allen, 2023). Furthermore, the availability of essential healthcare services is low, a recent study showed that only 36.8% of primary healthcare facilities in Khartoum meet the World Health Organization's standards for drug availability (Hemmeda et al., 2023). This lack of access to both *Takaful* and healthcare services creates a barrier for low-income individuals, who

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are often unable to afford the premiums associated with *Takaful* products (Haroun & Yusoff, 2024; Salim & Hamed, 2018; Yesuf, 2017). This situation is worsened by the ongoing conflict, which has further weakened the already fragile healthcare infrastructure and limited the government's ability to mobilize necessary financial resources (Bashir & Allen, 2023). Moreover, the implementation of health policies has been inconsistent, with gaps in service delivery and access to essential healthcare services. The lack of clarity regarding the responsibilities of various stakeholders within the health system has also contributed to inefficiencies and inequities in healthcare access (Bashir & Allen, 2023). As a result, many individuals, particularly those from low-income communities, remain vulnerable to terrible health expenditures, which can lead to financial concern and reduced access to necessary medical care (Masereka et al., 2024).

In this context, Micro-*Takaful* has emerged as a potential solution for providing financial protection to low-income individuals in Sudan (Haroun & Yusoff, 2024). Micro-*Takaful*, a type of Islamic insurance, provides cost-effective coverage specifically designed for low-income groups. It is based on the principles of mutual cooperation and shared risk, presenting a culturally suitable substitute for conventional insurance (Abdullah et al., 2021; Habbani et al., 2021). By providing low-cost coverage for health-related expenses, Micro-*Takaful* can help mitigate the financial risks associated with healthcare, thereby improving access to necessary services for vulnerable groups (Habbani et al., 2021). This approach not only helps overcome financial obstacles to healthcare but also fosters a sense of unity and mutual support among members. This is particularly important in settings where access to formal *Takaful* coverage remains limited (Habbani et al., 2021). Furthermore, the integration of Micro-*Takaful* into existing health systems could enhance overall health *Takaful* acceptance by providing a more accessible and affordable option for low-income individuals who may otherwise be excluded from *Takaful* schemes (Habbani et al., 2021). This approach aligns with broader efforts to achieve universal health coverage and improve health outcomes in Sudan, particularly for marginalized populations (Habbani et al., 2021).

Gaining insight into public perceptions is crucial for positioning Micro-*Takaful* as a viable financial protection option for low-income individuals in Sudan. However, the effectiveness of these initiatives relies heavily on public awareness and comprehension of *Takaful* products. Studies suggest that limited knowledge about *Takaful* and its advantages is a major barrier to its adoption in various markets, including Sudan (Ahmad & Mahadi, 2023). Therefore, enhancing public awareness through targeted education and outreach campaigns is essential to promote trust and encourage participation in Micro-*Takaful* schemes (Haroun & Yusoff, 2024).

Moreover, public perceptions of *Takaful* sector, influenced by past experiences and existing knowledge, can significantly impact on the willingness of individuals to engage with Micro-*Takaful* products while negative perceptions regarding the reliability and effectiveness of *Takaful* services can discourage them, in that way limiting the growth of Micro-*Takaful* (Zhang et al., 2022). Thus, fostering trust in Micro-*Takaful* as a reliable financial protection solution requires clear communication and active community involvement.

This study provides a detailed exploration of how individuals in Sudan perceive and engage with health Micro-*Takaful*, employing the Theory of Planned Behaviour (TPB) as a guiding framework. While existing research has primarily concentrated on the theoretical and structural aspects of Micro-*Takaful* and *Takaful*, there is a limited understanding of the behavioural factors that influence their adoption, particularly within low-income populations. By examining key elements of the TPB—attitude, subjective norms, and perceived behavioural control— and extended variables: awareness, affordability and behavioural intention, this research offers new insights into the psychological and social drivers behind the adoption of these services in Sudan. The study is based on original survey data collected from Sudanese adults, offering a grounded and context-specific perspective. As a result, it contributes not only to academic discussions but also provides practical guidance for policymakers and stakeholders aiming to improve access to inclusive financial protection for Sudanese low-income groups.

2. Research Objectives

To examine the views and possible challenges affecting the adoption of health Micro-Takaful products in Sudan.

3. Literature Review

3.1. Global Perspective on Micro-Takaful

The global view of Micro-*Takaful* emphasizes its role as a powerful financial solution for low-income groups, especially in areas where conventional *Takaful* frameworks are insufficient. Micro-*Takaful*, an extension of the

Takaful system, is designed to provide affordable *Takaful* products that align with Islamic principles, making it a culturally acceptable option for many Muslims. This modern approach not only meets the financial protection needs of low-income families but also fosters social unity and communal support, aligning with the fundamental principles of Islamic finance (Abdullah et al., 2021; Rehman et al., 2019).

One of the primary challenges facing Micro-*Takaful* globally is the lack of awareness and understanding among potential beneficiaries (Haroun & Yusoff, 2024). Research indicates that low-income individuals often have limited knowledge about *Takaful* products, which hinders their participation in Micro-*Takaful* schemes (Jahya et al., 2023). For instance, in Malaysia, despite the growth of the *Takaful* sector, only 25% of adult employees in the low-income group have some form of life *Takaful* or family *Takaful* cover, highlighting a significant gap in awareness and accessibility (Jahya et al., 2023). This gap is not only in Malaysia; However, similar patterns are evident in other nations where Micro-*Takaful* is being implemented, highlighting the necessity for focused educational efforts to improve awareness and acceptance of these products (Fauzi & Laldin, 2022). Understanding public perceptions is critical for promoting Micro-Takaful as it directly influences the willingness of individuals to participate in these financial products. Factors such as trust, perceived value, and cultural alignment play significant roles in shaping consumer behaviour towards *Takaful* (Bhatti & Husin, 2019; Raza et al., 2019). For example, studies have shown that positive beliefs about *Takaful* can significantly increase the intention to participate in such schemes (Aziz et al., 2019; Bhatti & Husin, 2019; Raza et al., 2019). Conversely, misconceptions or negative views about *Takaful* may discourage potential participants, reducing the impact of Micro-*Takaful* initiatives (Yeo et al., 2023; Schmidt, 2019). Thus, promoting awareness and engaging communities is crucial to creating a supportive environment for Micro-*Takaful* (Alias et al., 2023). Moreover, the financial performance of *Takaful* companies, including Micro-*Takaful* providers, is influenced by their ability to effectively explain the benefits and principles of their products to potential clients (Kantakji et al., 2020). Companies that successfully reflect the mutual assistance and risk-sharing aspects of Micro-*Takaful* can enhance consumer trust and encourage broader participation (Kantakji et al., 2020). Moreover, collaborating with local organizations and community leaders can enhance outreach efforts, helping ensure that information about Micro-*Takaful* reaches the individuals who would benefit the most (Gosemi & Meka, 2021; Ghani et al., 2021).

3.2. Key themes in global Micro-Takaful adoption

The adoption of Micro-*Takaful* globally is described by several key benefits that reflect its potential to provide financial protection for low-income individuals while addressing the unique challenges faced by this group. These topics encompass the significance of education and awareness, the incorporation of Micro-*Takaful* into larger financial systems, the influence of regulatory frameworks, and the effect of socio-economic factors.

i. Education and Awareness
   Education is crucial in improving public understanding of *Takaful* principles and offerings. Studies show that insufficient knowledge about *Takaful* considerably hampers its adoption, especially among low-income groups (Hidayat, 2015). Educational programs designed to boost awareness can enable individuals to make better-informed choices about their financial protection options. For instance, studies have shown that targeted educational programs can effectively raise awareness about the benefits and workings of Micro-*Takaful*, thereby increasing participation rates (Hidayat, 2015; Abdullah et al., 2021).

ii. Integration into Financial Systems
   Micro-*Takaful* is increasingly being recognized as a complementary product to microinsurance, particularly in regions where *Takaful* models are not accessible to low-income individuals (Qadri et al., 2022; Bhatti & Husin, 2019). Incorporating Micro-*Takaful* into financial systems can improve the overall financial inclusion environment by offering a *Shariah*-compliant alternative that resonates with the values of Muslim communities. For instance, the growth of the Micro-*Takaful* sector in Malaysia demonstrates an increasing acceptance of *Takaful* products among the Malaysian population (Khairi et al., 2020; Eldaia et al., 2021).

iii. Regulatory Frameworks
   The creation of robust regulatory frameworks is crucial for the successful implementation of Micro-

Takaful (Fikri et al., 2021). Well-designed regulations can ensure that Micro-*Takaful* products are tailored to the needs of low-income populations while adhering to Islamic principles (Lee et al., 2019; Kamarudin et al., 2023). Countries like Malaysia and those in the Gulf Cooperation Council (GCC) have developed regulatory environments that facilitate the growth of *Takaful*, thereby serving as models for other regions (Nazri et al., 2020; Eldaia et al., 2021; Kamarudin et al., 2023).

iv. Socio-Economic Factors

Socio-economic factors are also crucial in determining the adoption of Micro-*Takaful* (Nordin et al., 2024). Research has shown that income levels, financial literacy, and cultural attitudes towards *Takaful* can influence the demand for Micro-*Takaful* products (Razak et al., 2021; Akhter & Khan, 2017). For instance, low-income individuals may be more persuaded to participate in Micro-*Takaful* if they perceive it as a viable means of financial protection against unforeseen events (Ghani et al., 2021). Additionally, the role of community and social networks can enhance the uptake of Micro-*Takaful*, as individuals often rely on recommendations from trusted sources within their communities (Rifas et al., 2023; Fauzi & Laldin, 2022). Micro-*Takaful* is seen as an important instrument for strengthening social security among low-income families, playing a role in poverty reduction and economic growth (Ghani et al., 2021). For example, in Malaysia, the Micro-*Takaful* program has been crucial in offering coverage to farmers and low-income individuals, thus promoting agricultural development and improving livelihoods (Ghani et al., 2021).

3.3. Cultural Perceptions and Awareness

Cultural views play a significant role in the adoption of Micro-*Takaful*. In numerous Muslim-majority nations, the acceptance of *Takaful* is closely linked to its consistency with Islamic values, which highlight the importance of mutual help and community support (Akhter & Khan, 2017; Aziz et al., 2019). However, awareness of Micro-*Takaful* products remains low among potential beneficiaries, which can hinder their uptake (Abdullah et al., 2021; Ghani et al., 2021). Educational efforts designed to boost awareness and understanding of Micro-*Takaful* are crucial for building trust and driving participation. Studies show that increasing knowledge about *Takaful* can significantly influence individuals' willingness to adopt these products (Aziz et al., 2019; Zawawi et al., 2021). As a result, community involvement and focused outreach initiatives are vital for advancing Micro-*Takaful* in developing economies.

3.4. Current State of Financial Inclusion and Takaful in Sudan

In Sudan, financial inclusion is limited, with a large segment of the population unable to access formal financial services. The Financial Inclusion Index for Sudan is notably low. This exclusion is further exacerbated by factors like low financial literacy, insufficient infrastructure, and the absence of financial products specifically designed to meet the needs of low-income individuals and small businesses (Suseno & Fitriyani, 2018). Furthermore, the economic instability and high inflation rates in Sudan have made it challenging for financial institutions to offer affordable Takaful products, including Micro-Takaful (Idris et al., 2021). *Takaful* sector in Sudan, including Micro-Takaful, faces significant barriers to accessibility for low-income populations (Haroun & Yusoff, 2024). Recognizing these obstacles and the importance of financial inclusion is crucial for advancing effective *Takaful* solutions (Alhammadi, 2023).

3.5. Role of Micro-Takaful in Enhancing Financial Inclusion

Micro-*Takaful* has the potential to improve financial inclusion by offering affordable *Takaful* products that align with Islamic principles. This approach is particularly relevant in Sudan, where a large portion of the population follows Islamic finance guidelines. Micro-*Takaful* can provide financial protection against risks such as health crises and natural disasters, which are common in the region (Farhat et al., 2019). By focusing on low-income households and small businesses, Micro-*Takaful* can help reduce the financial risks associated with these challenges, promoting economic stability and resilience (Akhter & Khan, 2017).

3.6. Importance of Financial Literacy

Financial literacy plays a crucial role in influencing financial inclusion and the adoption of Micro-*Takaful* products. Studies show that individuals with greater financial literacy are more inclined to use financial services, including *Takaful* (Bongomin et al., 2017; Bongomin et al., 2020). In Sudan, improving financial literacy among low-income groups can help individuals make well-informed choices about their financial protection options. Educational programs designed to raise awareness of Micro-*Takaful*, and its advantages can influence participation levels (Habriyanto et al., 2022).

3.7. Regulatory Frameworks and Support

Creating supportive regulatory frameworks is crucial for advancing financial inclusion and fostering the growth of Micro-*Takaful* in Sudan (Haroun & Yusoff, 2024). Well-crafted regulations can help develop products that meet the needs of low-income individuals while ensuring adherence to Islamic finance principles (Kamarudin et al., 2023).

3.8. Challenges and Opportunities

Despite the potential benefits of Micro-*Takaful*, several challenges remain. These include the need for greater awareness and understanding of *Takaful* products among the population, as well as the necessity for financial institutions to develop products that are affordable and accessible (Idris et al., 2021). However, there are also growth opportunities, particularly through partnerships with community organizations and the use of technology to reach underserved populations (Suseno & Fitriyani, 2018; Lahoucine, 2023).

3.9. Integration with Islamic Social Finance

Integrating *Takaful* with other Islamic social finance instruments, such as *zakat* and *waqf*, can enhance its ability to promote financial inclusion. These tools can provide additional funding for *Takaful* schemes, making them more accessible to low-income communities (Ezzahid & Elouaourti, 2021). For example, *zakat* funds can be used to subsidize *Takaful* premiums for those in need, thereby increasing participation and ensuring that vulnerable groups have access to financial protection. This approach aligns with the principles of Islamic finance, which prioritize social welfare and community support.

4. Research Methodology

This study investigates the perceptions of Sudanese adults aged 18 and above regarding *Takaful* and Micro-*Takaful*, with a particular focus on how demographic factors shape their views. Demographic characteristics such as age, gender, education level, and income are often pivotal in understanding public perceptions and adoption behaviours (Christia & Ard, 2016). To explore these relationships, the study employed a combination of descriptive and inferential statistical methods. Crosstabulation analysis was first used to provide an initial picture of how variables such as gender, age, educational level, marital status, income, and employment status relate to the availability and uptake of health *Takaful*. To dig deeper into the factors influencing people's willingness to adopt health Micro-*Takaful*, a logistic regression analysis was also conducted. This allowed the study to simultaneously assess the predictive power of several variables, including core components of TPB—namely, attitude, subjective norms, and perceived behavioural control and extended variables, awareness, affordability and behavioural intention (Al-Shaghdari & Adeyemi, 2020; Megat et al., 2024). These analyses enabled a more comprehensive understanding of the psychological and demographic drivers of adoption (Muhammad & Al-Shaghdari, 2024). Islamic social finance system: an alternative tool for tackling educational setbacks in Northern Nigeria. Journal of Islamic Marketing, 15(11), 3115-3136. Data was collected through an online questionnaire, yielding a total of 428 responses, which provided a diverse and representative sample. The respondents' demographic profiles were described across nine categories: gender, age, education, marital status, income per month, labour or business sector, state or region, health Takaful status, and working status. Of the total sample, 185 respondents (43.2%) were males, while 243 (56.8%) were females. All data analyses were performed using SPSS (Version 25), which supported both basic data exploration and regression modelling.

5. Discussion and Findings

5.1. Descriptive Statistics – Crosstabulation Results

i. Age and Health *Takaful* status

   Age is one of the demographic factors that influence product adoption. Studies have shown that younger consumers are generally more open to adopting new technologies and products compared to older consumers, who may exhibit more caution and resistance to change (Bhardwaj et al., 2023). The crosstabulation of age and health *Takaful* status in this study, as shown in Table 1 below, reveals that health *Takaful* coverage is generally low across all age groups, with 145 respondents insured and 283 not insured out of a total of 428 respondents**.** Among younger adults aged 18–25, only 10 are insured compared to 16 who are not, indicating minimal coverage in this group. Coverage improves slightly among those aged 26–35**,** with 39 insured and 59 not insured**,** while the 36–45 age group has 38 insured and 79 not insured, highlighting a persistent gap. The 46 and above group has the highest number of insured individuals (58), yet the uninsured remain the majority at 129**.** These findings suggest that health *Takaful* coverage increases with age, likely due to greater health awareness or employment benefits, but significant gaps remain, especially among younger and middle-aged adults. This highlights the need for targeted strategies to improve *Takaful* uptake across all age groups.

Table 1: Age and Health *Takaful* status Crosstabulation

Age * Health *Takaful* status Crosstabulation				
		Count		
		Health Takaful status		
		Insured	Not Insured	Total
Age	18 -25	10	16	26
	26 -35	39	59	98
	36 – 45	38	79	117
	46 and above	58	129	187
Total		145	283	428

ii. Gender and Health Takaful status

Research indicates that men and women often have different preferences and attitudes towards products, which can influence their likelihood of adoption (Zhang & Gong, 2022). The crosstabulation of gender and health *Takaful* status in this study, as shown in Table 2, indicates a gap in health Takaful coverage between male and female respondents. Out of the total 428 respondents**,** 145 are insured, while 283 are not insured. Among males, 68 out of 185 (36.8%) have health *Takaful*, whereas the majority (117, 63.2%) do not. Similarly, among females, 77 out of 243 (31.7%) are insured, while the majority (166, 68.3%) remain uninsured. While the number of insured males and females is relatively close (68 vs. 77), the higher number of female respondents results in a slightly larger proportion of uninsured females compared to males. These findings suggest that health Takaful coverage is generally low across both genders, with females exhibiting a slightly higher rate of being uninsured. This highlights the need for gender-inclusive policies and interventions to increase health *Takaful* coverage for both male and female populations.

Table 2: Gender and Health *Takaful* status Crosstabulation

Gender * Health *Takaful* status Crosstabulation				
		Count		
		Health Takaful status		
		Insured	Not Insured	Total
Gender	Male	68	117	185
	Female	77	166	243
Total		145	283	428

iii. Education and Health Takaful status

Education level influences consumer perceptions and adoption behaviors as well. Educated consumers tend to be more informed about product features and benefits, which can lead to a greater willingness to adopt innovative solutions (Kumar, 2023). The crosstabulation of education level and health *Takaful* status in this study, as shown in Table (3), highlights variations in health *Takaful* coverage across different educational groups. Out of the total 428 respondents**,** 145 are insured while 283 are not insured. Respondents with a PhD exhibit 29 insured and 67 not insured, indicating a low proportion of coverage despite their higher educational attainment. Similarly, among those with a master's degree**,** 34 are insured and 73 are not insured, and among bachelor's degree holders**,** 66 are insured compared to 115 uninsured. For respondents with a Diploma, 11 are insured while 26 are not insured, reflecting a similarly low coverage rate. Interestingly, among those with Secondary school education**,** 5 are insured, and only 2 are not insured, likely due to their small sample size (7 respondents in total). These findings reveal that higher educational qualifications do not necessarily correlate with better health *Takaful* coverage, highlighting the need for broader access to and promotion of health *Takaful* irrespective of educational attainment.

Table3: Education and Health *Takaful* status Crosstabulation

Education * Health *Takaful* status Crosstabulation				
		Count		
		Health Takaful status		
		Insured	Not Insured	Total
Education	PhD	29	67	96
	Masters	34	73	107
	Bachelor's	66	115	181
	Diploma	11	26	37
	Secondary school	5	2	7
Total		145	283	428

iv. Marital Status and Health *Takaful* status

Research suggests that unmarried individuals may exhibit a greater tendency for adopting new products compared to their married counterparts, who may be more risk-averse and focused on family-oriented products (Triwijayati et al., 2020). The crosstabulation of marital status and health *Takaful* status, as shown in Table 4, reveals significant differences in health *Takaful* coverage based on respondents' marital status. Out of the total 428 respondents, 145 are insured, and 283 are not insured. Among the single respondents, 35 are insured, and 48 are not insured, making up a small proportion of insured individuals. The married respondents exhibit the highest coverage, with 104 insured and 222 not insured, although a large majority of married individuals remain uninsured. Among divorced respondents, only 1 is insured, and 8 are not insured, while the widow category shows 5 insured and 5 not insured, indicating a relatively equal split in this small group. These findings suggest that while marital status does influence health *Takaful* uptake, most respondents, regardless of marital status, are uninsured. Notably, married individuals, despite having the highest number of insured respondents, still show a significant gap in health *Takaful* coverage, highlighting the need for policies targeting health *Takaful* accessibility for all marital statuses.

Table 4: Marital status and Health *Takaful* status Crosstabulation

Status * Health *Takaful* status Crosstabulation				
		Count		
		Health Takaful status		
		Insured	Not Insured	Total
Status	Single	35	48	83
	Married	104	222	326
	Divorced	1	8	9
	Widow	5	5	10
Total		145	283	428

v. Income per-month and Health *Takaful* status

Income level is another important factor also affecting product adoption (Triwijayati et al., 2020). Higher-income individuals are often more willing to invest in new technologies, perceiving them as valuable enhancements to their lifestyle (Bhardwaj et al., 2023). While, lower-income consumers may prioritize affordability and practicality, leading to a more cautious approach to adopting new products (Bhardwaj et al., 2023). The crosstabulation of income per month and health *Takaful* status in this study, as presented in Table (5), highlights a clear relationship between income levels and health Takaful coverage. Out of the total 428 respondents, 145 are insured, while 283 are not insured. Among respondents earning between 3,000 – 100,000 Sudanese pounds, 27 are insured and 61 are not insured, suggesting a relatively low uptake of health *Takaful* in this income bracket. For those earning between 100,001 – 200,000, only 12 are insured and 22 are not insured, further indicating limited *Takaful* coverage in the lower income ranges. The 200,001 – 300,000 group shows 21 insured and 28 not insured, while the 300,001 – 400,000 group has 23 insured and 57 not insured, reflecting a similar trend of lower *Takaful* coverage at mid-income levels. However, the 400,001 – 500,000 group exhibits the highest number of insured respondents, with 62 insured and 115 not insured, although the majority are still uninsured. These findings suggest that while higher income correlates with higher health *Takaful* coverage, a significant proportion of individuals across all income brackets remain uninsured, highlighting a need for policies that can make health *Takaful* more accessible to lower and middle-income groups.

Table 5: Income per-month and Health *Takaful* status Crosstabulation

Income per-month * Health *Takaful* status Crosstabulation				
		Count		
		Health Takaful status		
		Insured	Not Insured	Total
Income per-month	3,000 – 100,000	27	61	88
	100,001- 200,000	12	22	34
	200,001- 300,000	21	28	49
	300,001 - 400,000	23	57	80
	400,001 - 500,000	62	115	177
Total		145	283	428

vi. Labor/business sector and Health *Takaful* status

Studies exploring health insurance adoption in low-income countries highlighted some differences in perceptions between the formal and informal sectors. Informal sector workers often face barriers such as low income, limited awareness, and lack of trust in insurance systems, which negatively influence their perceptions. For instance, Sales et al. (2020) found that individuals in the informal sector in the Philippines struggled with understanding the benefits of insurance, emphasizing the need for targeted outreach to improve awareness. Similarly, Ndomba and Maluka (2019) noted that informal workers in Tanzania perceived health insurance as irrelevant due to economic challenges and low awareness levels. Sisimwo et al. (2022) observed in Kenya that dissatisfaction with the quality of services under national schemes contributed to a unwillingness among informal workers to renew their insurance, contrasting with the more positive experiences of formal sector employees. In Ethiopia, Hussien et al. (2022) identified economic instability and mistrust in community-based health insurance schemes as key factors shaping negative perceptions among informal workers. These findings collectively underscore the importance of addressing economic and information barriers to enhance the perception and adoption of health insurance among informal sector workers. Mohsin et al. (2021) explored the willingness to pay for health insurance among government and non-government employees in Bangladesh. Their study found that informal sector workers are less willing to pay for health insurance due to low income and a lack of perceived value, highlighting a significant gap in perceptions between the two sectors. The crosstabulation of labour/ business sector and health *Takaful* status in this study, as shown in Table 6, reveals differences in health Takaful coverage across various sectors. Out of the total 428 respondents, 145 are insured and 283 are not insured. In the Agriculture sector, 9 are insured, and 13 are not insured, representing a small proportion of coverage in this group. For those in Education, 38 are insured, while 90 are not insured, indicating a relatively low coverage despite the large number of respondents in this sector. Among those working in Health sector, 17 are insured, and 45 are not, suggesting moderate coverage but still a high proportion without health Takaful. In the Communications sector, 10 are insured, and 18 are not insured, while in the Banking and Financial services sector, 7 are insured, and 9 are not. The Police/Army sector shows 8 insured and 7 not insured, with a nearly equal split. Finally, the other category, with many respondents (157), has 56 insured and 101 not insured, indicating that the largest sector still exhibits a significant uninsured population. These findings highlight that health *Takaful* coverage is generally low across all sectors, with the highest coverage seen in the Education sector, though the majority in each sector remain uninsured. This suggests that improvements in health *Takaful* access are needed across all labour and business sectors.

Table 6: Labor/business sector and Health *Takaful* status Crosstabulation

Labor/business sector * Health *Takaful* status Crosstabulation				
		Count Health Takaful status		
		Insured	Not Insured	Total
Labor/business sector	Agriculture	9	13	22
	Education	38	90	128
	Health	17	45	62
	Communications	10	18	28
	Banking and Financial services	7	9	16
	Police/Army	8	7	15
	Other	56	101	157
Total		145	283	428

vii. State and Health *Takaful* status

Perceptions of health insurance often vary across regions, due to differences in access to healthcare services; in regions with scarce or low-quality facilities, individuals may see little value in insurance coverage (James & Acharya, 2022; Habib & Zaidi, 2021). On the other hand, community-based health insurance models have shown promise in fostering trust and improving perceptions, especially in low-income areas where collective efforts resonate with local values (Okunogbe et al., 2022; Afriyie et al., 2022). The crosstabulation of state and health *Takaful* status in this study, as shown in Table 7, reveals significant regional differences in health *Takaful* coverage. Out of the total 428 respondents, 145 are insured, while 283 are not insured. In Khartoum, the largest region with 375 respondents, 122 are insured, and 253 are not insured, indicating a relatively higher number of insured individuals but still a significant proportion without coverage. In the Nile River region, only 6 are insured, and 12 are not insured, showing very low coverage in this area. Similarly, in the Red Sea region, 7 are insured, and 8 are not insured, reflecting limited health *Takaful* access. The Other regions, which include 20 respondents, show 10 insured and 10 not insured, indicating an equal split in this small sample. These findings suggest that health *Takaful* coverage is most widespread in Khartoum, while other regions, especially the Nile River and Red Sea, exhibit very low coverage, highlighting regional disparities that may require targeted interventions to increase health *Takaful* access in less covered areas.

Table 7: State and Health *Takaful* status Crosstabulation

State * Health *Takaful* status Crosstabulation				
		Count Health Takaful status		
		Insured	Not Insured	Total
State	Khartoum	122	253	375
	Nile River	6	12	18
	Red Sea	7	8	15
	Others	10	10	20
Total		145	283	428

5.2. Regression Analysis Results

Table 8: Regression Analysis Summary for Health Micro-*Takaful* Adoption

Predictor	B (Unstd.)	Std. Error	Beta (Std.)	T	Sig.	Bootstrap SE	Bootstrap Sig. (2-tailed)	95% CI (Lower)	95% CI (Upper)
(Constant)	0.306	0.179	—	1.713	.087	0.231	.181	-0.118	0.790
Attitude	0.264	0.063	0.232	4.182	.000	0.088	.003	0.088	0.425
Behavioural Intention	0.550	0.069	0.491	7.935	.000	0.105	.000	0.345	0.777
Subjective Norms	-0.020	0.075	-0.016	-0.271	.787	0.099	.837	-0.214	0.167
Perceived Behav. Control	-0.120	0.056	-0.102	-2.136	.033	0.082	.140	-0.285	0.043
Awareness	0.204	0.035	0.263	5.845	.000	0.045	.000	0.120	0.293
Affordability	0.032	0.040	0.027	0.794	.427	0.048	.529	-0.064	0.124

Model Fit:

- $R = 0.820$, $R^2 = 0.673$, Adjusted $R^2 = 0.668$, Std. Error = 0.44616

ANOVA:

- $F(6, 421) = 144.354$, $p < .001$

5.3. Interpretation of Regression Results

The multiple linear regression analysis yielded a statistically significant model, $F(6, 421) = 144.354$, $p < .001$, indicating that the six predictors collectively explain a substantial proportion of the variance in health Micro-Takaful adoption. Specifically, the model accounts for approximately 67.3% of the variance in the adoption outcome ($R^2 = 0.673$), with an adjusted R^2 of 0.668, which corrects for the number of predictors and sample size. This level of explained variance suggests a strong model fit, meaning that the selected factors meaningfully contribute to understanding individuals' likelihood of adopting Health Micro-Takaful services.

The regression equation derived from the model is as follows:

Health Micro-Takaful Adoption = 0.306 + 0.264(Attitude) + 0.550(Behavioural Intention) – 0.020(Subjective Norms) – 0.120(Perceived Behavioural Control) + 0.204(Awareness) + 0.032(Affordability)

Each coefficient in this equation represents the expected change in the health Micro-Takaful adoption score when that particular predictor increases by one unit, assuming all other variables are held constant.

Among the predictors:

- Behavioural Intention exhibited the strongest influence ($B = 0.550$, $p < .001$), suggesting that individuals with a stronger intent to adopt are significantly more likely to follow through with adoption.
- Awareness ($B = 0.204$, $p < .001$) and Attitude ($B = 0.264$, $p < .001$) also had notable positive effects, indicating that individuals who are more informed and hold favorable attitudes toward the scheme are more inclined to adopt it.
- Perceived Behavioural Control was statistically significant but had a negative association ($B = -0.120$, $p = .033$), implying that individuals who feel they lack personal control over the adoption process may be less likely to participate, potentially due to perceived external barriers.
- In contrast, Subjective Norms ($B = -0.020$, $p = .787$) and Affordability ($B = 0.032$, $p = .427$) were not statistically significant, indicating that social pressure and perceived financial cost do not have a meaningful direct effect on adoption within this sample.

To assess the stability of these findings, a bootstrap procedure with 5,000 resamples was employed. The bootstrap confidence intervals supported the robustness of the significant predictors—Behavioural Intention, Attitude, and Awareness—while further confirming the non-significance of Subjective Norms and Affordability, as their intervals included zero.

Collectively, these results underscore the importance of internal motivational factors—particularly intention, awareness, and attitude—in shaping adoption decisions, whereas external factors such as perceived cost and social influence appear less critical in this context.

6. Implications for Research, Practices and Society

This research sheds light on the practical relevance of health Micro-*Takaful* and its broader influence across academic, professional, and societal contexts in Sudan.

6.1. Research Implications

The study adds valuable insight to existing literature by exposing how adoption of health Micro-*Takaful* varies across demographic and regional lines in Sudan. These findings create a foundation for future investigations into how social, cultural, and economic contexts affect participation. They also pave the way for comparative analysis in similar Muslim-majority settings, encouraging further exploration of how Islamic finance tools like Micro-*Takaful* can enhance financial inclusion.

6.2. Practice Implications

The results offer actionable direction for stakeholders such as insurers, financial planners, and development organizations. By recognizing which populations are underserved, particularly youth and low-income earners—practitioners can develop more effective engagement strategies, including community-based education and trust-building efforts. Moreover, the findings reinforce the importance of aligning regulatory policies with the realities of the target population, potentially prompting reforms that support cost-effective, faith-aligned financial protection options.

6.3. Societal Implications

On a broader scale, increasing access to health Micro-*Takaful* could lead to significant public benefits. By helping vulnerable populations better manage health-related financial risks, these programs may reduce poverty, improve quality of life, and encourage more inclusive health financing. As awareness and confidence in Micro-*Takaful* grow, there may also be a cultural shift toward proactive health planning and stronger participation in formal financial systems.

7. Conclusion and Recommendations

The adoption of Micro-*Takaful* in developing economies is shaped by socio-economic factors, regulatory frameworks, and cultural perceptions. By addressing these areas through targeted educational initiatives, supportive regulations, and community engagement, stakeholders can enhance the effectiveness and reach of Micro-*Takaful*, ultimately contributing to financial inclusion and economic development. While *Takaful* sector in Sudan faces numerous challenges, particularly in health *Takaful* coverage, the introduction of health Micro-*Takaful* presents a promising opportunity for enhancing financial protection for low-income individuals. By addressing affordability and accessibility issues, barriers to awareness, enhancing financial literacy, and integrating with social finance tools health Micro-*Takaful* can play a fundamental role in improving health outcomes and reducing the financial burden of healthcare in Sudan. The global perspective on Micro-*Takaful* highlights its potential to provide financial protection for low-income individuals while highlighting the critical role of public perception in its success. By enhancing awareness and addressing misconceptions, stakeholders can promote Micro-*Takaful* as a viable solution for improving financial inclusion and resilience among vulnerable populations.

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Issues and Challenges of Islamic Banking: The Case of Gambia

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Abstract

Islamic banking, which adheres to *Shariah* principles, has gained momentum in predominantly Muslim countries. However, in The Gambia, it remains relatively new, presenting both opportunities and challenges. This study explores the issues and challenges of Islamic banking in The Gambia, identifying its current state and customer's level of knowledge and awareness. The study adopts a qualitative approach, utilizing structured interviews with key stakeholders, including Islamic bank officers, regulatory bodies, and customers. The study examines critical aspects such as the regulatory environment, *Shariah* governance, and market participation. Findings reveal that while Islamic banking offers growth potential, several challenges hinder its expansion. The regulatory framework is not specifically designed for Islamic banks and financial institutions. Although the Central Bank of The Gambia introduced guidelines (CBG) to regulate Islamic financial institutions, gaps remain as these guidelines are yet to make significant impacts. Other major challenges include a shortage of Shariah experts, *Shariah* non-compliance issues, operational inefficiencies, inadequate liquidity management tools, and limited Islamic banking knowledge among bank employees. While customers in Gambia recognise the existence of Islamic banking within the country, however, their overall knowledge and understanding remains low. Religious motivation is the main factor influencing customer preference. This study contributes to the body of literature by analysing Islamic banking challenges in The Gambia, a region with limited prior study. It provides recommendations to enhance regulation, improve *Shariah* governance, and increase awareness.

Keywords: *Central Bank of The Gambia, Islamic banking, Islamic financial institutions, Islamic finance, Shariah governance, Shariah governance framework.*

1. Introduction

Islamic banking continues to operate within the framework of conventional banking system, adopting certain structures while maintaining its distinct principles. While the objective is broad, unlike the conventional banking system, the main principle is the promotion of interest-free banking, ensuring all operations and activities are carried in accordance with *Shariah* law. Over the past few decades, Islamic banking has experienced rapid growth. According to the Islamic Financial Services Industry Stability Report 2023, global Islamic banking assets have surpassed $2.9 trillion, with major contributions from the Middle East, Southeast Asia, and parts of Africa. Countries such as Malaysia, Saudi Arabia, the UAE, and Pakistan have well-established Islamic banking frameworks, while emerging markets like Nigeria and Kenya are increasingly adopting Islamic financial practices (Kammer et al., 2015). Critics of the conventional banking systems argue that it relies heavily on interest (*riba*), which leads to economic inequality and creates financial instability. This leads to a shift to another alternative, the Islamic banking system which provides social and economic justice, encourages ethical investments and overall contributes meaningfully to socio-economic development. However, the practice of interest free banking system can be difficult under the common law system that does not inherently support Islamic principles.

Islamic banking in The Gambia started in 1997 with AGIB bank as the first Islamic bank to operate fully

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Shariah compliant Islamic banking instruments. Since its establishment, the Islamic bank have been operating alongside with the conventional banks (Sillah, 2005). Over the years, stakeholders from both Muslims and non-Muslim communities demonstrated remarkable interest in Islamic banking and finance, which as a result, made a significant impact in the development and growth of the sector in The Gambia. The central bank of The Gambia in collaboration with the ministry of finance, has initiated capacity building programs for financial professionals to enhance expertise in Islamic banking and finance. This remarkable step taken by the government reveals the keen interest shown in the area of Islamic banking in The Gambia which for many years lacked consideration and concentration from the side of the government. The industry is currently at its nascent stage, posing both unique challenges and opportunities. The country been one of the smallest in West Africa, has a total population of approximately 2.4 million with 95.3% being Muslims.

The number of Islamic financial institutions (IFIs) has grown significantly, increasing from six in 2022 to ten in 2023. These include one Islamic bank, one conventional bank with an Islamic banking window, four *Takaful* operators, one Islamic credit union, and one microfinance institution expected to transition into a fully-fledged Islamic entity (Sawaneh, 2022). The regulatory environment comprising the Islamic bank is still at its development stage despite many efforts to transforming it to cater for the Islamic financial institutions. Notwithstanding, the central bank through the banking act 2009, is primarily responsible for regulating the banking institutions including the Islamic bank. Key efforts have been undertaken by the central bank in reviewing the banking act in order to include a section for Islamic finance.

Despite the presence of an Islamic bank in The Gambia for nearly three decades, studies have revealed that public awareness, knowledge and understanding of Islamic banking remain significantly low (Conteh & Hassan, 2021; Sonko, 2020). Several factors are attributed to lack of awareness including, inadequate financial literacy programs, absence of well-defined regulatory guidelines, deficiency in proper marketing strategies, and limited accessibility of Islamic banking products, especially in the most concentrated areas. Majority of customers even from the Muslim majority community, still perceive Islamic banking to be a mere transformation of the conventional banks with no significant difference. While others argue that the complexity and lack of proper explanation of the banking procedures deter them from banking with the Islamic banks. As a result, the sector struggles in attracting sufficient customer base to meet the need of the Gambian population, which is strongly motivated by *Shariah* principles. The limited availability of empirical research on Islamic banking poses a significant challenge to its development.

While Islamic banking in The Gambia co-exists alongside with conventional banking institutions, a critical gap exists in understanding the regulatory constraints, market participation consumer behaviour and several other issues affecting the sector. To the best knowledge of the researchers, no empirical study has examined the current state of Islamic banking practice in relation to the regulatory environment, market participation and *Shariah* government practice. Further, there is limited research on the issues facing the Islamic banking industry, addressing the regulatory, *Shariah* and operational issues that are prevalent and deter the growth of the sector. Previous studies on Islamic banking mainly focus on consumer knowledge, adoption, perception and awareness of Islamic banking products. Thus, this research explores the issues and challenges facing the Islamic banking in The Gambia, while elaborating on the current state of Islamic banking practices. By doing so, this research builds on previous research by providing a more holistic and in-depth analysis of the industry. Unlike past studies that primarily focused on awareness, adoption barriers, or regulatory issues, this research provides a comprehensive analysis on the regulatory environment, the market and *Shariah* governance practice under which the Islamic banking is operating in The Gambia. Additionally, the research discusses general challenges that are hindering the growth of Islamic banking through a qualitative research approach.

In response to these issues, the research deliberates on the challenges of Islamic banking in The Gambia. Structured interview is conducted to explore on the current practice of Islamic banking, challenges, and the level of knowledge and awareness of Islamic banking among customers. This study has several objectives. Firstly, to explore on the current state of Islamic banking practices in The Gambia. Secondly, to assess issues and challenges of Islamic banking in The Gambia. Thirdly, to explore on the level of knowledge and awareness among customers of Islamic banking in the Gambia. Lastly, to provide suggestions and recommendations for the improvement of Islamic banking in The Gambia.

The study is organized into five key sections. First part is the overview of Islamic banking in The Gambia, research objectives, and significance of the study. The second part examines existing research on Islamic banking, highlighting challenges and opportunities in both global and Gambian contexts. The third part details the research methodology, describing the qualitative approach, data collection methods, and analysis techniques. The fourth part presents the findings and discussions. The fifth part offers conclusions and policy implications, summarizing the key insights and suggesting strategies for strengthening the Islamic banking sector.

2. Literature Review

2.1. Overview of Islamic Banking Principles

Islamic banks unlike conventional banks act as Investment managers on behalf of depositors according to basis of sharia law. Therefore, the basic features of Islamic banking as opposed to its conventional counterparts with respect to the client-bank relationship is based on partnership and trust. These principles are the fundamentals guidelines that determine the operations of Islamic banks. One of the basic principles governing Islamic baking is the prohibition of *riba* which applies to both giving and accepting in terms of loan and deposits. Unlike conventional banks whose primary activities are based on *riba*, Islamic banks operate fully under sharia law, ensuring all the activities are in accordance with requirements of *Shariah*.

The second principle is the prohibition of all forms of cheating, deceit and fraud with regards to uncertainty that might lead to loss or risk of losing capital. Parties entering financial contracts are required to have full knowledge of contract terms and conditions beforehand. Scholars define *gharar* in many ways based on different school of thought. However, the unanimous aspects of *gharar* simply circulate around anything its consequences are undetermined or not known to the parties of contract.

Thirdly, apart from being *riba* and *gharar* free, Islamic banking business keeps a distance from trading in unlawful goods and services that are prohibited in the *Quran* and *Hadith*. Some of the notable prohibited goods and services include non-Halal foods such as pork, animals that are not slaughtered according to Islamic principles, intoxicating drinks, pornography, tobacco-related products, and weapons. Non-involvement is not only limited to buying or selling but also includes all chains of production and distribution, such as packaging, transportation, warehousing and marketing of these prohibited goods and services.

Fourthly, the application of Islamic guidelines in banking is not just for cleaning the financial system from interest and *gharar*, rather it is to establish justice in finance for which *riba* and *gharar* have been prohibited. Islamic finance tries to promote social justice and equity in human society. Justice in business or partnership requires that both the parties should contribute cash, assets or work and bear or share the risk in business. Based on contribution and risk bearing or sharing, the profit and loss are distributed to the parties.

2.2. Global Islamic Banking Experience

The *Shariah* law allows Muslims to engage in activities that generate income in a manner that does not contradict the laws and principles of Islamic faith. Put simply, all the conducts and activities of individuals are strictly guided by the *Shariah* law whether they be commercial, social, political, or religious activities. Islamic banking faces so many challenges globally and need critical discussions to improve the efficiency of the industry (Yusuff, 2015).

Nonetheless, the industry has realised a tremendous growth since its existence for more than 50 years both internationally and domestically, providing financial services to the Muslim communities who are willing to spend their wealth in accordance with *Shariah*. This growth is supported mainly by factors including knowledge and awareness, *Shariah* governance and many other relevant factors. Despite significant headwinds, the global Islamic finance industry increased its assets size by 11% from 2021 to US$4.5 trillion. In the past decade, industry grew by 163% as covered in the special analysis report. The industry is expected to continue to grow, with assets forecasted to reach US$6.7 trillion by 2027. Several key factors contribute to this outlook, including the large Islamic finance markets such as the GCC, Malaysia and Indonesia continuing to strengthen their domestic Islamic finance industries, and Pakistan addressing the requirements to convert its financial system to become interest-free following its Federal Shariah Court judgement on Riba in 2022.

2.3. Islamic Banks Regulation, Sharia Governance and Market Dimension

While Islamic banks operate alongside with conventional banks, they have a unique regulatory framework that highly integrates *Shariah* principles with financial regulations. Effective regulations and supervision are crucial to ensure stability and transparency of Islamic banks, ensuring compliance with *Shariah* and international standards. Chapra and Ahmed (2002) emphasize the need for tailored regulatory frameworks for Islamic banks to create a unique distinction from the conventional banks. They highlighted that Islamic banks require specific guidelines tailored to their needs addressing profit and loss sharing mechanisms and risk mitigation tools. Furthermore, Ahmed and El-Gamal (2020) examined the complexity of applying international regulatory frameworks to Islamic banks, especially in countries where Islamic banking have just started to operate. While the international standards provide risk assessment mechanism, they do not fully cover the unique risk sharing nature of Islamic banks. This creates discrepancies and puts the Islamic banks in higher risk. Furthermore, Islamic banks are known to have survived financial crisis that affected conventional banks. Hasan and Dridi (2011) studied the resilience of Islamic banks during financial crisis. Their findings suggest that Islamic banks where less affected during the 2008 financial crisis mainly due to their asset-back nature. Kammer et al. (2015) examined the effectiveness of regulatory frameworks in Islamic banks. They emphasize strong regulatory framework to prevent inconsistencies in Islamic banking practices. Rahman (2020) explores the role of technology in enhancing Islamic banking regulation. He argues that fintech solutions can improve regulatory compliance through real-time monitoring and automated *Shariah* screening mechanisms. Naim and Abdul-Rahman (2023) discuss the potential role of artificial intelligence in regulatory compliance for Islamic banks. They propose AI-driven solutions for automated compliance monitoring and fraud detection.

Several countries have established robust Islamic banking regulatory frameworks to ensure compliance, stability, and growth within the sector. Malaysia, for instance, has a well-structured regulatory system under the purview of Bank Negara Malaysia, with dedicated *Shariah* governance guidelines and Islamic Financial Services Act (IFSA) 2013 (Archer & Karim, 2007). The United Arab Emirates (UAE) follows a comprehensive dual banking system, regulated by the UAE Central Bank and supported by the Higher Shariah Authority (Hussain et al., 2021). Bahrain, a key player in Islamic finance, houses the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) and follows strict regulatory standards (IFSB, 2018). Pakistan's State Bank has actively promoted Islamic banking through dedicated policies and *Shariah* compliance mechanisms (Chapra & Ahmed, 2002). Additionally, Saudi Arabia, home to some of the largest Islamic banks, has integrated Islamic banking within its broader financial sector, ensuring Shariah compliance through its central regulatory body (Rahman, 2020).

Shariah governance is crucial for the development of Islamic banks and maintaining their positions in accordance with the principles of *Shariah* law. It collaborates regulatory frameworks, *Shariah* boards, risk assessment mechanism tailored to uphold the ethical aspects of the Islamic banks across the world. Chapra and Ahmed (2002) emphasize the essentials of *Shariah* governance in Islamic banks, highlighting that effective sharia governance practice boost shareholder's confidence. Their study emphasizes the need for robust *Shariah* governance framework with the integration of qualified *Shariah* scholars. Graïs and Pellegrini (2006) examine the role of *Shariah* boards and emphasize the necessity of having independent and well-qualified scholars to ensure adherence to Islamic principles. Hasan and Dridi (2011) examined several *Shariah* governance models adopted in different countries, including centralized and decentralized models. His findings suggest that country with centralized Sharia models demonstrate strong regulatory frameworks and ensure consistency in Islamic banking practices.

Islamic banks play a significant role in financial markets by offering *Shariah*-compliant banking products and services. Their market participation is influenced by regulatory frameworks, competition with conventional banks, customer demand, and financial performance. An overview of the expansion of Islamic banking globally, emphasizing its rapid growth in Muslim-majority countries and increasing presence in non-Muslim markets. Beck et al. (2013) compare Islamic and conventional banks, his findings reveal that Islamic banks have lower leverage and higher capital buffers, making them competitive players in the financial market. Kammer et al. (2015) highlight that Islamic banks compete effectively in markets with strong regulatory support and *Shariah* governance frameworks. They note that dual banking systems, such as those in Malaysia and the UAE, provide a conducive environment for Islamic banks to thrive. Hussain et al. (2021) analyse the profitability and efficiency of Islamic banks in competitive markets. Their findings suggest that while Islamic banks face challenges in liquidity management, their ethical banking model attracts customers seeking *Shariah*-compliant alternatives. IFSB (2018) examines the role of regulatory institutions in facilitating Islamic banking market participation. The study highlights the importance of standardized regulations and *Shariah* governance in ensuring market confidence. Dusuki and Abdullah (2007) discuss stakeholder perceptions of Islamic banking regulation, emphasizing the need for greater transparency and regulatory consistency to enhance market participation.

2.4. Banking Sector in The Gambia

The banking sector in The Gambia is characterised mainly as conventional dominants and had begun since the pre-colonial eras. The development of the banking sector became wider spread during the first half of the second republic in around 2000s onwards when so many international investors combined with domestic investors started to demonstrate keen interest in The Gambian financial market. As of 2021, the sector comprised of twelve banks, eleven of which are conventional, and one Islamic bank. Government support for the development of the banking sector also became a contributing factor for the success of the banking industry. At the end 2021, the banking industry expanded during the year, benefiting from higher investments in government securities, placements, and private-sector credit. Total assets stood at D73.0 billion as at end December 2021, representing an increase of 24.1% from a year. This significant growth is supported by key factors including robust governance and supervision from the central bank, increase in the number of foreign investors and other fundamental indicators.

In terms of market share, data from 2012 to 2021 indicates that no single bank held a monopoly. The largest market share during this period was 25%, held by Trust Bank, which does not constitute a monopoly under the Competition Act 2007. While more recent specific market share data is limited, the sector has continued to expand.

The range of services offered by conventional banks in The Gambia varies. Some institutions provide a comprehensive suite of financial products, including personal accounts, corporate banking, and digital solutions, while others focus on more basic services. For example, Zenith Bank Gambia Limited offers services such as pension management, corporate and investment banking, and treasury and cash management services. The banking sector is well-regulated by the Central Bank of The Gambia, which is responsible for licensing, regulating, and supervising financial institutions under Section 71 of the Central Bank Act, 2018. The core mandate of the Banking Supervision Department is to maintain public confidence in the safety and soundness of the financial system.

Despite the growth in total assets, the banking sector in The Gambia remains dominated by conventional banks, which hold approximately 93.2% of the market share, while Islamic banking institutions, led by the Arab Gambia Islamic Bank (AGIB), account for only 6.8%. Trust Bank Gambia Ltd, Ecobank Gambia, and Standard Chartered Bank remain the leading financial institutions in terms of asset size and customer base. However, Islamic finance is gradually gaining traction, particularly within the microfinance and Takaful (Islamic insurance) segments.

2.5. Islamic Banking in the Gambia

Islamic banking has been growing steadily in The Gambia, driven by increasing demand for *Shariah*-compliant financial services (Jallow et al., 2021). The development of Islamic banking in the country has been shaped by government intervention, market participants, governance structures, product offerings, market demand, and educational trainings. Previous studies have examined the challenges and opportunities in these areas, providing insights into the sector's growth and the obstacles that hinder its full potential. The regulatory framework governing Islamic banking in The Gambia is overseen by the Central Bank of The Gambia (CBG). Studies highlight that while The Gambia has no standalone Islamic banking law, the existing Banking Act allows for Islamic financial services under a dual banking system (Jallow & Sillah, 2020). The absence of a dedicated regulatory framework poses challenges for the standardization and supervision of Islamic banks. Researchers argue that this regulatory gap results in inconsistencies in *Shariah* compliance and product structuring, making it difficult for Islamic financial institutions to compete effectively with conventional banks (Sillah, 2021). Efforts to introduce a comprehensive regulatory framework remain ongoing, with policymakers exploring the adoption of AAOIFI and IFSB standards to enhance governance and standardization (Sawaneh, 2022).

Islamic banking in The Gambia is primarily driven by a few key players, including Trust Bank Limited (which offers Islamic windows) and AGIB bank. These institutions play a crucial role in providing *Shariah*-compliant financial solutions, particularly to small and medium enterprises (SMEs). However, literature indicates that the limited presence of full-fledged Islamic banks restricts market expansion and financial inclusion (Sonko, 2020). The lack of a diverse range of institutions results in low competition, which affects service quality and product innovation. Some studies suggest that policymakers should incentivize the entry of more Islamic financial institutions to enhance competition and improve financial accessibility for consumers

(Jallow et al., 2021). Effective *Shariah* governance is critical for ensuring compliance with Islamic financial principles. The Gambia under the side of the regulation lacks a central *Shariah* board, leading to a reliance on individual Shariah Advisory Committees within financial institutions (Sawaneh, 2022). This decentralization has been criticized for creating inconsistencies in fatwa issuance and product standardization. Some scholars argue that establishing a national Shariah Supervisory Board would enhance credibility and harmonization in the industry, ensuring that Islamic banking products align with international best practices (Conteh & Hassan, 2021). However, challenges remain in terms of capacity-building and the availability of qualified *Shariah* scholars who can provide consistent guidance across institutions.

Islamic banking products available in The Gambia include *Murabaha* (cost-plus financing), *Ijarah* (leasing), and *Mudarabah* (profit-sharing). *Murabaha* remains the most popular financing mode due to its simplicity and risk management advantages. However, the limited range of products restricts competitiveness with conventional banks, which offer a broader suite of financial instruments. Studies suggest that product innovation, such as the introduction of *Sukuk* (Islamic bonds) and *Takaful* (Islamic insurance), could further expand the sector and attract a more diverse customer base (Sillah, 2021). The lack of sophisticated Islamic financial products limits investment opportunities and slows the sector's growth. Several studies have explored the demand for Islamic banking services in The Gambia. While many Gambians express interest in Islamic banking, there is a lack of awareness regarding its principles and benefits. Research finds that misconceptions, such as the belief that Islamic banking is only for Muslims, hinder its adoption among the general population. Limited marketing efforts and inadequate consumer education contribute to this challenge (Jallow et al., 2021). Scholars recommend targeted educational campaigns and marketing strategies to improve consumer understanding and increase uptake of Islamic financial services.

The role of education and training in promoting Islamic banking has been widely discussed in the literature. The absence of specialized Islamic finance programs in Gambian universities hampers the development of skilled professionals in the field. Some studies recommend partnerships between local institutions and international Islamic finance bodies to offer certifications and degree programs. Additionally, training programs for bank employees are considered vital for industry growth, as a lack of expertise in Islamic finance among banking professionals limits the sector's expansion and efficiency (Sonko, 2020). Islamic banking in The Gambia has been the subject of several studies examining customer awareness and perceptions. A notable study by Sonko (2020) analysed customers' perceptions of Islamic banking in the country. The research involved 150 customers from both conventional banks and the Arab Gambia Islamic Bank (AGIB), the only Islamic bank in The Gambia. The findings revealed that while AGIB customers demonstrated higher religious commitment and greater knowledge of Islam and Islamic banking compared to conventional bank customers, overall awareness and usage of Islamic banking products among all respondents were low. Interestingly, despite a general agreement that interest is prohibited in Islam, many customers perceived AGIB as not fully *Shariah*-compliant. The study identified religious commitment and knowledge about Islam and Islamic banking as significant factors influencing the choice to bank with AGIB. (Joof, 2017) assessed and compared the performance of Islamic and conventional banking in The Gambia from 2006 to 2016, focusing on Arab Gambian Islamic Bank (now Agib Bank Ltd) and Trust Bank Ltd. The findings revealed that conventional banking outperformed Islamic banking in terms of profitability from 2006 to 2015. However, in 2016, Agib Bank Ltd surpassed Trust Bank Ltd in return on assets (ROA). Additionally, the study found that Agib Bank Ltd generally maintained higher liquidity than Trust Bank Ltd.

Similarly, compared the financial performance of Agib Bank Ltd (Islamic) and Trust Bank Ltd (conventional) in The Gambia from 2008 to 2017 using the CAMEL framework. The findings revealed that Trust Bank Ltd was more profitable in terms of Return on Assets (ROA) and Return on Equity (ROE), while Agib Bank Ltd outperformed in Earnings Per Share (EPS) and Dividends Per Share (DPS) from 2015 to 2017. Agib Bank Ltd was more liquid in terms of Total Equity to Total Assets (TETA), whereas Trust Bank Ltd had higher liquidity based on Loans to Total Assets (LTA) from 2014 to 2017. Additionally, Agib Bank Ltd had lower Non-Performing Loans (NPL) compared to Trust Bank Ltd, but a sharp decline in Trust Bank's NPL from 4% in 2016 to 0.4% in 2017 indicated an improvement in loan portfolio quality. These results suggest that Agib Bank Ltd.'s management was more effective in asset management, particularly in loan performance. Similarly, Drammeh (2019) compared Islamic and conventional banks performance. Her study evaluates the performance of AGIB bank during the financial crisis. The study found that Arab Gambia Islamic Bank (AGIB) outperformed conventional banks in terms of liquidity and financial leverage during the 2009 financial crisis, showing lower risk and better ability to meet short-term obligations. However, conventional banks were more profitable, with consistently higher returns on assets and equity than AGIB throughout 2009 to 2012.

Another study by Conteh & Hassan (2021) explored public perceptions of Islamic banking in The Gambia. The research aimed to assess the level of awareness, understanding, and willingness to patronize Islamic banking, as well as to evaluate bank selection criteria among the Gambian public. The results indicated that while awareness of Islamic banking's existence was high, knowledge of its principles and products was limited. Despite this, there was a notable willingness among respondents to engage with Islamic banking services. The study also found that, although religion played an important role, it was not the primary factor driving patronage of Islamic banking in The Gambia.

These studies suggest that while there is a foundational awareness of Islamic banking in The Gambia, there remains a significant gap in detailed knowledge and understanding of its products and principles among customers. Addressing this gap through targeted educational initiatives and marketing strategies could enhance customer engagement and trust in Islamic banking services within the country. The literature on Islamic banking in The Gambia underscores both the progress and challenges facing the industry. While there is growing demand and interest in Islamic financial services, the sector is constrained by regulatory gaps, limited product offerings, inadequate Shariah governance, and low consumer awareness (Bah, 2021). Future research should focus on policy reforms, market expansion strategies, and the integration of digital Islamic banking solutions to enhance financial inclusion. Strengthening collaboration between regulators, financial institutions, and educational bodies will be essential for the sustainable growth of Islamic banking in The Gambia.

2.6. Challenges of Islamic Banking: Review of Previous Studies

Islamic banking has gained significant global recognition, but it continues to face several challenges that impede its growth and effectiveness. Previous studies on Islamic banking highlight key issues such as regulatory challenges, *Shariah* governance issues, product development and innovation constraints, market awareness and education gaps, and operational and financial performance limitations. Several studies emphasize the inconsistencies in the regulatory frameworks governing Islamic banking across different jurisdictions. For instance, the lack of standardized regulations, which creates an uneven playing field between Islamic and conventional banks. These scholars argue that the absence of a harmonized regulatory structure complicates cross-border transactions and deters foreign investments in Islamic financial institutions. However, other scholars, argue that the diversity in regulatory frameworks allows Islamic banks to tailor their operations to local economic and legal conditions. This debate underscores the need for international regulatory bodies, such as the Islamic Financial Services Board (IFSB), to play a more active role in ensuring regulatory harmonization without compromising local adaptability.

Another critical issue concerns *Shariah* governance and compliance. Inconsistencies in *Shariah* interpretations across different jurisdictions, leading to concerns about the authenticity of Islamic banking products. These studies emphasize the lack of a centralized *Shariah* board and the varied interpretations of Islamic law as significant barriers to the standardization of Islamic financial products. While scholars argue that decentralization allows for flexibility and contextual application of Islamic principles, others counter that it weakens consumer confidence and leads to a lack of trust in Islamic banking.

A growing body of research focuses on the limited innovation in Islamic banking products. Studies by Archer and Karim (2007) and Rahman (2020) argue that Islamic banks tend to replicate conventional banking products, leading to concerns about the true Islamic nature of their offerings. These scholars highlight the overreliance on debt-based instruments such as *Murabaha*, rather than risk-sharing contracts like *Mudarabah* and *Musharakah*, which are more aligned with Islamic economic principles. However, an opposing view which suggests that customer preferences and risk aversion among Islamic banking clients make debt-based products more viable in the current financial landscape.

Several studies, including Dusuki and Abdullah (2007), point to the lack of consumer awareness and financial literacy as major challenges to the expansion of Islamic banking. These studies argue that many potential customers do not fully understand the benefits and principles of Islamic finance, leading to low adoption rates. Additionally, inadequate training of Islamic banking professionals exacerbates this issue. Critics argue that while education gaps exist, Islamic banking institutions bear the responsibility of addressing them through targeted awareness campaigns and professional development programs. Scholars such as Naim and

Abdul-Rahman (2023) highlight the operational inefficiencies and financial performance constraints of Islamic banks compared to their conventional counterparts. Their studies indicate that Islamic banks often face higher transaction costs due to *Shariah* compliance requirements, making them less competitive. Additionally, they highlight liquidity management challenges due to the prohibition of interest-based instruments, limiting Islamic banks' ability to efficiently manage short-term funding needs. However, some argue that the long-term sustainability of Islamic banking justifies these short-term inefficiencies, especially in economies where ethical banking practices are gaining traction.

Beyond these core challenges, some studies have identified additional obstacles facing Islamic banking. One such issue is the limited integration of technology in Islamic financial services. Studies by Alam et al. (2019) indicate that many Islamic banks lag in adopting financial technologies (FinTech), such as blockchain and artificial intelligence, which can enhance efficiency and transparency. Another emerging issue is the difficulty in accessing global financial markets. Islamic banks often struggle to develop instruments that comply with both *Shariah* principles and international financial regulations, limiting their global competitiveness. Furthermore, cultural and social biases against Islamic banking persist in some regions. These biases contribute to slow adoption rates, even in Muslim-majority countries. Addressing these challenges requires a multi-faceted approach, including greater investment in technological advancement, improved cross-border collaboration, and stronger consumer engagement to overcome misconceptions about Islamic banking.

In addition to these challenges, risk management remains a significant issue in Islamic banking. Research by Nurhafiza (2015) highlights the *Shariah*-related risks Islamic banks face, particularly in credit risk management under Mudarabah contracts. Due to *Shariah* restrictions, banks cannot fully investigate customers' business activities, increasing financial risks. Akkizidis & Khandelwal (2008) argue that these risks lead to potential financial losses, as Islamic banks may lose their entire capital investment in failing businesses. The The lack of unified accounting and auditing standards, citing challenges in Bahrain where not all institutions recognize the standards set by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI).

The issue of standardization also extends to legal frameworks and financial intermediation. Zainordin et al. (2016) identified misunderstandings surrounding Islamic financial concepts, legal ambiguities, and a limited market-based financial intermediation system as key constraints in Malaysia. Moreover, Bokhari (2007) noted a global shortage of skilled Islamic banking professionals, limiting the industry's growth. Ahmad (2008) further emphasized the need for stronger educational programs in non-Muslim countries like the United Kingdom, where public awareness of Islamic banking remains low. Lastly, product differentiation remains a concern. Many scholars, including Yusuff (2015), argue that Islamic banking products closely resemble their conventional counterparts, leading to misconceptions that Islamic banking lacks distinctive value. This issue underscores the need for further innovation in product development to enhance customer confidence and distinguish Islamic banking from conventional finance.

2.7. Identifying the Research Gap

Despite studies on Islamic banking in The Gambia, most research has focused on customer awareness, regulatory issues and the comparison between the Islamic and conventional banks performance. However, there is limited empirical research specifically examining the impact of Islamic banking on socio-economic development in The Gambia. While the sector is growing, its potential role in financial inclusion, economic empowerment, and poverty alleviation remains underexplored. Additionally, the lack of technological integration in Islamic banking and its effect on operational efficiency has not been sufficiently studied. Furthermore, while prior research acknowledges issues like the shortage of *Shariah* scholars and limited product innovation, there is a lack of comprehensive solutions tailored to the unique Gambian context.

Another significant research gap is the absence of studies on customer behaviour and market segmentation in Islamic banking within The Gambia. There is a need to investigate what specific factors influence customers' decision-making when choosing Islamic banking services and how financial literacy programs can be structured to enhance adoption rates. Moreover, research on gender inclusivity in Islamic banking remains limited, particularly in terms of how women in The Gambia engage with Islamic financial products.

3. Methodology

This study uses a qualitative approach for the collection of secondary data which focused on reports generated from the central bank of The Gambia, the annual reports of AGIB and different literatures published in Islamic banking. Primary data collection through structured interview conducted with different stakeholders including bank officers, customers and the regulatory body. AGIB bank officers who are heads of specific departments are interviewed since it is the only fully-fledged Islamic bank in the Gambia. This interview with bank officers and customers is relevant for getting useful information. In addition, interview is conducted with few experts at the regulatory level from the Central bank of the Gambia (CBG). This study focuses on the regulatory body at the central bank and AGIB bank for the targeted population. Experts from the Central bank where interviewed who gain depth knowledge and experience in Islamic banking.

In addition, the study uses purposive sampling, a non-probability sampling that assists the researcher chooses samples based on certain criteria. Interview was designed and conducted with the relevant parties involve within the Islamic banking sector. Thus, the interview covers different individuals with different roles and responsibilities, internally such as, head of products and development, the internal auditor, head of credit risk and Shariah officer.

The study targets fourteen (14) respondents for the purpose of the interview. Four bank officers from AGIB bank were interviewed, two Islamic bank specialists at the regulatory body and while eight customers were interviewed respectively. The interview was conducted through zoom calls and each session was recorded to enhance better data collection. The interview took approximately two months between the months of July and August 2024. It is worth mentioning that all the participants were chosen based on their direct involvement with the bank activities, their credibility and willingness to undertake interviews. Key questions directed to the interview include: How would you describe the regulatory framework for Islamic banking in The Gambia? What challenges does the current regulatory system present for Islamic banks? What efforts have been made to create a dedicated regulatory framework for Islamic banking? How does the *Shariah* governance structure of Islamic banks in The Gambia function? What are the major *Shariah* compliance issues faced by Islamic banks? What factors influence customers to choose Islamic banking over conventional banking? What efforts have been made to educate the public on Islamic banking principles? What is your level of knowledge about Islamic banking principles? What factors motivated you to choose an Islamic bank? Do you believe that Islamic banking products are truly *Shariah*-compliant?

The researcher used thematic analysis to analyze the responses from the respondents. This is an effective way of analyzing data based on the predominant views expressed by the respondents on the current practice and challenges of Islamic banking in The Gambia. On the customer side, the level of knowledge and awareness was assessed through levels such as High, Moderate and low. High indicates that a customer has basic knowledge of Islamic banking principles and equally have basic awareness and usage of Islamic banking products and services. While moderate indicates a customer has a bit knowledge of Islamic banking principles and as well, uses one of two products from the Islamic bank. Low means a customer does not have basic knowledge and awareness of Islamic banking. The tables below represent information about the respondents.

Table 1: Informant profiles institution A (Agib Bank)

No	Name of Informant	Institution	Position
1	Respondent 1	AGIB	Head of Audit
2	Respondent 2	AGIB	Sharia officer
3	Respondent 3	AGIB	Head of credit risk
4	Respondent 4	AGIB	Head of Business department

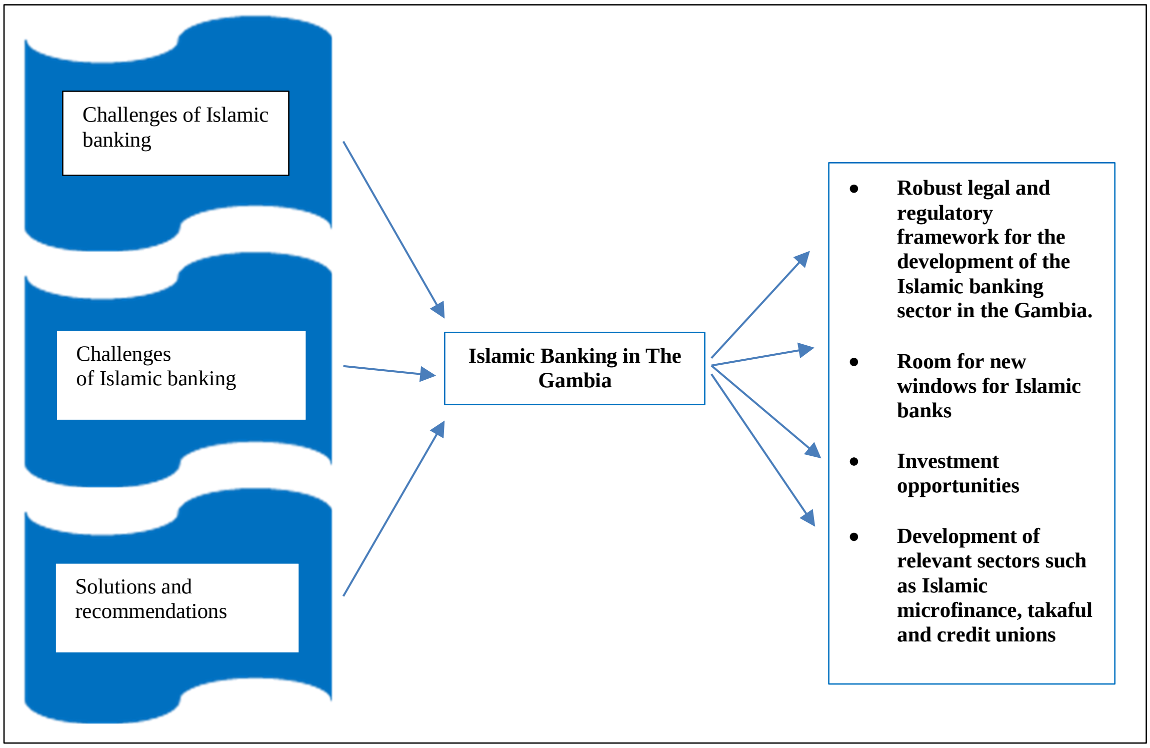
Table 2: Informant profiles institution B (Central Bank of The Gambia (CBG)

No	Name of Informant	Institution	Position
1	Respondent 1	CBG	Islamic finance specialist
2	Respondent 2	CBG	Islamic finance specialist

3.1 Conceptual Framework

This study relies on a conceptual framework as a guide with the aim to achieve the overall research objectives. The framework basically put together all the concepts by linking the current state of Islamic banking practice, the challenges, and the recommendations in achieving better performance and growth of the Islamic banking sector in The Gambia. From the different literatures reviewed on the challenges of Islamic banking, few are summarized ranging from *Shariah* issues, regulatory challenges, lack of knowledge and awareness, governance issues and challenges in practice. To appraise a better understanding of the conceptual framework, these challenges are put together with the specific areas identifying the current state of Islamic banking practice. After identifying how Islamic banks operate based on specific areas and the major challenges, recommendations are provided at the end.

Figure 1: Conceptual Framework



Source: Author's own (2024)

This study employs a qualitative approach to explore on the current practice and the challenges of Islamic banking in The Gambia ranging from legal and regulatory challenges sharia and governance issues, practical challenges, knowledge and awareness etc. The conceptual framework developed in this study assumes that identifying the current practice of Islamic banking in The Gambia and addressing the challenges while considering the suggested solutions will result to a better performance of the Islamic bank currently operating in the country and pave a way for more Islamic banking windows. Through government support, building a robust regulatory framework will open new windows for other sectors in the Islamic financial system. More Islamic banks are expected to be established through the development of the current state of Islamic banking practice while considering the solutions and recommendations presented by the researcher and many other researchers in the field of Islamic banking in The Gambia.

4. Findings and Discussion

4.1. Interview Result: Current State of Islamic Banking Practice

- Regulatory environment of Islamic banking in The Gambia

  The regulatory landscape for Islamic banking in The Gambia is evolving, with the Central Bank of The Gambia (CBG) taking steps to develop a regulatory framework that accommodates the unique characteristics of Islamic financial institutions. The findings from the interview highlight Islamic banks in The Gambia currently operate under the Banking Act of 2009, which is primarily designed for conventional banking institutions. This presents a fundamental challenge, as Islamic banking principles differ significantly from conventional banking in terms of prohibition of *riba*, risk-sharing, and asset-backed transactions. Although the act provides a general regulatory framework for all financial institutions, its conventional nature creates compliance difficulties for Islamic banks.

Another finding reveals a significant development in recent years which is the establishment of an Islamic Finance Unit within the Central Bank. however, this unit comprises small number of professionals in Islamic finance, albeit with a limited number of *Shariah* scholars, making it difficult to create a fully designed regulatory framework for the Islamic banks. Additionally, the central bank has initiated reforms, including the development of specific guidelines such as *Murabaha* financing guidelines and *Shariah* governance guidelines, expected to be issued in early 2025. Despite the positive steps taken by the Central Bank, respondents highlighted several challenges that persist. The reliance on the 2009 Banking Act, which does not cater to the specific needs of Islamic banking, creates operational inefficiencies and potential non-compliance issues. The shortage of *Shariah* scholars within the Central Bank raises concerns regarding the effectiveness of supervision and compliance. Reports from central bank staff highlight concerns about the implementation of *Murabaha* financing, with some transactions failing to meet *Shariah* requirements. Issues such as hidden interest components and improper ownership transfers undermine customer trust and the integrity of Islamic banking. Some customers have expressed concerns about potential similarities between Islamic banking products and conventional interest-based financing. This perception gap must be addressed through clear regulations and enhanced public awareness.

Studies on Islamic banking regulation in other jurisdictions, such as Malaysia, Sudan, and Nigeria, provide insights into how The Gambia's regulatory framework compares. Malaysia's dual banking system, where Islamic banking operates under a separate regulatory framework, ensures that *Shariah* compliance is strictly adhered to Malaysia also has a well-established Shariah Advisory Council under the central bank. Nigeria introduced dedicated Islamic banking guidelines under the Central Bank of Nigeria (CBN), which provide clear governance frameworks, including *Shariah* compliance measures and consumer protection mechanisms. The Gambia could benefit from adopting a similar structured regulatory approach. Sudan follows a fully Islamic banking system, where all banks operate under *Shariah*-compliant laws. The presence of strong Shariah regulatory bodies ensures strict compliance, reducing the risks of non-compliance issues seen in The Gambia.

To enhance the regulatory environment and address the identified gaps, several measures should be considered. The Central Bank should formulate a specific legal framework tailored to Islamic banking principles, rather than relying on the conventional Banking Act. Increasing the number of *Shariah* scholars within the regulatory framework will improve supervision and compliance. Regulatory authorities should enhance consumer education to clarify Islamic banking principles and address misconceptions about interest-like practices. Conducting regular *Shariah* audits and compliance checks will ensure that Islamic banks adhere strictly to Shariah principles. The Central Bank can benchmark successful regulatory models from Malaysia, Nigeria, and Sudan to develop a robust Islamic banking framework.

The findings indicate that while The Gambia has made significant progress in regulating Islamic banking, substantial challenges remain, particularly in *Shariah* compliance and regulatory clarity. The planned issuance of *Murabaha* and *Shariah* governance guidelines marks a positive step forward, but a more comprehensive and dedicated regulatory approach is needed to ensure the sustainable growth of Islamic banking in The Gambia. By drawing lessons from leading Islamic finance jurisdictions, The Gambia can strengthen its regulatory environment and enhance public confidence in Islamic banking services.

- Shariah governance practice

Sharia governance is a fundamental aspect of Islamic banking, ensuring that financial activities comply with Islamic principles. While this framework is well-established in many jurisdictions, the practice in The Gambia is still developing, and several areas require improvement. Strengthening Sharia oversight is crucial to enhance compliance, consumer confidence, and industry growth. The Central Bank of The Gambia (CBG) is expected to release *Shariah* governance guidelines in early 2025 to provide a structured regulatory framework. These guidelines will likely outline the composition, roles, and responsibilities of *Shariah* governance structures in Islamic financial institutions. Currently, the CBG conducts regular Sharia audits and oversight visits to AGIB Bank, the only fully-fledged Islamic bank in the country, to ensure compliance. However, the effectiveness of these audits is limited due to a lack of specialized regulatory expertise in Islamic banking.

Despite being the only dedicated Islamic bank in The Gambia, AGIB Bank does not have an independent internal Shariah Supervisory Board (SSB) to oversee its activities. This creates a significant governance gap, as *Shariah* compliance oversight is a fundamental requirement for ensuring the integrity of Islamic banking operations. Although the bank has recently established a Shariah Committee, it is not yet fully functional, and the *Shariah* experts involved do not have direct involvement in the day-to-day operations of the bank. This weakens internal compliance mechanisms and raises concerns about the effectiveness of *Shariah* governance. One of the most pressing challenges facing Sharia governance in The Gambia is the shortage of qualified *Shariah* scholars with expertise in both Islamic jurisprudence and financial operations. This shortage has led to several operational inefficiencies, including incorrect sequencing of *Murabahah* transactions, where contract execution does not follow prescribed *Shariah* guidelines, and a delayed product approval process due to the limited availability of *Shariah* scholars, hindering the introduction of new Islamic financial products. Currently, a few Sharia scholars rotate between AGIB Bank and other Islamic financial institutions, such as Islamic microfinance and Takaful companies. This practice results from the insufficient number of *Shariah* experts in the country, making it impractical for each institution to have a dedicated in-house Sharia board. While this shared resource approach helps to fill the expertise gap, it also raises concerns about potential conflicts of interest and the depth of oversight each institution receives.

The CBG has emphasized the need for financial institutions to have qualified *Shariah* experts in accordance with forthcoming regulatory guidelines. However, the shortage of experts means that institutions struggle to comply fully with this requirement. Without a sufficient number of dedicated *Shariah* experts, the risk of non-compliance remains high, potentially undermining consumer trust in Islamic banking. A more robust *Shariah* governance framework requires capacity building and education through investments in training programs, university courses, and certifications to develop a new generation of *Shariah* scholars specialized in Islamic finance. Institutional collaboration between Islamic banks, regulators, and international Islamic finance institutions is also necessary to import expertise and establish best practices. Islamic banks should prioritize forming dedicated Shariah Supervisory Boards with members who are actively involved in decision-making processes. The CBG must ensure strict adherence to upcoming guidelines by requiring all Islamic financial institutions to appoint independent Shariah boards.

- Market participation

The Islamic banking sector is represented primarily by Agib bank, the only fully-fledged Islamic bank in the country since its establishment in 1996. Over the years, Agib Bank has solidified its position as a key financial institution, ranking among the top-performing banks in the country despite undergoing financial turmoil around 2008. The crisis led to the bank being acquired by Affin Bank, a Nigerian financial institution. However, Agib quickly regained stability and has since continued to expand, providing *Shariah*-compliant financial services to various economic sectors.

As noted by respondents, one of the bank's notable contributions is its strong presence in Islamic financing, particularly through *Murabaha* contracts, which remain the most utilized financing facility. Murabaha financing is primarily preferred in real estate and trade financing, where clients seek structured, transparent purchase agreements. The popularity of *Murabaha* in the real estate sector suggests that customers are drawn to the structured payment plans that align with Islamic principles while ensuring affordability and risk mitigation. In contrast, the agricultural sector leans towards the Salaam contract, which is particularly beneficial for government-led programs such as groundnut purchases. This highlights a key role played by Agib Bank in supporting agricultural development through Islamic finance instruments. However, other Islamic financing structures, such as *Mudarabah* and *Musharakah*, are less common, indicating lack of awareness, regulatory constraints, and risk aversion by both the bank and its customers.

Beyond providing *Shariah*-compliant financial services, Agib Bank plays a critical role in fostering financial inclusion and economic development. Its collaboration with the Central Bank of The Gambia in supporting farmers by purchasing agricultural produce reflects a strategic effort to integrate Islamic banking into national economic policies. The agreement between Agib Bank and the Central Bank signifies an acknowledgment of Islamic finance as a viable mechanism for promoting sustainable agricultural financing. This partnership not only benefits farmers but also strengthens the overall economic stability by ensuring that agricultural output is effectively monetized without engaging in conventional interest-based financing.

The bank’s impact extends beyond financial transactions, as it actively engages in public awareness campaigns to promote Islamic banking. Through seminars and workshops, Agib Bank takes the lead in educating both businesses and individuals on the benefits and principles of Islamic finance. This role is crucial in a country where Islamic banking remains a developing sector, requiring continuous efforts to enhance market awareness and consumer confidence. Despite Agib Bank's efforts, challenges such as limited Islamic finance literacy and competition from conventional banks with established customer bases persist.

While Agib Bank remains the dominant player in the Islamic banking sector, a few conventional banks, such as Trust Bank Gambia, have recognized the growing demand for *Shariah*-compliant products and have subsequently introduced Islamic banking windows. These banks provide limited Islamic financial services alongside their conventional offerings, giving customers more options while allowing conventional financial institutions to test the viability of Islamic banking. However, these Islamic banking windows often face structural limitations, such as the lack of a fully dedicated team with expertise in *Shariah* compliance and product innovation. This suggests that while Islamic banking is expanding, its full integration into The Gambia’s financial sector still requires strategic policy support, institutional capacity-building, and market-driven innovation.

Despite the promising growth of Islamic banking in The Gambia, there remain several critical areas that require attention. The regulatory framework for Islamic banking, although present, needs further strengthening to provide clear guidelines and enhance operational efficiency. The limited use of risk-sharing contracts such as *Mudarabah* and *Musharakah* indicates a conservative banking approach, which may be due to regulatory concerns, risk aversion, or a lack of customer awareness. Encouraging diversification of Islamic financial products could foster greater financial inclusion and cater to a wider range of economic activities.

Overall, Agib Bank has demonstrated resilience and growth in The Gambia’s banking sector, positioning itself as a key player in promoting Islamic finance. Its role in providing *Murabaha* and Salaam financing, collaborating with the Central Bank, and raising public awareness underscores its contribution to the country’s economic development. However, for Islamic banking to reach its full potential, there is a need for greater regulatory support, innovation in product offerings, and enhanced financial literacy among businesses and consumers. The growing interest in Islamic banking, as reflected in the emergence of Islamic windows in conventional banks, signals a positive trend, but the industry’s sustainability and expansion will depend on addressing existing challenges and seizing opportunities for further

4.2. Challenges of Islamic Banking in The Gambia

Islamic banking in The Gambia faces significant regulatory challenges due to the absence of a specific legal framework tailored for its unique operations. The Islamic banking sector operates under the Banking Act of 2009, a legislation primarily designed for conventional banks, which fails to address the operational and governance requirements of Islamic financial institutions. This lack of dedicated regulations has led to inadequate government supervision, leaving institutions like Agib Bank to navigate a regulatory landscape that does not fully accommodate their needs. The primary factors contributing to this regulatory gap include the lack of *Shariah* experts at the regulatory level, insufficient expertise in Islamic banking practices, and limited awareness of Islamic financial principles among stakeholders. Furthermore, the dominance of conventional banking practices makes it difficult for Islamic banks to function effectively within the existing regulatory framework. *Shariah* compliance remains a critical issue for Islamic banking in The Gambia, with customers, bank officers, and regulatory bodies raising concerns about various aspects of *Shariah* adherence. For example, Agib Bank offers a product called “Agib Handshake,” which allows customers to receive a loan equivalent to 40% of their salary, payable within three months. However, customers have expressed concerns that the processing fees charged on this loan may not be in strict accordance with *Shariah* law. Additionally, the execution of *Murabaha* contracts has presented several *Shariah* compliance issues. A central bank officer noted that Agib Bank does not always adhere to proper procedures in acquiring underlying assets used for financing. Specifically, the bank has been known to sign *Murabaha* contracts before actually acquiring the asset, which undermines the legitimacy of the contract. Moreover, the agency agreement, which should precede the *Murabaha* contract, is often signed only after the contract has been concluded. These procedural lapses compromise the validity of the transactions and highlight the need for restructuring to align with proper *Shariah* guidelines.

Islamic banking in The Gambia also encounters substantial challenges in product implementation, particularly in the real estate and home financing sectors. A key issue is the preference of Gambian customers for short-term financing over long-term commitments, making it difficult for banks to introduce sustainable home financing solutions. Additionally, the country relies heavily on imported raw materials for construction, and the rising costs of these materials complicate the pricing and structuring of Islamic home financing products. This fluctuation in market prices forces banks to constantly restructure their financial products to maintain affordability for customers while ensuring profitability. Another major challenge is customer behaviour concerning loan repayment. Many customers exhibit dishonesty by failing to make timely payments, thereby increasing credit and default risks for the bank. The absence of *Shariah*-compliant investment facilities and liquidity management tools further compounds these difficulties, making it challenging to sustain *riba*-free banking. Additionally, there is a lack of awareness among customers regarding Islamic banking principles, as well as a shortage of professionals specialized in Islamic banking products. These factors collectively hinder the effective functioning of Islamic banks in The Gambia.

Operational challenges further complicate the landscape for Islamic banking in The Gambia. One significant hurdle is the slow processing of customer transactions due to technological and internet connectivity issues, which occasionally disrupt daily banking operations. Another issue is the prolonged approval process for new financial products by both the bank's *Shariah* Committee and the central bank. The slow approval process stems from a shortage of qualified *Shariah* experts within the banking and regulatory institutions, which delays decision-making and product implementation. Risk management also presents a formidable challenge, as the bank lacks proper *Shariah*-compliant risk management techniques. Unlike conventional banks that have multiple liquidity management options, Islamic banks like Agib have very limited tools available. The primary liquidity instrument currently in use is *Sukuk Salaam;* however, this tool has been flagged for *Shariah* compliance issues by the bank's *Shariah* officers. Recognizing the limitations of the existing framework, the Ministry of Finance has initiated efforts to develop alternative liquidity management solutions to better support the Islamic banking sector.

The various challenges faced by Islamic banking in The Gambia indicate the pressing need for regulatory reforms, improved Sharia governance, and enhanced customer awareness. The absence of a dedicated regulatory framework tailored to Islamic banking has resulted in inefficiencies in product implementation, compliance issues, and operational difficulties. The industry requires stronger government intervention, including the appointment of Sharia experts at the regulatory level, the development of Islamic banking expertise, and the introduction of specialized liquidity management instruments. Furthermore, increased public awareness and education on Islamic banking principles would help build trust and confidence in the system, encouraging more customers to adopt Islamic financial products. Addressing these regulatory, *Shariah* compliance, and operational challenges is essential for the sustainable growth and success of Islamic banking in The Gambia.

4.3. Level of Knowledge and Awareness Among Customers of Islamic Bank in The Gambia

Table 3: Summary of interview results from customers

No.	Basic knowledge	Motivation	Sharia compliant	Awareness of products	Interest	Personal use
Customer 1	Moderate	Banking services offered	Yes	Moderate	High	Yes
Customer 2	High	Sharia based, lectures from university	Yes	High	High	No
Customer 3	Moderate	Interest in Islamic banking	Not Fully	Low	Moderate	Yes
Customer 4	Moderate	Sharia based	Not Sure	Low	High	No

Customer 5	High	Interest in Islamic banking, sharia based	Yes	High	High	No
Customer 6	Low	Recommendation from Friends	Not Sure	Moderate	Low	No
Customer 7	Low	Services provided	Not Sure	Moderate	High	Yes
Customer 8	Moderate	Interest in Islamic banking	Yes	Low	Moderate	No

The above table summarizes responses from customer's level of knowledge and awareness of Islamic banking. The main aim of this section is to explore the level of knowledge and awareness of Islamic banking among customers of Islamic banks. The level of knowledge and awareness of Islamic banking among customers in The Gambia appears to be moderate, with a significant gap in understanding among the majority of respondents. The findings indicate that only a small number of customers have a high level of knowledge about Islamic banking, primarily due to their exposure to Islamic banking and finance education at the university level. This suggests that formal education plays a critical role in enhancing awareness and understanding of Islamic banking principles. However, for the majority of customers, knowledge remains limited or moderate due to a lack of accessible information regarding Islamic banking. This aligns with previous research by Conteh and Hassan (2021), which also highlighted the challenge of limited awareness among Gambians regarding Islamic banking.

A key observation from the responses is that religious motivation, specifically adherence to *Shariah* principles, is the primary factor influencing customers to choose Islamic banks. This finding reflects the strong role of religious beliefs in financial decision-making within the Gambian context. The fact that customers prioritize *Shariah* compliance suggests that Islamic banks have a unique value proposition that resonates with the moral and ethical concerns of their clientele. This also underscores the importance of *Shariah* governance in Islamic banks, as any deviation from Islamic financial principles could significantly impact customer trust and confidence.

Beyond religious considerations, some customers also cited practical reasons for choosing Islamic banks, such as lower service fees and more flexible banking options. This indicates that, in addition to *Shariah* compliance, economic factors such as cost-effectiveness and financial convenience also play a role in customers' decision-making. However, while these factors contribute to customer attraction, they seem secondary to religious considerations in the Gambian banking market. Awareness of specific banking products and services remains relatively low, as revealed in the study. This lack of awareness could hinder the full potential of Islamic banking in the country, as customers may not be fully informed about the range of services available to them. Despite this, there is a strong indication that Gambians are highly interested in Islamic banking products and services. The willingness of customers to adopt Islamic banking suggests that the main barrier to greater market penetration is the lack of knowledge and awareness. If banks take proactive steps to enhance education and marketing efforts, there is a high potential for growth in the sector. The findings support the conclusions drawn by Conteh and Hassan (2021), who also found that Gambians are willing to patronize Islamic banking products if they have sufficient knowledge about them. This reinforces the argument that banks need to invest more in financial literacy initiatives, public awareness campaigns, and customer engagement strategies. Increasing knowledge and awareness through targeted educational programs, community outreach, and digital marketing could help bridge the existing gap and drive greater adoption of Islamic banking services in The Gambia.

In conclusion, while there is a strong interest in Islamic banking among customers in The Gambia, limited knowledge and awareness remain major challenges. While religious beliefs are a primary factor in choosing Islamic banks, practical benefits such as cost savings and flexibility play a significant role in customer preferences. The study highlights the need for banks to focus on enhancing financial literacy and improving access to information to fully tap into the market potential of Islamic banking in the country

5. Conclusion and Recommendation

The regulatory environment for Islamic banking and other Islamic financial institutions in The Gambia is still in its early stages of development. Despite recent guidelines issued by the central bank to regulate and supervise these institutions, their impact is yet to be fully realized. The effectiveness of these regulations depends largely on the awareness and commitment of both financial institutions and regulatory bodies to implement them effectively. It is crucial for the central bank to embark on training programs to educate stakeholders on the importance of adhering to these guidelines. Additionally, the enactment of stricter laws and regulations is necessary to ensure that *Shariah* compliance is upheld at the institutional level. Without a robust regulatory framework and its proper enforcement, there is a risk that Islamic financial institutions may not fully adhere to *Shariah* principles, which could undermine trust in the industry.

A major challenge facing the Islamic banking industry in The Gambia is the lack of *Shariah* experts, both within financial institutions and at the regulatory level. The availability of qualified *Shariah* scholars who possess deep knowledge of Islamic banking and finance is limited, which creates difficulties in ensuring compliance with Islamic financial principles. This gap highlights the urgent need for capacity building within the industry. One of the critical steps in addressing this issue is for banks to appoint dedicated *Shariah* advisory board members who can oversee their activities. The research identifies the absence of internal Sharia advisory board members as a significant shortcoming. These advisory boards are essential in ensuring that the bank's operations, products, and services comply with Islamic financial principles. Without their presence, there is a risk that the bank may unknowingly engage in activities that contradict *Shariah* guidelines, leading to a loss of confidence among customers seeking genuinely Islamic financial services.

Another key area that requires improvement is the process of approving new Islamic banking products. The approval process, which involves *Shariah* committee members and the central bank, needs to be streamlined to enhance efficiency. Delays in product approval hinder innovation and the timely introduction of new financial solutions that could benefit customers. By improving this process, Islamic banks can respond more effectively to market demands and introduce products that cater to the needs of different customer segments. In addition, the research highlights concern regarding delays in processing customer requests. The time taken to approve financing applications, respond to customer inquiries, and execute transactions sometimes extends beyond reasonable expectations. This inefficiency affects customer satisfaction and could lead to a loss of confidence in the bank's ability to deliver timely and reliable services. Islamic banks should focus on improving their internal operations to enhance service delivery, ensuring that customers receive their requested services promptly.

Training and capacity building are also crucial for the growth of the Islamic banking sector in The Gambia. Bank staff members require continuous training to enhance their knowledge of Islamic banking products and principles. Without proper training, employees may struggle to explain Islamic financial products to customers, which can lead to confusion and mistrust. Furthermore, the lack of awareness about Islamic banking among the general public remains a significant challenge. Many potential customers do not fully understand the differences between Islamic banking and conventional banking, which limits their willingness to engage with Islamic financial institutions. Efforts should be made to educate the public through awareness campaigns, financial literacy programs, and community engagements. By increasing public awareness, Islamic banks can expand their customer base and promote the adoption of *Shariah*-compliant financial services.

This study is limited to the general challenges faced by Islamic banking in The Gambia, without examining specific issues in detail. More research is needed to explore each of these challenges individually to provide a more comprehensive understanding of the difficulties facing the sector. For instance, a deeper analysis of regulatory constraints, *Shariah* compliance issues, customer perceptions, and technological limitations could yield more targeted solutions. Additionally, other aspects of Islamic banking in The Gambia should be explored, such as how Islamic banks can contribute to financial inclusion. Given that a significant portion of the Gambian population remains unbanked, Islamic banks have the potential to provide ethical and interest-free financial solutions that align with the values of many people in the country. Research on the adoption of technology to enhance the efficiency of Islamic banking operations could also provide valuable insights into how digital solutions can bridge service gaps and improve customer experience. Addressing these areas will help strengthen the Islamic banking sector in The Gambia and ensure its sustainable growth.

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