بسم الله الرحمن الرحيم

In the name of Allah
The Entirely Merciful, The Especially Merciful

The journal of King Abdulaziz University: Islamic Economics has the honor of being the first professional journal in the field of Islamic economics. It started publishing in 1403H (1983) under the title, "***Journal of Research in Islamic Economics***". Over the years, it published some of the classical and seminal articles written by the pioneers of the newly emerging discipline of Islamic economics. The contributions published in the journal, the scope of which included Islamic finance, led to generating great interest in the field. Due to practical reasons, Islamic finance developed much faster than the "pure" Islamic economics, especially in the 1980s, though, generally speaking, finance was part of economics. Some of the most interesting debates on *ribā* (bank interest); Islamic banking, and to a lesser extent in *zakāh*, *awqāf*, etc., were published in the journal. In this way, the journal spearheaded the development of the new industry. The journal started publishing under the present name, "***Journal of King Abdulaziz University: Islamic Economics***", in 1409H (1989) in accordance with the standardization of journal titles at the University, and has since been publishing regularly in both English and Arabic. In the year 1424H (2003), the Journal started publishing twice a year, and since 1435H (2014), the Journal publishes three issues: two in English and one in Arabic. In 2009, the journal won a listing in **Scopus**, one of the most prestigious indexing services. The Journal also has been listed in the (**EconLit**) indexing service of the American Economic Association since 1989. And it is listed in other indexing services like **RePEc**, and **Google Scholar**. The journal is peer-reviewed with the review procedure based on the double-blind principle.

The Islamic Economics Institute (IEI), has a long and rich history since it came on the scene as an upgradation of the very first professional research institutions in the field of Islamic economics, the "Islamic Economics Research Center," (established in 1976) which provided a solid infrastructure for professional research in Islamic economics including finance as part of that discipline. IEI was a natural outgrowth of "the Center" by including teaching and other academic activities within its scope of operations. The Institute is attempting to create an environment where generations of scientists and experts would be prepared to serve various fields of Islamic economics. To this noble end; in addition to harnessing all of its resources, it cooperates with many academic institutions around the world. The most important are 'formal' cooperation agreements with the IE University in Spain and the University of Paris 1 Panthéon Sorbonne with well-defined objectives and programs. Since long, the Institute and its forerunner "the Center" has been helping and promoting joint activities with almost all major players in the field.

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[Version 1.0]

Letters in Arabic	Letters in Roman	Arabic Example	Romanized as
ء(همزة)	'	عُلَمَاء	*'ulamā'*
[ا] preceded by letter with fatha َ	ā	اجَارَة	*ijārah*
[ا]مقصورة	á	تَقْوَىٰ	*taqwá*
[آ] Context specific: (i) In the beginning (ii) In the middle of a word.	(i) ã (ii) 'ā	(i) آيَات (ii) قُرْآن	(i) *ãyāt* (ii) Qur'ān
ب	b	بَاطِل	*bāṭil*
ت	t	تَكَافُل	*takāful*
ث	th	ثَمَن	*thaman*
ج	j	جِزْيَة	*jizyah*
ح	ḥ	حَدِيْث	*ḥadīth*
خ	kh	خَرَاج	*kharāj*
د	d	دَيْن	*dayn*
ذ	dh	ذَهَب	*dhahab*
ر	r	رِبَا	*ribā*
ز	z	زَوْج	*zawj*
س	s	سَلَم	*salam*
ش	sh	شَرِيْعَة	Sharī'ah
ص	ṣ	صَدَقَة	*ṣadaqah*
ض	ḍ	ضَمَان	*ḍamān*
ط	ṭ	طَلَاق	*ṭalāq*
ظ	ẓ	ظُلْم	*ẓulm*
ع	'	عِيْنَة	*'īnah*
غ	gh	غَرَر	*gharar*
ف	f	فِقْه	*fiqh*
ق	q	قَرْض	*qarḍ*
ك	k	كَفَالَة	*kafālah*
ل	l	لَازِم	*lāzim*
م	m	مُضَارَبَة	*muḍārabah*
ن	n	نِفَاق	*nifāq*
و	w	وَقْف	*waqf*

Letters in Arabic	Letters in Roman	Arabic Example	Romanized as
و preceded by ُ	ū	صُكُوْك	*ṣukūk*
ه	h	هِبَة	*hibah*
ة	(i) 'h' if at the end of a word. (ii) 't' if in the middle.	(i) زَكَاة (ii) زَكَاةُ الْفِطْر	(i) *zakāh* (ii) *zakāt al-fiṭr*
ي	(i) y (ii) ī when preceded by ِ	(i) يُسْر (ii) يَتِيم	(i) *yusr* (ii) *yatīm*
فتحة َ	a	فَرْض	*farḍ*
ضمة ُ	u	عُرْف	*'urf*
كسرة ِ	i	مُسْلِم	Muslim
شدة ّ	(i)When over one-letter word; the letter is to be used twice. (ii) When over two-lettered word, the two letters to be underlined.	(i) تَوَرُّق (ii) غِشّ	(i) *tawarruq* (ii) *ghi<u>sh</u>*

Notes: (i) For [َ] followed by [وْ]; roman letters [aw] are to be used, e.g., "أَوْقَاف" is to be written "*awqāf*". For [َ] followed by [ى]; roman letters [ay] are to be used, e.g., "أَيْنَ" is to be written "*ayna*". (ii) Hamza (ء) in the beginning of a word is not to be Romanized. (iii) Arabic "ال" in composite words is to be always Romanized as "al-" irrespective of the sound of the composite words, e.g., "بَيْتُ المَال" is to be written "*bayt al-māl*" not "*bayt ul-māl*" and "الدَّيْن" is to be written as "al-dayn", not "ad-dayn".

Articles

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Trends and Contributions in Islamic Economics Research: A Decade Bibliometric Analysis of Four Journals in Scopus Database

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Abstract. Research strengthens a discipline, and it has an enormous impact, locally and globally. Moreover, it provides solutions to human problems for the wellbeing of all. The rapid growth of scientific research in Islamic economics and the increase in the poverty rate among Muslim communities necessitated the urgent need to assess the trends in its knowledge construction and make future research in line with its aims to address current problems. On this reflection, bibliometric research was conducted on four influential Islamic economics journals in the Scopus database from 2010 to 2019. The study identified the productivity of the discipline and examined the most frequently covered topics, most cited articles and most contributing authors, institutions and countries. The aims are to examine and evaluate the trends in Islamic economics research, analyze the contents and topics in relation to the primary objectives of the discipline, and recommend future research trends based on current realities and objectives. The initial database search reveals 638 documents from the four journals, of which 612 are article have met the research criteria. The results of the bibliometric analysis reveal that the research focuses mainly on Islamic banking and finance as compared to Islamic social finance, with corporate social reporting of Islamic financial institutions receiving the attention of researchers, while social finance such as Zakāh and Waqf, which has a direct impact on the wellbeing of the poor, has been neglected. This could therefore be a gap in research aimed at achieving the discipline's primary objective of ensuring welfare and not at encouraging a new version of capitalist ideology that pays too much attention to profit maximization ideology.

KEYWORDS: Islamic economics, Bibliometric analysis, Islamic banking and finance, Zakāh,Waqf, Wellbeing.

JEL CLASSIFICATION: D60, C18, M20
KAUJIE CLASSIFICATION: E0, H21, N0, V11

1. Introduction

The development of human wellbeing has been largely influenced by a wide range of socio-economic and scientific research from different fields of study. Sometimes this leads to the emergence of a new discipline or a different school of thought within a discipline. For example, scholars strongly agree that the inability of conventional economics to provide solutions to a range of economic and social problems in society has led to the emergence and acceptance of the Islamic economic system and products even among non-Muslims (Islahi, 2015). This is due to the way Islamic economics has conducted its research, going beyond material values and rational individualism, and relying on the integrated role of Islamic moral values, market mechanisms, families, society and "good government" to ensure the welfare of all (Chapra, 1979). This comprehensive research, particularly in areas of Islamic finance, banking, Zakāh and waqf, continues to benefit individuals and private and public organizations through communications in local and international conferences, books and articles published in recognized journals, indexed by databases such as Scopus, Web of Science, and so forth.

Wellbeing means the state of being comfortable, healthy and happy. From the Organisation for Economic Cooperation and Development (OECD) perspective, the pillars of human wellbeing include material living conditions, quality of life and the sustainability of the socio-economic and eco-system in which people live and work (Boarini, 2015). These pillars are now threatened by the global increase in poverty, particularly in Muslim countries, which account for 50% of the global poverty rate. (Arif, 2017). This rate has been further exacerbated by the Covid-19 pandemic, which has resulted in the loss of jobs and income (WorldBank, 2020).

What is worth questioning is the continued growth of Islamic economics in terms of expanding research publications and acceptability, with the deterioration of welfare in most Muslim communities. Has there been a problem with the direction of our research? Can our objectives be achieved with only an increase in articles published? In the classical economic sense, wellbeing is attributed to economic growth and the fact that individuals can satisfy their personal preferences more (Lucas, 1988; Miller, 2018). According to this notion, productivity enhances human wellbeing. This notion was refined by neoclassical economics, which linked wellbeing to technological progress, labour productivity and the stock of knowledge (Romer, 1990; Solow, 1956). According to these theories, wellbeing is improved by promoting the growth and use of knowledge. In another approach to human wellbeing, Amartya sense has provided an alternative understanding using his capability approach, which links wellbeing to what we can and cannot do in our lives, such as engaging in scientific pursuits (Sen, 1983) to end poverty, providing jobs, ensuring security of lives, and so forth. Thus, wellbeing can be improved by developing the ability of individuals or society to lead the kind of life they value and have reason to value (Dalziel, Saunders, & Saunders, 2018). Similarly, in Islamic economic perspectives, wellbeing is not limited to economic growth and knowledge development but to effective use of knowledge and growth that increases preferences and choices in accordance with Islamic teachings, such as upholding justice and maintaining the rights of the poor through Zakāh, Waqf, and so forth.

Research provides communication measured by citation analysis of influence in the scientific field. Scopus is one of the leading citation indexes used for ranking journals and measuring their influence on a body of knowledge. It was launched in 2004 as a competitor to the Thomson Reuters citation index (Web of Science). Both indexes are very influential in the research community. Publishing research in a journal indexed by Scopus or Web of Science is an important criterion for measuring the quality of research. Comparatively, Scopus indexes more titles and includes more records than the Web of Science, and Scopus also indexes more social science titles than the Web of Science. Both citation indexes allow researchers to identify citations and generate automatic calculations for bibliometric indicators (Haddow, 2018).

Bibliometric analysis is a statistical evaluation of published articles to examine some aspects of communication, such as authorship, publication, citation and content. It provides the productivity of research work and detailed analysis to understand the development trend of the discipline and the future direction (Wang, Zhang, Fang, Tang, & Sun, 2020). Bibliometric analysis was invented by Alan Pritchard in 1969 with the main purpose of illuminating the communication process and the nature and evolution of a discipline through counting and analysis (Haddow, 2018). This research pattern allows for the identification of dominant and potential research topics and the assessment of a discipline's progress towards its goal of achieving human wellbeing.

Thus, given the exponential growth of problems in Muslim communities, such as poverty and insecurity that serve as a great threat to human wellbeing, and the increasing number of research topics in Islamic economics. The current research aims explicitly to (1) assess the research trends in four most-cited Islamic economics journals in the Scopus database between 2010 and 2019, (2) analyze the content and themes of the journals concerning human wellbeing (3) recommend future research trends based on current realities and the objectives of achieving human wellbeing. The four journals are International Journal of Islamic and Middle Eastern Finance and Management; Journal of King Abdulaziz University - Islamic Economics; ISRA International Journal of Islamic Finance; and Journal of Islamic Economics, Banking and Finance. The bibliometric research aimed to answer the following research questions.

RQ1. What were the research trends of the four influential Islamic economics journals in the Scopus databases from 2010 to 2019?

RQ2. How did the content and themes of the research contribute to the objectives of "wellbeing for all"?

RQ3. What are the main research themes and topics worth considering in future studies of the scientific discipline?

2. LITERATURE REVIEW

Researchers in different scientific fields have used bibliometric or scientometric studies to identify the scholarly communication pattern of a discipline (Firmansyah & Faisal, 2020). These studies are evident in some recent publications in the field of business and economics (Abramo & Oxley, 2021), land use, food security and agricultural policy (Agnusdei & Coluccia, 2022; Cheng et al., 2021; Fusco, 2021), teaching and learning (Basilotta-Gómez-Pablos, Matarranz, Casado-Aranda, & Otto, 2022; Gamage, Ayres, & Behrend, 2022) and many other research studies in Islamic economics, medicine, computer networks, and numerical accounting, to name a few. Statistical analysis is often used by researchers guided by the laws governing bibliometric research to develop their theory for improving the scientific discipline.

Lotka's law is one of the three laws that have guided bibliometric research, and it is based on author productivity measured by the number of an author's publications in a scientific field. Based on this law, it would be easier to make inferences about which author has contributed the most to a scientific field or scientific topic of interest. The second is Bradford's law of dispersion, which focuses on the productivity of a journal. According to this law, given a scattered relevant paper in a scientific field, the most relevant journal has published the most relevant articles or papers in the field. It is the most productive journal and can be called the "core" journal of the field. (Haddow, 2018). Third, Zipf's law of word frequency in long text applies to indexing and ontological studies (Haddow, 2018). This law ranks the words in a publication text in order of frequency, with the frequency of a word multiplied by its rank giving us its continuous occurrence over a given period. The three laws date back to 1926, 1934 and 1935, respectively, and have provided the theoretical basis for bibliometric research to measure the influence of journals and articles in a scientific field.

Under this framework, Costa, Carvalho, & Moreira (2019) conducted a bibliometric research analysis in behavioral economics and behavioral finance using the Web of Science database. The search shows a growing number of publications in the scientific field and identified major contributing authors such as Daniel Kahneman and Amos Tversky in behavioral economics and finance, and Steven Hursh in behavioral economics. Similar research was conducted by researchers at the Islamic University of Indonesia using the Scopus database from 2005 to 2017. The research indicates limited research collaboration from the university, with limited collaboration between authors from local partner universities and alumni. This is a significant indicator that the university is lagging in promoting internationalization and attracting more international researchers (Darmadji, Prasojo, Riyanto, Kusumaningrum, & Andriansyah, 2018).

Some bibliometric research has linked the increase in publication rate with the increase in funding for the development of the scientific field. The funding may come from the government or from a private funding agency. For example, in the early 2000s, behavioral science research, particularly on gun violence, showed a downward trend. The decline in research in this area was found to be associated with limited federal funding for the discipline (Chien, Gakh, Coughenour, & Lin, 2020); hence, the general impression is that the more research and publications in a discipline or topic, the greater the influence or impact in the scientific field. An increase in the number of publications in a research area or topic may be a function of its importance to society, researchers or funding agencies. The number of publications or citations may not be very useful in measuring the impact of research on society. We still need to evaluate research publications and citations, correlating them with mature socio-economic indicators to confirm any association (Thelwall, 2021). The most essential element of bibliometric analysis is to examine the trends in the development of a scientific field and to check whether the discipline has moved in the right direction to achieve the desired objective. For example, Lei and Liu (2019) conducted a bibliometric analysis to determine the trend and contribution of "System Publication" - an international journal of educational technology and applied linguistics - between 1973 and 2017. The research examined the most frequently discussed topics, the most cited articles, and the most cited references. The result of the research shows a trend of deviation from the journal's objectives. Based on this, the study recommends that the journal should focus more on some areas different from its current priorities.

One of the objectives and values of Islamic economic discipline is to achieve economic wellbeing within the framework of Islam. It also aims to achieve equitable income distribution, fraternity and justice for all, and individual freedom (Chapra, 2008). This main objective of promoting human wellbeing through the rational allocation and distribution of scarce resources in accordance with Islamic teachings and principles can be easily achieved through scientific research conducted by Islamic economics scholars. Bibliometric research provides informed and enlightened policies for effective operation and management of the research organization (Abramo & Oxley, 2021). In neoclassical economic theory, knowledge development is the key to labor productivity and economic progress (Romer, 1990; Solow, 1956); however, policy and knowledge are more desirable in areas that build capacity rather than just increase economic growth (Sen, 1983). The contemporary economic growth model, with increasing inequality and poverty, can be detrimental to wellbeing. Therefore, it is more desirable to focus on research areas where our strength and potential can provide solutions to the socio-economic problems of Muslim communities. Thus, examining the research trends in influential Islamic economic journals would help properly assess the discipline in achieving its primary objectives.

3. METHODOLOGY

The Scopus database was chosen because of the importance of social science titles in its database compared to other indexes such as the Web of Science (Haddow, 2018). This would give us broader bibliometric data and a greater representation of journals and articles for a clear picture of the communication pattern in Islamic economics. The database was accessed on July 26th 2020, and the identified papers for the period of 2010 to 2019 were analyzed using the non-probability sampling method. The bibliometric analysis adopted the PRISMA-P process to guide the development of the systematic review (Gamage et al., 2022; Moher et al., 2016). The phases adopted by this method include (1) identification of all relevant documents related to the study (2) filtering using author-determined criteria (3) classification of methodologically filtered journals and articles using author-determined themes and criteria (4) determination of articles to be included in the review.

Document Identification: From the "source menu" of the Scopus database, we selected the title and entered the word "Islamic". 28 Islamic documents were identified in different scientific disciplines with their citation scores as calculated by the Scopus database for the period 2010 to 2019. The types of documents include journals, book series, conference proceedings, and trade journals. A further search of the database with the same keyword using journal publication only shows 8 types of documents and 20 journals over the period, with a combined total of published documents of 3,416, as shown in Tables 1 and 2, respectively.

Table 1: Islamic document by type.

4.S/N	DOCUMENT TYPE	NUMBER OF DOCUMENT	S//N	DOCUMENT TYPE	NUMBER OF DOCUMENT
1	Articles	2,974	5	Note	19
2	Reviews	341	6	Letter	11
3	Editorial	45	7	Erratum	4
4	Conference papers	21	8	Short survey	1

Source: Scopus Database, 2020

Table 2:"Islamic" Journals Index in Scopus.

S/N	SOURCE TITLE	PUBLICATION	CITESCORE (2019)	S/N	SOURCE TITLE	PUBLICATION	CITESCORE (2019)
1	Journal of Islamic Marketing	427	427	11	ISRA International Journal of Islamic Finance	67	0.4
2	International Journal of Islamic and Middle Eastern Finance and Management	287	287	12	International Journal of Islamic Architecture	130	0.3
3	Journal of Islamic Accounting and Business Research	198	198	13	Islamic Africa	122	0.3
4	Medical Journal of the Islamic Republic of Iran	915	915	14	Journal of Islamic Economics, Banking and Finance	53	0.3
5	Islamic Law and Society	122	122	15	Qudus International Journal of Islamic Studies	28	0.3
6	Journal of King Abdulaziz University, Islamic Economics	231	231	16	Islamic Quarterly	150	0.1
7	Journal of Sciences, Islamic Republic of Iran	287	287	17	International Journal of Islamic Thought	23	0
8	Journal of Islamic Archaeology	63	63	18	Journal of Economic Cooperation Among Islamic Countries	NIL	N/A
9	Journal of Islamic Studies	203	203	19	Journal of Islamic Thought and Civilization	35	0
10	Journal of Islamic Manuscripts	117	117	20	Journal of Shi'a Islamic Studies	102	N/A

Source: Scopus Database, 2020

3.2 Document screening:
The second phase of the methodology was to search the Source database using the most commonly used names in the discipline of Islamic economics. These are (1) Islamic economics (2) Islamic economics and finance (3) Islamic finance and (4) Islamic banking and finance. A total of four Islamic economics journals were identified, with a combined total of 638 publications for the period under study. Out of these 638 publications, 612 are article publications, 12 are editorial publications, 9 are reviews, and 5 are note publications. The journals identified by the above method are presented in Table 3 below.

Table 3: Islamic economics Journals Index in Scopus.

S/N	SOURCE TITLE	PUBLICATION	CITE SCORE	HIGHEST PERCENTILE
1	International Journal of Islamic and Middle Eastern Finance and Management	287	1.9	62.0% 102/270 Finance
2	Journal of King Abdulaziz University, Islamic Economics	231	0.7	41.0% 134/228 General Economics, Econometrics and Finance
3	ISRA International Journal of Islamic Finance	67	0.4	22.0% 186/239 Development
4	Journal of Islamic Economics, Banking and Finance	53	0.3	15.0% 202/239 Development

Source: Scopus Database, 2020

3.3 Documents Classification:
The third phase is to classify the selected documents according to the different topics of Islamic economics. The Scopus subject classification was adopted, and the subjects are classified into three categories: 1) Economics, Econometrics and Finance 2) Business, Management, and Accounting 3) Social Sciences. The second and third are part of the first category, the subjects are aligned to either the business, management and accounting category or the social science category. This can be presented in the table below.

Table 4: Most discussed topic.

Y/N	SUBJECT	NO. OF DOCUMENT	% OF TOTAL
1	Economics, Econometrics and Finance	638	100
2	Business, management and accounting	287	45
3	Social Sciences	120	19

Source: Scopus Database, 2020

Out of the total 638 Islamic economics publications identified above, 139 have open access status while the balance of 499 publications were not open access in the Scopus database. To analyze our data, the study used non-probability sampling by selecting the publications of articles with the highest citations during the period, which would allow us to strongly determine the scientific output of the discipline (Costa et al., 2019), identify trends, evaluate the content and detect the most and least developed themes in Islamic economics. This process will allow us to appropriately recommend the future direction of research (Agnusdei and Coluccia, 2022).

4. RESULTS AND DISCUSSION

The bibliometric study of the four Islamic journals provides information and insight for the evaluation of Islamic economics, and it gives a perspective that characterizes the discipline, such as productivity, influential studies, topics and keywords. The approach allows us to integrate, compare and evaluate the results (Fusco, 2021). The objectives are to identify research trends, evaluate the content of topics concerning human wellbeing objectives, and recommend future studies for the scientific discipline. An attempt was made to include other patterns of research communication from all the 638 publications in the four journals in our analysis, but only139 have open access in the database.

4.1 Productivity of the Scientific Discipline

Like many other scientific disciplines, Islamic economics has witnessed an increase in the number of publications, which cannot be unrelated to the inability of the conventional economic system to provide solutions to the growing economic problems of today's society. On the other hand, the Islamic economic system offers better alternatives to both Muslim and non-Muslim communities because of its general objectives of allocating resources to achieve human wellbeing (Chapra, 1979). This is reflected in the increasing number of publications in the scientific discipline, as shown in Table 3 below.

Table 5: Number of articles on Islamic economics.

YEAR	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
PUBLICATIONS	35	32	35	33	44	47	67	141	99	105

Source: Scopus database

The table shows a significant increase in the number of publications from the four journals over time. Although there is a decreasing trend in 2011, 2013 and 2018 compared to previous years, the discipline witnessed an overall increase in the number of publications. However, comparing the total number of 20 "Islamic" journals indexed in the database using the Cite-Score (in Table 1) above, the International Journal of Islamic and Middle East Finance and Management (IMEFM) is second only to the Islamic Marketing Journal with a Cite-Score of 1.9; Journal of King Abdulaziz University, Islamic Economics (JKAU) is ranked 6th; ISRA journal is ranked 11th and Journal of Islamic Economics, Banking and Finance (JIEBF) is ranked 14th. Like the impact factor, the Cite-Score measures the average annual number of citations of recent articles published in journals. It is the method used to rank journals, create a list of quality journals, and evaluate the research of individuals and academic institutions (Haddow, 2018). The evolution of the combined performance of the four Islamic economic journals in relation to all the Islamic journals identified during the study period is shown in Figure 1 below.

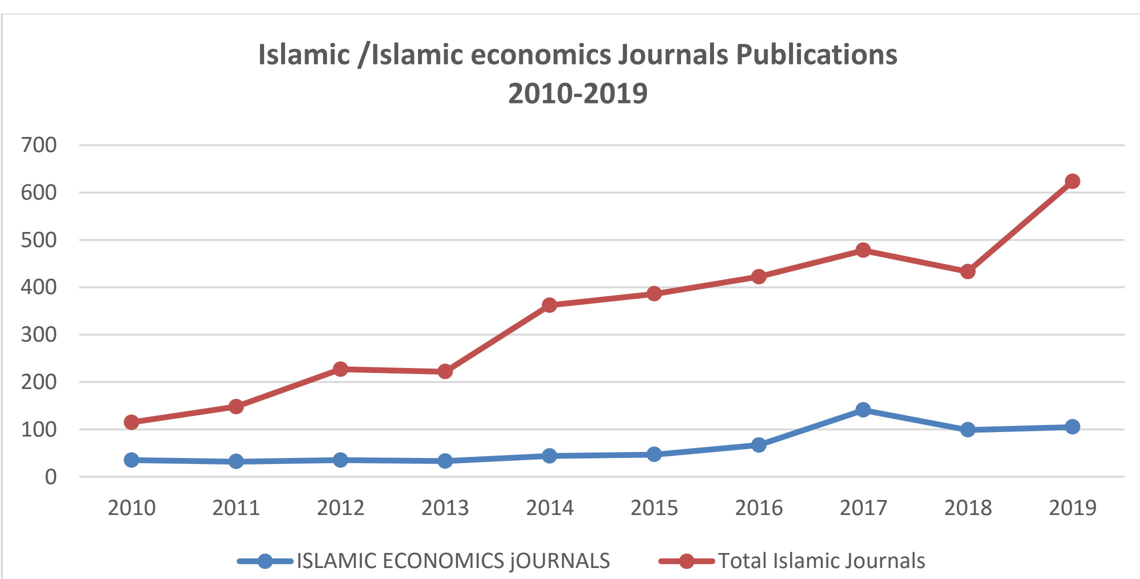
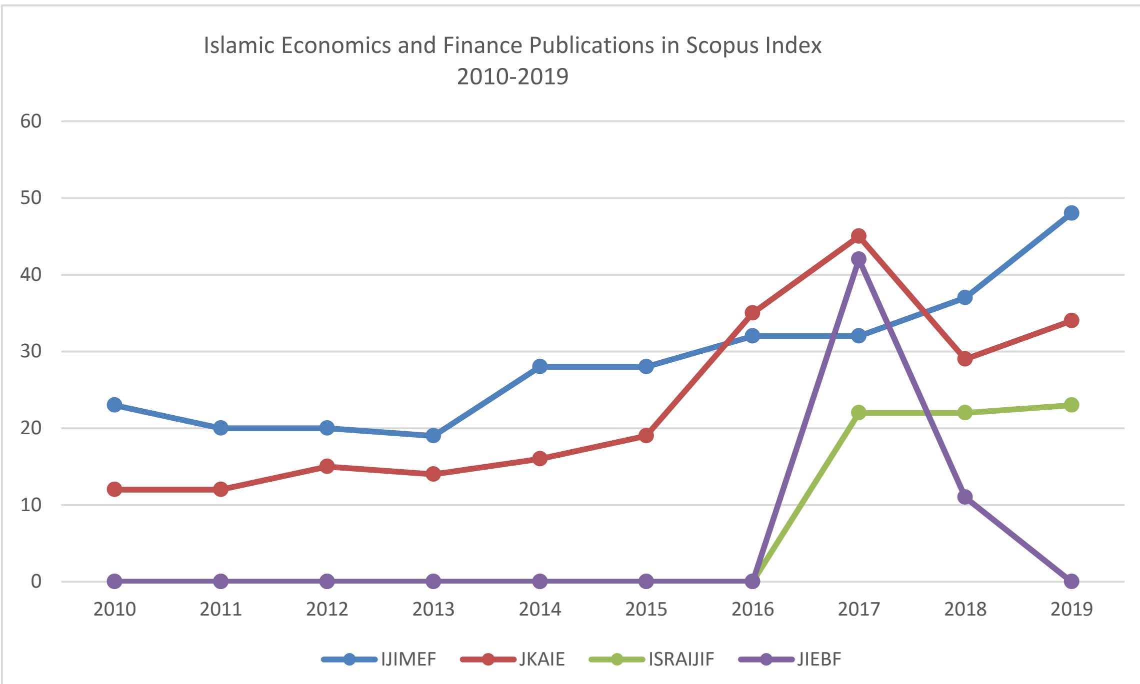


Figure 1: Performance of the four Islamic economics journals in the total of Islamic journals.

Out of the 3,416 Islamic publications published during the study period (2010-2019), 638 are Islamic economics publications, accounting for 18.7% of the total Islamic publications between 2010 and 2019. The distribution of performance among the four Islamic economics journals can be represented graphically in Figure 2 below.

Figure 2: Islamic economics and finance publications.



Source: Scopus Database, 2020

The performance of individual journals out of a total of 638 publications in Islamic economics and finance is as follows: IMEFM contributed 45%, JKAUIE 36%, ISRAIJIF 11% and JIEBF 8% during the study period.

However, on the other hand, the increase in large sets of articles in Islamic economics and finance can be attributed to the continuous increase in the demand and supply of rankings in academia. As research is used to evaluate the scientific progress of a discipline and educational institutions, universities attach importance to rankings for the progress of their departments and as a tool for student recruitment strategies. In general, rankings emphasise more on the quantity of scientific publications and recognize that they can be life-changing, regardless of their quality (Torgler & Piatti, 2013).

In July 2020, the Special Report on Islamic Finance published a list of 22 universities offering Islamic economics and finance programs, ranked among the top 1000 universities worldwide by QS Ranking. This could be an essential phase for the development of the discipline but has raised more concerns about whether the methodology and conventional criteria used for ranking journals can lead to the achievement of key human wellbeing goals. Productivity is very important, and the quantity of scientific output is a good criterion, but the quality of the research and how it can transform people's lives may be a more important factor. Humanity is first productive through research on topics that positively impact poverty, inequality, unemployment, and so on. Moreover, the institutional output that produces economics graduates with concrete new ideas and methodology for transforming the world can be a more reliable and stable indicator of influence than journal citations (Torgler & Piatti, 2013).

4.2 Top Contributors

The Scopus database revealed an increasing number of authors in the field of Islamic economics and finance during the period under review. According to the register, 160 authors contributed to the 638 publications of the four journals, most of them from developed and developing Muslim countries. The top 20 authors are as follows:

Table 6: Top 20 contributing authors.

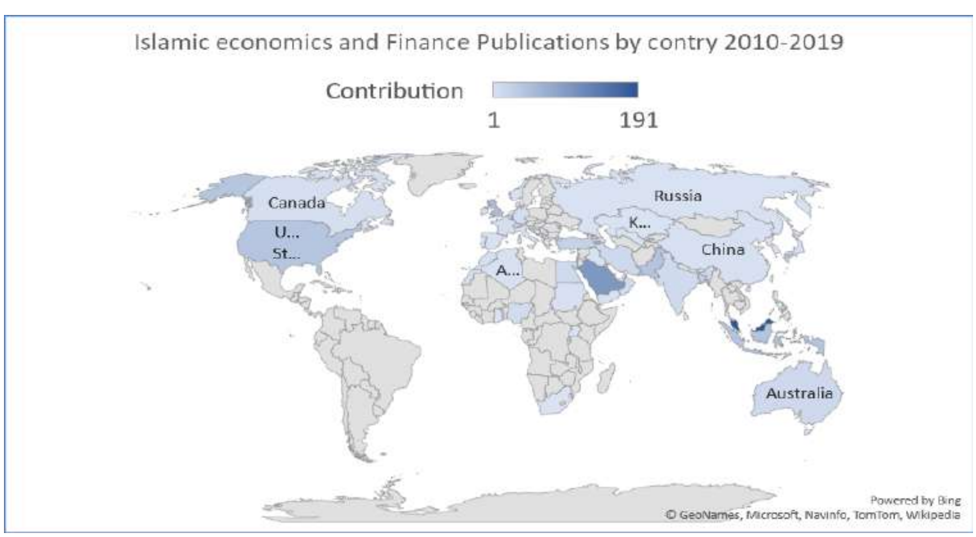
Y/N	AUTHORS	NUMBER OF PUBLICATIONS	% OF TOTAL PUBLICATIONS	Y/N	AUTHORS	NUMBER OF PUBLICATIONS	OF TOTAL PUBLICATIONS
1	Hassan, M. K.	13	2.4	11	Hanif, M.	5	0.78
2	Kabir Hassan, Mr.	9	1.41	12	Kahf, M.	5	0.78
3	Al-Saati, A. R. A.	6	0.94	13	Nienhaus, V.	5	0.78
4	Iqbal, M.	6	0.94	14	Shahimi, S.	5	0.78
5	Ismail, A. G.	6	0.94	15	Khan, T.	3	0.47
6	Kassim, S.	6	0.94	16	Lukman, B.	3	0.47
7	Shaikh, S. A.	6	0.94	17	Md. Hashim, A.	3	0.47
8	Zaman, A.	6	0.94	18	Meera, A. K. M.	3	0.47
9	Abdullah, A.	5	0.78	19	Muhammad, A. D.	3	0.47
10	Belabes, A. S.	5	0.78	20	Muneeza, A.	3	0.47

Source: Scopus database, 2020

Author productivity or the number of publications can be an important criterion for measuring individual contributions to a scientific discipline, but it can be even more important when extended to include authors' real impact on society, such as the number of students trained, especially students from poor or underdeveloped economies; the impact of your ideas on the welfare of society; or a Nobel laureate for significant contributions to society, and so forth.

4.3 Most Contributing Countries

The study also determined the number of countries contributing to the 638 publications. A total of 56 countries were identified mainly Asian countries. Malaysia was the major contributor, accounting for 30% of the total publications. Figure 3 below shows the map of contributing countries.



Source: Scopus Database, 2020

From the map above, smaller contributions have been made by most poor Muslim countries, with the better-off countries producing most of the publications. The top 20 countries from the map above are listed below.

Table 7: Top 20 contributing countries.

S/N	COUNTRY	PUBLICATIONS	Y/N	COUNTRY	PUBLICATION
1	Malaysia	191	**11**	Bangladesh	20
2	Saudi Arabia	102	**12**	United Arab Emirates	19
3	United Kingdom	51	**13**	Australia	14
4	Indonesia	42	**14**	Iran	14
5	Pakistan	42	**15**	Egypt	13
6	United States	41	**16**	India	12
7	Tunisia	26	**17**	Brunei	11
8	Turkey	24	**18**	Oman	11
9	Qatar	21	**19**	Nigeria	10
10	Bahrain	20	**20**	France	8

Source: Scopus database, 2020

It should be noted that a publication may have two or more contributing authors from different countries (Wei, 2019), and thus, an article may be attached to the contribution of two or more countries. The top contributing countries are Malaysia, Saudi Arabia and the United Kingdom. The least contributing countries are Ghana, Israel, Kazakhstan, Norway, Portugal, South Africa, Switzerland, Uganda and Uzbekistan, with only one publication each. However, 19 publications were classified as "undefined" in terms of the contributing country. One important indicator is that the poorest Muslim countries in sub-Saharan Africa produced the fewest publications while having the lowest wellbeing. Studies have shown that 33% of the total poor in the world live in OIC countries, with Nigeria accounting for 30.7% of the total OIC poor (OIC Report, 2015). However, Sub-Saharan Africa accounts for 40.2% of the total extreme poverty rate in the world (433.4 million poor). Of the 20 economies with the highest poverty rates in the world, 18 are in Sub-Saharan Africa (WorldBank, 2020). Thus, the poorest countries do not benefit from sufficient research output to offer solutions to the growing challenges of poverty and deteriorating wellbeing.

4.4 Most Discussed Keywords

The study also analyzed the frequency of keywords in the research conducted and published during this period, and it represents the research focus of the four influential journals. The result shows that Islamic finance appears 60 times, Islamic banking 58 times, Islamic banks 36 times and waqf 25 times. While some wellbeing-related keywords such as inequality, human capital appear only 4 times, poverty alleviation appears 8 times. Table 7 below shows the top 20 keywords from the four journals.

Table 8: Top 20 keywords

S/N	KEYWORDS	FREQUENCY	S/N	KEYWORDS	FREQUENCY
1	Islamic Finance	60	11	Sukuk	13
2	Islamic Bank	58	12	Bangladesh	12
3	Islam	50	13	Cash Waqf	12
4	Islamic banks	36	14	Indonesia	12
5	Waqf	25	15	Zakāh	12
6	Malaysia	24	16	Corporate governance	11
7	Banks	21	17	Capital structure	9
8	Islamic economy	20	18	Conventional Banks	9
9	Finance	19	19	Efficiency	9
10	Bank	18	20	Pakistan	9

Source: Scopus database, 2020

4.5 Most Contributing Institutions

The study examined the institutions that contributed most during the period, which are a significant indicator of institutional influence in the field. 160 institutions contributed to the publication of 638 papers. The most contributing institution was the International Islamic University Malaysia with 61 publications, followed by King Abdulaziz University and the International Centre for Islamic Finance Education with 36 and 29 publications, respectively. Below is the list of the top 20 contributing institutions.

Table 9: Main contributing institution.

S/N	INSTITUTION	NO. OF PUBLICATIONS	% OF TOTAL	S/N	INSTITUTION	NO. OF PUBLICATIONS	% OF TOTAL
1	International Islamic University Malaysia	61	9.56	11	Universiti Teknologi MARA	11	1.72
2	King Abdulaziz University	36	5.64	12	Hamad Bin Khalifa University	11	1.72
3	International Islamic Finance Education Centre	29	4.55	13	Al-Imam Muhammad Ibn Saud Islamic University	10	1.57
4	International Islamic University Malaysia, Institute of Islamic Banking and Finance	25	3.92	14	Universiti Putra Malaysia	9	1.41
5	International Sharia Research Academy for Islamic Finance ISRA	23	3.61	15	University of Bahrain	8	1.25
6	University of New Orleans	17	2.66	16	University of Sfax	8	1.25
7	University of Indonesia	17	2.66	17	Sultan Qaboos University	8	1.25
8	University of Malaya	16	2.51	18	Universiti Sains Islam Malaysia	8	1.25
9	Universiti Kebangsaan Malaysia	13	2.04	19	Islamic Research and Training Institute	7	1.10
10	Universiti Utara Malaysia	11	1.72	20	Umm Al-Qura University	7	1.10

Source: Scopus database

4.6 Most Cited Publications

The influence of a publication or journal is mainly measured by the number of citations within a given period; it indicates the use of the knowledge embedded in the publication (Abramo, D'Angelo, & Felici, 2019) and acts as a natural indicator of influence. Therefore, citation remains one of the most important yardsticks to measure the influence of journals, authors, articles, and the prevalent topic in a scientific field.

Table 10: Top 20 most cited publications.

S/N	AUTHOR/TITLE	JOURNAL/YEAR	NO. OF CITATON
1	Veronica Siregar, S., Bachtiar, Y. Corporate social reporting: empirical evidence from Indonesia Stock Exchange	International Journal of Islamic and Middle Eastern Finance and Management (2010)	81
2	Hassan, A., Syafri Harahap, S. Exploring corporate social responsibility disclosure: the case of Islamic banks	International Journal of Islamic and Middle Eastern Finance and Management (2010)	72
3	Ahmed, A. Global financial crisis: an Islamic finance perspective	International Journal of Islamic and Middle Eastern Finance and Management (2010)	57

4	Merdad, H., Hassan, M.K., Alhenawi, Y. Islamic versus conventional mutual funds' performance in Saudi Arabia: A case study	Journal of King Abdulaziz University, Islamic Economics (2010)	49
5	Abduh, M., Azmi Omar, M. Islamic banking and economic growth: the Indonesian experience	International Journal of Islamic and Middle Eastern Finance and Management (2012)	47
6	Abdul Rahman, A., Azlan Yahya, M., Herry Mohd Nasir, M. Islamic norms for stock screening: A comparison between the Kuala Lumpur Stock Exchange Islamic Index and the Dow Jones Islamic Market Index	International Journal of Islamic and Middle Eastern Finance and Management (2010)	37
7	Azhar Rosly, S. Sharīʿah parameters reconsidered	International Journal of Islamic and Middle Eastern Finance and Management (2010)	37
8	Hamza, H. Sharīʿah governance in Islamic banks: effectiveness and supervision model	International Journal of Islamic and Middle Eastern Finance and Management (2013)	35
9	Abdul Karim, B., Akila Mohd. Kassim, N., Affendy Arip, M. The subprime crisis and Islamic stock markets integration	International Journal of Islamic and Middle Eastern Finance and Management (2010)	34
10	Sukmana, R., Kassim, S.H. Roles of the Islamic banks in the monetary transmission process in Malaysia	International Journal of Islamic and Middle Eastern Finance and Management (2010)	34
11	Smolo, E., Mirakhor, A. The global financial crisis and its implications for the Islamic financial industry	International Journal of Islamic and Middle Eastern Finance and Management (2010)	33
12	Miah, M.D., Sharmeen, K. Relationship between capital, risk and efficiency: A comparative study between Islamic and conventional banks of Bangladesh	International Journal of Islamic and Middle Eastern Finance and Management (2015)	31
13	Ismail Abdel Mohsin, M. Financing through cash-waqf: a revitalization to finance different needs	International Journal of Islamic and Middle Eastern Finance and Management (2013)	31
14	Sangeetha, J., Mahalingam, S. Service quality models in banking: a review	International Journal of Islamic and Middle Eastern Finance and Management (2011)	31
15	Lee, K.-H., Ullah, S. Customers' attitude toward Islamic banking in Pakistan	International Journal of Islamic and Middle Eastern Finance and Management (2011)	30
16	Hasan, Z. A A survey on Shari'ah governance practices in Malaysia, GCC countries and the UK: Critical appraisal	International Journal of Islamic and Middle Eastern Finance and Management (2011)	28
17	Kassim, S.H., Shabri Abd. Majid, M. Impact of financial shocks on Islamic banks: Malaysian evidence during 1997 and 2007 financial crises	International Journal of Islamic and Middle Eastern Finance and Management (2010)	28
18	Gudarzi Farahani, Y., Dastan, M. Analysis of Islamic banks' financing and economic growth: a panel cointegration approach	International Journal of Islamic and Middle Eastern Finance and Management (2013)	25
19	Ashraf, D. Performance evaluation of Islamic mutual funds relative to conventional funds: Empirical evidence from Saudi Arabia	International Journal of Islamic and Middle Eastern Finance and Management (2013)	25
20	Al-Musali, M.A., Ku Ismail, K.N.I. Cross-country comparison of intellectual capital performance and its impact on financial performance of commercial banks in GCC countries	International Journal of Islamic and Middle Eastern Finance and Management (2016)	24

Source: Scopus database.

Remarkably, of the 20 most cited publications, 19 were published by an international journal of Islamic and Middle Eastern finance and management. Second, 10 of the 20 most cited publications were published during the year 2010. Third, 19 of the 20 publications are on banking and finance, 4 publications on the capital market and 15 on money market, and only one publication on social finance (Waqf). Compared to the 638 publications identified in the four journals that include topics in economics, econometrics and finance, there were 287 publications on business, management and accounting, which is 45% of the total papers written in the four journals. The social sciences accounted for only 120 topics, indicating the strong dominance of profit-oriented topics over social development topics and a great threat to poverty alleviation and human wellbeing. The analysis of the most cited publication confirmed this weakness in the research organization.

4.7 Impact of Social Finance Research on Wellbeing

Social finance refers to an allocation of capital for social and environmental benefits or in some cases, for financial benefits (Nicholls, Paton, & Emerson, 2015). It provides resources to mitigate the externalities associated with the conventional investment approach through an ethical and social capital allocation strategy. Many Islamic finance investments reflect the traditional approach that caters more to business owners' needs than society's common needs (Atiq-ur-Rehman, 2018). At a time when poverty and inequality are rising sharply in most Muslim societies, we need to revisit the social roots of Islamic civilization and recognize the role of social finance tools such as Zakāh and waqf in capital allocation strategy. Further research and development in these areas can positively impact the poverty and inequality that plague most Muslim societies, especially in sub-Saharan Africa.

Empirical evidence shows that social finance tools such as Zakāh and Waqf have the capacity not only to finance poverty alleviation in Muslim countries but also to contribute to the achievement of the Sustainable Development Goals. Evidence shows that Zakāh and Waqf are used to provide housing, food security, affordable housing, and improve incomes and welfare of the poor (Rashid, Hasan, Mohd Fauzi, Aripin, & Sarkawi, 2019). Thus, neglecting research on Islamic social finance topics may be a misplaced priority and a total failure to understand how useless wealth accumulation becomes if the benefits are not distributed for the everyday wellbeing of society (Cattelan, 2018).

4.8 Research Limitations

The bibliometric research also has some limitations that could be addressed by future research. First, the studies selected the Scopus database as its data source for the analysis. Although Scopus indexes many journal articles in Islamic economics, it cannot include all literature or Islamic economics journals. Second, the methodology used in these studies limits our data to only four Islamic economics journals, which future studies should also consider to include all Islamic economics journals in Scopus or Web of Science databases. On the other hand, the period covered by this research can also be extended to have more historical trends for analysis.

5. CONCLUSION

Considering the role played by research in solving problems, the study provided an enlightening trend on the development of Islamic economics research from 2010 to 2019. The objectives were to assess the research trends, analyze the contents and topics, and recommend future research trends based on the current realities and objectives. Research in Islamic economics has grown with the increased number of articles published over time. Although the future of this discipline is promising, we should be careful about adopting the dominant methodology as a technique for evaluating academic studies. We need an alternative method to assess the real impact on society. However, the distribution of research across the different disciplinary themes shows a significant predominance of Islamic banking and finance, with few research themes on social finance, employment, wages and labour relations, which are believed to have more impact on welfare and are capable of reducing the poverty that plagues most Muslim societies. The distribution of research institutions and countries shows little or no corporate relationship, especially with poor countries. Keywords such as Islamic banking, Islamic finance dominated the central issues, while economic issues related to the MDGs were virtually absent from research discussions. It is believed that Islamic finance has adopted the paradigm and methodology of mainstream economics, which has been built on the rational economic man of profit maximization, without much concern for the moral and material integration of societal welfare.

We, therefore, recommend bridging the gap between theory and practice by proposing a methodology compatible with Islamic economics to measure the real impact of research in society and not just by counting the number of citations. Theoretical innovation needs to be strengthened, and future research should focus on topics that have a direct impact on human welfare, such as Zakāh and waqf, preferably in the poorest Muslim countries. Institutional collaboration should be strengthened between researchers and universities in rich and poor countries to enhance their capacities.

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الاتجاهات والمساهمات في أبحاث الاقتصاد الإسلامي: تحليل إحصائي (ببليومتري) لأربع مجلات مصنفة في قاعدة بيانات سكوبس خلال الفترة ٢٠١٠ – ٢٠١٩

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المستخلص: يُسهم البحثُ في تطوير التخصصَ العلمي؛ ويؤثر فيه بشكل كبير على المستويين المحلي والعالمي، كما أنه يوفر حلولًا مناسبة لمشاكل الإنسان من أجل رفاهية وسعادة المجتمعات البشرية. اقتضى التطور السريع في البحث العلمي في الاقتصاد الاسلامي، وزيادة معدلات الفقر في الدول الاسلامية، إجراء دراسة لمعرفة وتقييم الاتجاهات البحثية في هذا الحقل المعرفي، وإعداد بحوث يمكن أن تساهم مستقبلاً في تحقيق أهدافه في معالجة المشكلات الراهنة في المجتمعات المسلمة. ولتحقيق ذلك استخدم البحث التحليل القائم على الطرق الإحصائية والرياضية (التحليل الببليومتري) لأربعة مجلات مؤثّرة في تخصص الاقتصاد الاسلامي؛ مصنفة في قواعد سكوبس (Scopus) العالمية المعروفة خلال الفترة ٢٠١٠ - ٢٠١٩. وفق عدد من المؤشرات المهمة؛ كعدد البحوث المنشورة ، والموضوعات الأكثر تناولاً، والبحوث الأكثر استشهاداً، والكتّاب الأكثر مُساهمة، والمؤسسات الأكثر اهتمامًا، والدول الأكثر اعتناءً بالاقتصاد الإسلامي. ويهدف هذا التحليل إلى دراسة وتقييم اتجاهات البحوث في الاقتصاد الاسلامي، من حيث مضمونها ومحتوياتها، وتحديد الموضوعات الرئيسة؛ وعلاقتها بالأهداف الكلية لهذا الحقل المعرفي للوصول إلى توصيات تساهم في تحديد الاتجاهات المستقبلية للبحوث. أجريت الدراسة على عينة مكونة من (٦٣٨) مقالًا منشورًا في المجلات الأربعة، وبلغ عدد المقالات المستوفاة لمعايير التحليل (٦١٢) مقالًا. بينت نتائج الدراسة أن البحوث الأكثر تناولاً كانت في مجال المصرفية والتمويل الإسلامي، بينما كانت الموضوعات الأقل تناولًا في التمويل الاجتماعي الإسلامي، على الرغم من اهتمام الباحثين في الآونة الأخيرة بالمسؤولية الاجتماعية للشركات والمؤسسات الاسلامية. إلاَّ أن ما بات يُصنف ضمن موضوعات التمويل الاجتماعي الإسلامي، كالزكاة والوقف -رغم تأثيرهما المباشر في رفاهية الفقراء والفئات الأخرى المُعوزة- لم يُسلط عليها الضوء بالقدر المأمول. مما يُشير إلى وجود فجوة في البحوث التي اهتمّتْ بتحقيق الأهداف الأساسية للاقتصاد الإسلامي المُفْضية إلى تحقيق الرفاهية والحياة الكريمة لأفراد المجتمع، خلافًا لما هو سائد في النظام الرأسمالي الذي يعتمد بشكل شبه كلي على "أيديولوجيا" تعظيم الربح.

الكلمات الدَّالة: الاقتصاد الاسلامي، التحليل الببليومتري، التمويل والمصرفية الإسلامية، الزكاة، الوقف، الرفاهية

تصنيف JEL: D60, C18, M20

تصنيف KAUJIE: E0, H21, N0, V11

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The Role of Zakāh in providing Health Care for the Poor in Sudan

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Abstract. Despite the relatively long experience of zakāh in social protection and poverty alleviation in Sudan, there is little evidence on its role in facilitating access to health care services to the poor. This paper investigated the role of zakāh office (Diwān Az-Zakāh) in providing health care for the poor in Sudan. The study used administrative and primary data collected from two Sudanese states in 2018. Adopting both qualitative and quantitative methods, the results indicate that zakāh helped a considerable segment of poor families to access health care services, through enrolling them into health insurance coverage and paying treatment costs for poor patients. The quantitative analysis revealed that zakāh beneficiaries have a higher likelihood to access health care compared to non-zakāh beneficiaries. This implies that zakāh reduces out of pocket health expenditures for poor households, hence protecting them from the risk of catastrophic health expenditure. The qualitative analysis based on key informant interviews indicated that zakāh office allocates a huge fund to finance health care for poor households and significantly contributes to universal health coverage in Sudan. The study recommends that enhancing cooperation between the chamber of zakāh and health insurance fund would stimulate the role of zakāh in providing health care for the underprivileged. In addition, the Sudanese zakāh experiment may provide useful lessons to other Muslim-majority countries on providing the poor access to health care services.

KEYWORDS: Zakāh, Health care, Health insurance, social protection, Sudan

JEL CLASSIFICATION: I12, I13, I31, I38
KAUJIE CLASSIFICATION: C55, E11, E15

1. Introduction

High out of pocket (OOP) health expenditure has been regarded as a key challenge that undermines households' access to health care, hence negatively affecting their social welfare and economic development (Xu et al., 2003; Wagstaff and van Doorslaer, 2003 and Van Doorslaer et al, 2006). This is obvious in poor countries contexts, where governments lack sufficient resources to finance healthcare, particularly for poor people who are vulnerable to diseases and live under the poverty line. Healthcare financing means in poor countries vary from tax-based finance to community-based insurance to religious charities, such as zakāh. In many Muslim-majority countries, Zakāh plays an important role in supporting poor households via providing cash, food, and basic services such as education and health care (Latief, 2010; Sharofiddin et al., 2019 and Bilo and Machado, 2020). In the recent decades, the role of zakāh in providing health care for the poor has emerged and become a significant tool for reducing the burden of OOP health expenditure1.

In response to high cost of healthcare expenses that resulted from the adoption of user fee policy in the early 1990s, the government of Sudan introduced its health insurance scheme in 1995. However, due to high poverty rates in the country, the health insurance coverage among poor population remained very low, as a sizable segment of the population was not able to join the health insurance (Ebaidalla and Ali, 2019). Amid this context, in 2011, the chamber of Zakāh has initiated an ambitious poor supporting program, aiming to enroll poor households into a health insurance scheme (Ebaidalla, 2021). The recent statistics showed that the role of zakāh in providing health care has increased remarkably over time (National Health Insurance Fund [NHIF], 2020). In addition, the zakāh fund continuously supported the healthcare system via purchasing medical treatments for poor patients (NHIF, 2020). However, despite the obvious engagement of zakāh in health care provision in the country, the available information on its role in facilitating access to health care to the poor is scant. This study, therefore, aimed to examine the role of zakāh in providing health care for poor households in Sudan.

Based on the above background, this study addressed the following research questions: To what extent does zakāh facilitate the poor households' access to health care services? What is the contribution of zakāh fund to health insurance coverage in Sudan? Does it reduce OOP health expenditures of poor households in Sudan? To answer these questions, the study relied on household survey and key informant interviews along with secondary data gathered from reports of the National Insurance Fund and the Chamber of zakāh.

The contribution of this study is three-fold. First, this study fills an important gap in literature on the role of zakāh in providing health care for poor population. To the best of the authors' knowledge, there is no empirical study on the role of zakāh in facilitating access to health care to the poor in Muslim-majority countries. Therefore, this study would support policies that promote the use of zakāh to finance health care in the Muslim countries, learning lessons from the Sudanese experiment. Second, most of prior studies on the impact of zakāh used either qualitative or quantitative approaches. However, this study adopted both methods for the purpose of robustness check. Third, many developing countries have adopted community-based insurance schemes over the past few decades, (Reich et al., 2016 and Fenny et al., 2021), and Sudan is no exception. Thus, the findings of this study would enhance these initiatives by providing some evidence on the role of zakāh in protecting disadvantaged groups in the country, hence contributing to a universal health coverage (UHC) in the Muslim-majority countries.

The rest of the paper is structured as follows. Section 2 outlined some stylized facts about zakāh and health care provision in Sudan. Section 3 reviewed the relevant literature on the role of zakāh in health care provision. Section 4 introduced the methodology and data used in the analysis. Section 5 reported on

[1] Out of pocket (OOP) expenditure is defined by the World Health Organization (WHO) as "any direct outlay by households, including gratuities and in-kind payments, to health practitioners and suppliers of pharmaceuticals, therapeutic appliances, and other goods and services whose primary intent is to contribute to the restoration or enhancement of the health status of individuals or population groups" (WHO, 2003, 299)

the empirical findings and discussed them. Finally, section 6 provided the main conclusions with suggested some policy recommendations.

2. Zakāh and healthcare provision in Sudan: An overview

This section outlined the evolution of zakāh institution and health insurance fund in Sudan. This section is divided into three subsections. Sub-section 2.1 overviewed the evaluation of zakāh and its contribution to health care provision. Sub-section 2.2 outlined the health insurance fund in Sudan, and ultimately, sub-section 2.3 introduced the chamber of zakāh commitment and achievement in providing health care for the poor population.

2.1 History of Zakāh fund in Sudan

Unlike many Muslim-majority countries, zakāh in Sudan is collected and distributed by the state through the chamber of zakāh, under the supervision of the Ministry of Social development. In 1980, the government established the zakāh fund, adopting voluntary collection and focusing on a few resources such as agricultural crops (Hassanain and Saaid, 2016). In 1984, the first law of zakāh and taxes was approved, making Zakāh' payments compulsory for all those above a certain income threshold (nisab). The 1984 law put zakāh under a single authority with taxes, supervised by the State, through the zakāh chamber. Thereafter, in 1986, the law of zakāh and taxes was amended, and the zakāh chamber became a separate and independent institution. In 2001, the government of Sudan developed a new Zakāh law, emphasizing its role as the main social safety net provider in the country (Kjellgren et al., 2014 and Hassanain and Saaid, 2016). Over the last few years, Zakāh has been considered as the most important mechanism for social protection in Sudan, providing support for poor households in many forms, including unconditional cash transfer, microfinance, health insurance coverage and medical expense for poor families. In addition, the chamber of zakāh gives temporary assistance to poor families during the month of Ramadan (Turkawi, 2015 and Hassanain and Saaid 2016).

The evidence shows that the Sudanese chamber of zakāh enjoys a sizable institutional and financial capacity, spread across all Sudanese states, localities and even villages (Kjellgren et al., 2014). The chamber of zakāh branches at the local level identify the zakāh beneficiaries, using the data gathered from the 2011 poverty census, conducted by the zakāh fund in collaboration with the Central Bureau of Statistics (Turkawi, 2015). The zakāh administration also relies on local committees in the villages to identify the needy and deliver zakāh to the target households.

According to available statistics, zakāh revenues finance about 87% of the government social safety net programs in Sudan (Bilo and Machado, 2020). In 2020, zakāh supported about 2.6 million households over the whole country (Zakāh Fund, 2016). In the recent decade, zakāh has been actively engaged in supporting health care services for the poor people.

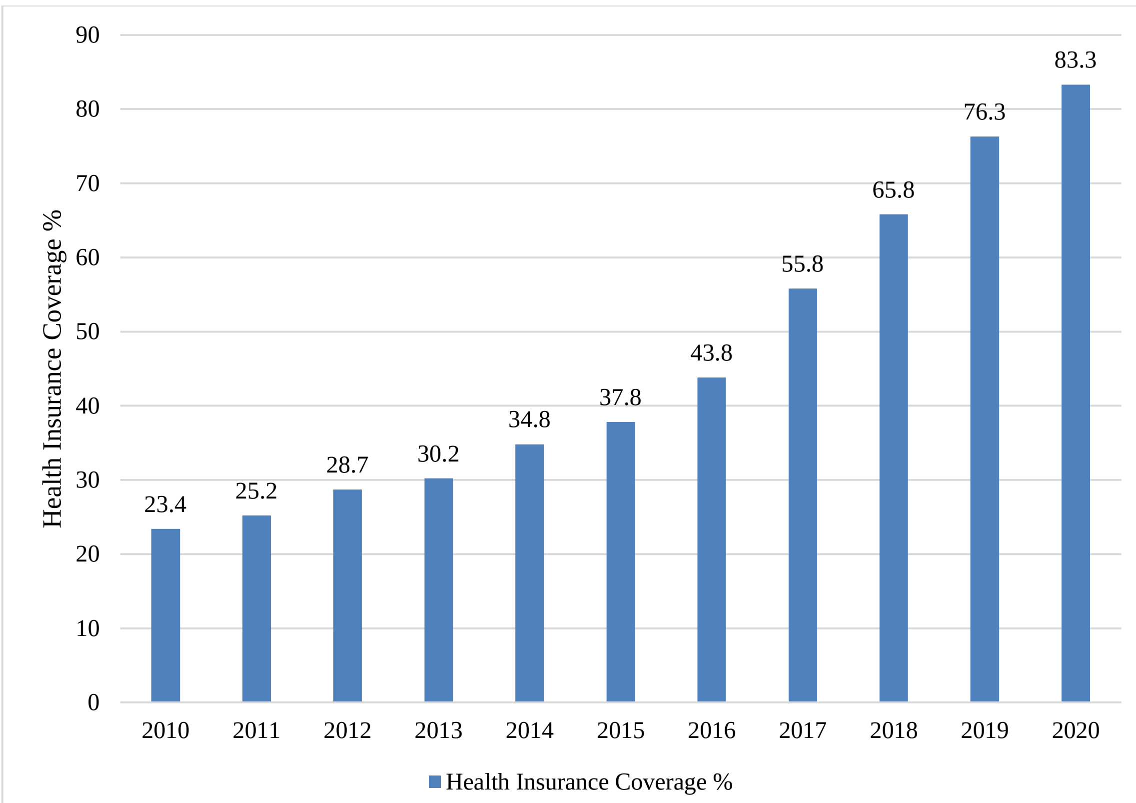
2.2 Health insurance in Sudan

Since the independence of Sudan from Britain in 1956 and up to the early 1990s, the health care service was provided free of charge (Sudanese Federal Ministry of Health, 2014). In the early 1990s, the government introduced the Structural Adjustment Program (SAP), which led to a sharp reduction in the public health expenditure. Subsequently, in 1992 the government introduced the user fee policy to fund its healthcare system (Ebaidalla and Ali, 2019).

To mitigate the negative consequences associated with SAP and user fee policy, the government launched a health insurance scheme in 1995 as an attempt to overcome the problems of inaccessibility to health care services (Salim and Hamed, 2017). In 2003, the health insurance policy was amended and the insurance authority was turned into the National Health Insurance Fund (NHIF, 2017), allowing the access of the entire Sudanese population to health insurance. The NHIF made enrollment mandatory for formal sector employees, and voluntary for the informal sector employees and small businesses (less than 10 employees). The subscriber unit is the family, while beneficiaries include the principal member and dependents (parents, spouse and children).

Despite the considerable efforts made by the health insurance fund to cover the entire population by 2020, the universal coverage remains an unattained target. A survey conducted by the Sudanese Ministry of Health on household health care utilization and expenditure (SHHUES, 2009), indicates that low income and poverty are among the main factors that curb coverage expansion, particularity among the poor households. To reduce the burden of high out of pocket health spending, the chamber of zakāh launched a poor supporting program in 2011, aiming at paying health insurance premiums on behalf of poor families. On an annual basis, the program supports thousands of poor households, focusing on the poorest families with disabled, elderly and pregnant mothers (NHIF, 2017). The efforts of zakāh have contributed to the expansion of health insurance in the last decade (see Figure 1). As seen in the figure, the health insurance coverage trend in Sudan has witnessed remarkable progress during the period (2010-2020), as this coverage increased from 23.4% in 2010 to 83.3% in 2020. This rapid coverage growth in the recent years reflects the efforts made by the chamber of zakāh (NHIF, 2020).

Figure 1: Evaluation of Health Insurance Coverage in Sudan

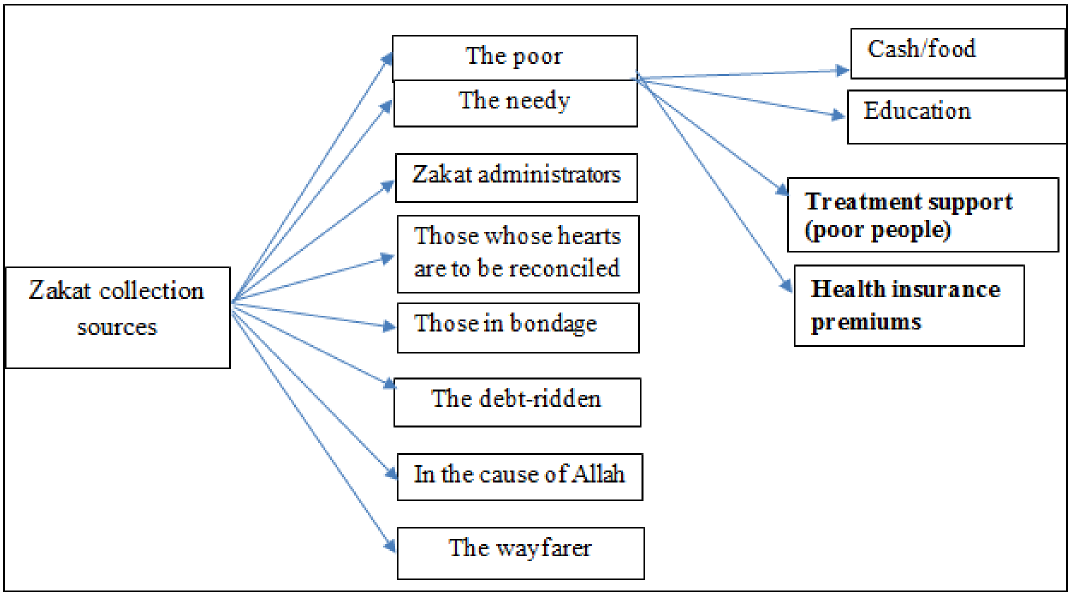


Source: NHIF (2020)

2.3 Zakāh engagement in health care provision

The zakāh in Sudan supports health care provision for the poor through two channels. The first is through enrollment of poor households into a health insurance scheme. As part of its mandate to subsidy the poor and needy, zakāh accommodates a considerable portion of the poorest households into health insurance coverage (NHIF, 2017). According to NHIF, zakāh has contributed significantly to expand the universal coverage via the poor support program initiative during the last decade (see Figure 1). The second channel through which zakāh supports health care for the poor is the direct payment of medical treatments for poor patients. In fact, zakāh provides a considerable fund to poor who need urgent treatment and surgery in public and private hospitals (NHIF, 2017). Figure 2 shows the intervention of zakāh in providing health care for the poor population in Sudan, through the two channels (i.e., insurance premiums and treatment support).

Figure 2. Zakāh contribution to health care provision for the poor people in Sudan



Source: Authors' adaptation based on the zakāh distribution process in Sudan

The figure indicates that zakāh is collected from its sources and then distributed to the eight categories (asnaf), which are mentioned in the Quarn. Allah says in Surat al Tawbah Verse 60, "The alms of zakāh are only for the poor, the needy, zakāh board, those whose hearts are to be reconciled, to free the captives and the debtors, and for the cause of Allah, and the wayfarer; a duty imposed by Allah. Allah is Knower and Wise" (Sura al Tawbah 9:60)2. According to the Sudanese experience, the Poor (Faqir) and needy (Miskin) represent the largest segments, receiving about 70% of total zakāh fund. This is consistent with the main objective of zakāh, as its fundamental target is to alleviate poverty and destitution from society (Al-Qaradawi, 2000). The figure also shows that the fund allocated to the poor and needy categories is directed to cover several expenses including direct cash support, food, education services, and paying health insurance premiums as well as the direct support to patients who live in extreme poverty. Thus, the fund that allocated to health care support is utilized for accommodating poor households into a health insurance, in addition to paying treatments' costs for poor patients.

3. Literature Review

In the Islamic economics framework, zakāh has been considered as a crucial Islamic pillar and an essential tool to achieve social welfare and empower the disadvantaged groups such as poor people. According to Maqāṣid al-Sharīʿah, the Islamic state should provide residents with the basic needs, such as food, clothing and shelter as well as health care and education (al-Faruqi, 1979 and Khatab, 2002). Thus, zakāh is considered as a crucial tool to achieve the goals of Maqāṣid al- Sharīʿah in Muslim communities, particularly the preservation of life. Through the zakāh, rich people can uplift the poor, help those who are troubled and support those who are in hardship. In addition, zakāh is an important means for the Islamic state to achieve social justice among the Muslim population, and eventually provide some kind of social security.

In Islamic jurisprudence (figh), Zakāh is defined as "that portion of a man's wealth is designated for the poor" (Sayyid Sabiq, 1991, p.1)). It is also defined as "an annual tax levied on wealth above a

[2] The English translation of this verse is quoted from the Holy Qur'an by Ali (2001)

specified threshold (Nisab), the proceeds (collection) of which were distributed to the needy" (Jehle (1994, 205). According to Zaim (1989) zakāh is "a compulsory levy imposed on the Muslims so as to take surplus money or wealth from the comparatively well-to-do members of the Muslim society and give it to the destitute and needy" (Zaim, 1989, p.101). Roughly speaking, zakāh is a compulsory obligation for Muslims to purify their wealth, which is rated as 2.5% of all productive wealth accumulated over the course of a year.

Although the Quran specifies the main categories to which zakāh should be distributed precisely (surat al Towbah, verse 60), Muslim scholars argue that there is some flexibility in distributing zakāh to the needy people as it is not limited in terms of cash only. According to some Muslim scholars such as Shaykh Ibn Baaz, zakāh can be used for health purposes and medical treatment of the poor. He says in his argument (fatwa) that "it is permissible to buy specific items (including medicines) for the poor person from zakāh fund when there is a need to do so" (Islam Questions and Answers, 2015). Muslim scholars argue that a sick person who is not able to work and does not have enough income to spend on health care, is one of those who are eligible for zakāh support. In other words, such a person is included in the general meaning of the verse 60 in surat al Towbah. In other words, the poor people suffering from illnesses are more entitled to zakāh than other poor and needy people, because they are not able to earn money (Islam Questions and Answers, 2015). Moreover, since health care expenses require huge amounts of households' budget, an ill who is poor is needier for zakāh than others. Thus, this argument (fatwa) is convincing for using zakāh to support poor' access to health care services.

The role of zakāh in social protection has received a considerable attention from researchers in recent decades. However, most of the existing literature dealt with the role of zakāh in poverty alleviation and microcredit, but only little attention was devoted to health care provision. Moreover, most of the existing research focused on the role of charitable institutions and Islamic voluntary organizations, with little reference to zakāh support. In this section, we briefly reviewed some available empirical research on the link between zakāh and health care provision in Muslim-majority countries.

Despite the little research attention devoted to the impact of zakāh on health care provision, most of the available literature confirms that zakāh significantly contributes to healthcare (e.g. Sharofiddin et al., 2019 and Bilo and Machado, 2020). For instance, Latief (2010) examined the role of community-based initiatives and zakāh in facilitating access to viable health care services for poor households in Indonesia. Using a desk review method and data collected from administrative records, he pointed out that Zakāh plays an important role in providing health care for the poor in rural and urban Indonesia. Specifically, the paper indicates that zakāh intervention in healthcare system significantly contributes to the availability and accessibility of medical treatments to the poor families at low-cost, even free of charge for some cases.

In the same vein, Bilo and Machado (2020) examined the role of zakāh in social protection in three Muslim countries, namely Jordan, Palestine and Sudan. The study revealed that beside the cash and in-kind support programs, zakāh committees run their own hospitals and health care centers in Palestine. For the case of Jordan, they found that health care is one of the most important destinations of zakāh funds, after cash assistance and orphan sponsorship. Zakāh also covers the cost of treatments for a large segment of poor families in Jordan. As an illustration, zakāh protected about 150,000 poor individuals from financial risks associated with medical expenses in 2015. Likewise, the study indicated that zakāh provides health care for Sudanese poor families in collaboration with the national health insurance fund. The study of Bilo and Machado (2020) concluded that zakāh plays an important role in providing health care for the poor in the three countries under study.

Kefeli et al., (2017) examined the impact of zakāh for medical assistance on the life quality of poor households in Malaysia. They found that health status is the significant predictor of the zakāh recipients life quality. At the micro level, the study revealed that the medical assistance by zakāh led to a significant improvement in both health status and quality of life of the poor. Likewise, Sharofiddin et al., (2019) examined the zakāh mechanism effectiveness in social protection in Malaysia. Using annual data over the period of 2010-2018, they found that zakāh was statistically insignificant to social protection through healthcare. They justified their findings by the weakness of the health care channel in improving social welfare and they recommended that the role of health care be enhanced by offering social health insurance policy for zakāh beneficiaries. Interestingly, their recommendation is in line with what has been taking place in Sudan since 2011.

Despite the scarcity of empirical studies regarding the impact of zakāh on health care provision for poor people, the above discussion makes it clear that zakāh plays a significant role in facilitating the poor access to health care in many Muslim-majority countries. Therefore, this study filled an important gap in literature and provided some policy implications about the link between zakāh and health care provision in the Muslim countries. Moreover, most of the existing experiences of zakāh are focusing on the direct financial support to sick people through purchasing treatments and running zakāh hospital and health centers. However, according to the best of the authors' knowledge the Sudanese experience of paying health insurance premiums on behalf of the poor is unique. Therefore, this study would help in drawing useful lessons from this experience. Furthermore, unlike the previous studies that adopted either a quantitative or qualitative method, this study relied on both quantitative and qualitative methods for the purpose of robustness check.

4. Data and Methodology

4.1 Data

To examine the role of zakāh in facilitating access of poor households to healthcare, the study used three data sources namely, administrative data, household survey and key informant interviews (KIIs). Therefore, the empirical analysis is divided into institutional, qualitative and quantitative analyses.

Administrative data

The administrative data was collected form the chamber of zakāh and the national health insurance fund (NHIF) covering the 2011-2020period. Data about the number of zakāh beneficiaries for all Sudanese states were gathered from NHIF whereas those on the proportion of poor households who enrolled into health insurance through zakāh in each state were gathered from the chamber of zakāh.

Household survey

This study used the dataset collected through a household survey conducted in 2018 to examine the determinants of health insurance affiliation in Sudan3. The survey was funded by the NHIF and covered a sample of 742 respondents selected from two Sudanese states: Khartoum (416) and Kassala (326). These two states were chosen for the purpose of comparison, since Khartoum contains a considerable number of internally displaced people (IDPs), while Kassala is one of the poorest states in Sudan.

The survey is based on the cluster-sampling technique, dividing the population into three groups (i.e. sampling units). The primary sampling unit is represented by the state; the secondary sampling unit is the locality, and finally the administrative unit within the locality represents the final sampling unit. The questionnaire was administrated asking respondents about their demographic and economic characteristics along with health status. The total sample (742) was divided into three groups namely: zakāh health insurance participants (116), self-funded health insurance group (192) and finally the non-health insurance participants (434).

Key Informant Interviews (KIIs)

In addition to the household survey, the study used qualitative data collected via key informant interviews (KIIs). A semi-structured interview was conducted with experts and executive people selected from the health insurance fund and the chamber of zakāh. This provides an in-depth information about the role of zakāh in health care provision. We followed a snowball sampling technique to deliberately select 10 key informants from a list of potential respondents. Five experts were selected from the NHIF and the other five respondents were selected from the chamber of zakāh.

3 The survey is supported by the NHIF and conducted in 2018 to study the factors that influence participation in health insurance.

4.2 Analysis Methods

Based on the above-mentioned data sources, the study used both quantitative and qualitative methods. The analytical and descriptive approach was adopted in the quantitative analysis to assess the extent to which zakāh contributes to providing health care for poor households. Specifically, the analysis adopted descriptive statistics and an econometric approach to understand the impact of zakāh on health care utilization and reducing OOP healthcare expenditure.

Econometric technique

To get more insight into the role of zakāh in facilitating access of the poor to health care we estimated the health demand function, using the OOP health spending as a dependent variable. This helps us to understand the effect of zakāh on health care utilization and access. To this end, we excluded the sub-sample of self-insured, focusing on the remaining two groups (i.e. zakāh insured (116) and non-insured group (434)). Thus, the research question here was whether health insurance provided by zakāh reduces the OOP health expenditure among poor households? It is well understood that OOP health expenditure undermine the ability to access to healthcare, particularly for poor households. Therefore, we expected that Zakāh beneficiaries to be less likely to be exposed to the OOP health spending compared to non-insurance participants. Based on the existing literature on the health demand function (e.g. Grossman, 1972; Parker and Wang, 1997; Su et al, 2006 and Ebaidalla and Ali, 2019), the model specification for households' health expenditure can be expressed as follows:

$$OOP_i = \alpha + \beta X_i + \gamma \text{Zakāh}_i + \varepsilon_i \qquad (1)$$

where OOP is the out of pocket health expenditure, which is the value of money spent by the household on health services during the previous month, measured in Sudanese pound (SDG). Following the empirical literature on OOP health spending (e.g. Grossman, 1972; Su et al, 2006 and Ebaidalla and Ali, 2019), the dependent variable is related to a vector of explanatory variables (X) and zakāh participation variable (Zakāh). The explanatory variables include a set of household' socio-economic, demographic and location characteristics. Specifically, the explanatory variables include the head of the household age, gender, marital status, educational level, size of the household, (urban/rural) residence and distance to health services. Zakāh is our key independent variable, which is expected to have a negative sign, suggesting that participating in health insurance through zakāh reduces OOP health expenditure incurred by the poor households. Finally, ε is a normally distributed error term with zero mean.

To estimate our model, we tried both of the Heckman selection model and ordinary least square (OLS) method. It is well acknowledged that analyzing households' health payment decision using a sample that excludes households who do not report health care payments will lead to biased estimates (Rous and Hotchkiss, 2003). Indeed, poor people generally seek healthcare only when they are sick and so many of them pay for health care only when they seek medical treatment (Rous and Hotchkiss, 2003 and Ebaidalla and Ali, 2019). People who are reported to be sick and seek treatment spend a positive amount on medical attention. Consequently, healthcare spending data is always characterized by a large cluster at zero (0) and a right skewed distribution (Karimo, 2014). In such case, the problem of sample selection bias may arise and, therefore, the conventional OLS method turns out to be inadequate to allow reliable results. To solve the sample selection bias problem, the study referred to the Heckman (1979) two-step selection model to check whether the model under consideration suffers from this anomaly4. The Heckman model results rely on the significance of lambda coefficient (λ), (i.e. the selection term). If lambda coefficient is significant, this implies that the model suffers from the selection bias problem. On the other hand, if lambda is insignificant, it indicates that the model is selection bias-free, and that the OLS estimation can be adopted. To specify the Heckman two-step model, we used the existence of health facilities in a certain community as an instrument in the selection equation.

4 We use the existence of health facilities as an identifying variable in Heckman selection equation. That is, a household residing in a community in which health facilities are available tend to report positive expenditures on health care service, but not the amount of OOP expenditure.

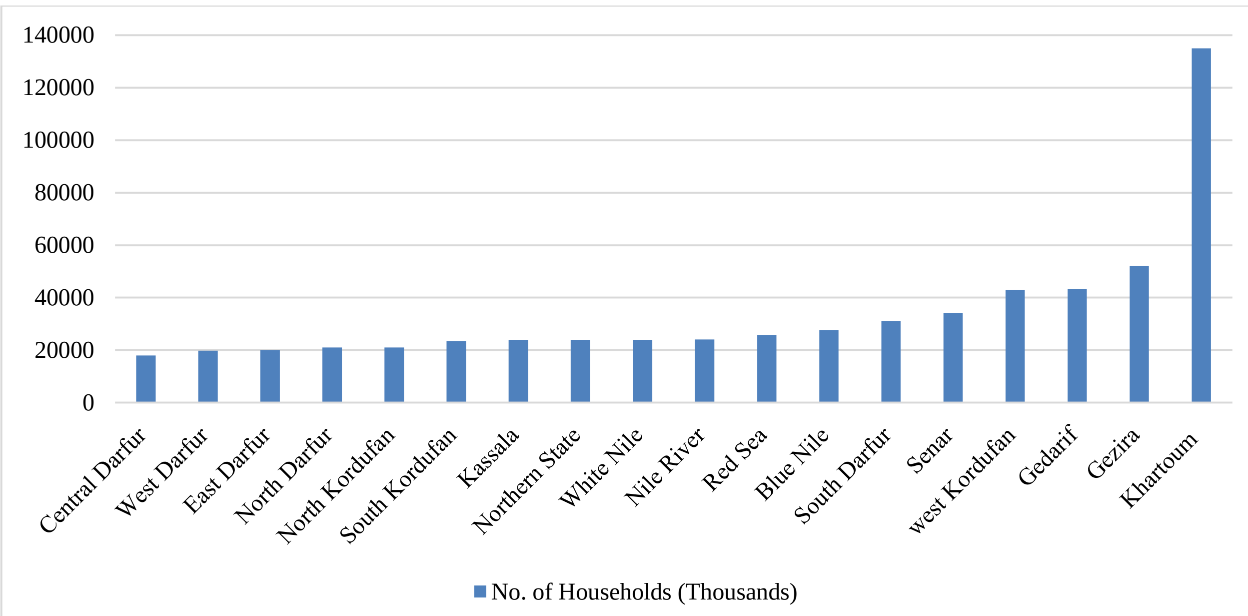
5. Empirical results and analysis

Following the above-outlined methodology, this section reported and discussed the empirical findings. It was divided into three sub-sections: the first sub-section highlighted the contribution of zakāh to health insurance and health care provision based on the administrative data. the second su-section detailed the qualitative analysis based on KIIs whereas sub-section three provided the econometric results and some descriptive statistics on the respondents' key characteristics.

5.1 The role of zakāh in the provision of health care to the poor: Institutional data analysis

As outlined in section two, zakāh contributes significantly to health care provision through two channels: (i) enrolling the poor households into health insurance and (ii) supporting medical treatment of the poorest people. Figure 3 displays the average of households that enrolled annually into the health insurance coverage during the period (2011-2019).

Figure 3. Households that enrolled by zakāh into health insurance by state- average period (2011-2019)

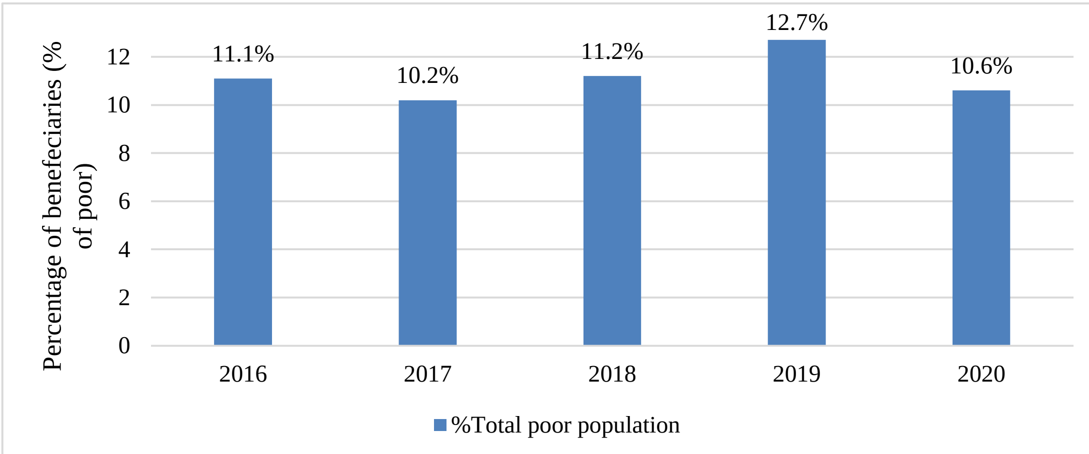


Source: NHIF (2020)

Figure 3 shows that across all Sudanese states, the number of zakāh beneficiaries who were accommodated into the health insurance coverage is more than 20,000, on average during the period of 2011-2019. Zakāh beneficiaries in some states, such as West Kordufan, Gedarif and Gezira exceeded 40,000 households. In Khartoum state, for instance, the number of zakāh beneficiaries is about 135,000 poor households. This can be justified by the fact that Khartoum is the biggest Sudanese city and hosts more than the quarter of Sudan's population.

Regarding the proportion of poor people covered by zakāh, Figure 4 shows the percentage of poor households who benefited from zakāh as a ratio of total number of poor families, over the period of 2016-2020.

Figure 4. Percentage of poor households insured by zakāh as a ratio of the total number of poor families

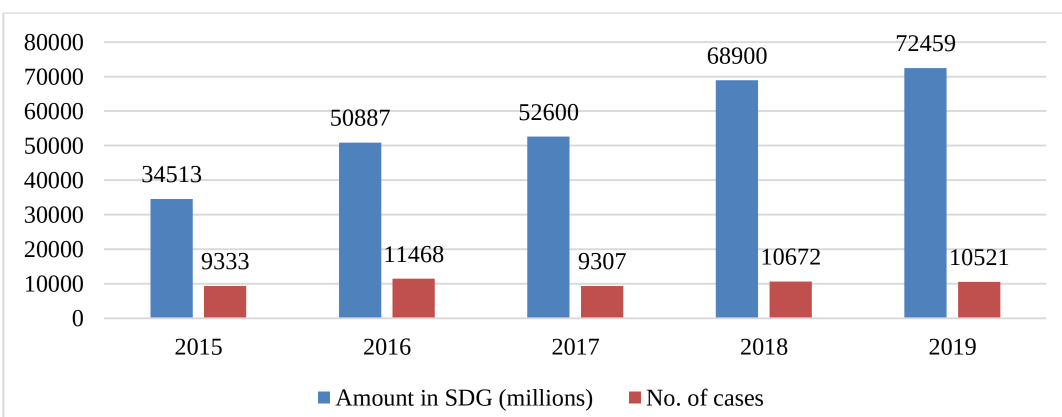


Source: Chamber of Zakāh (2020)

Figure 4 points out that the average percentage of poor households who benefited from zakāh insurance coverage program during the last five years is about 11%. This implies that during this period, zakāh annually enrolls about 11% of the poor population into the health insurance coverage. This also highlights the role of zakāh in facilitating access of poor households to health care services.

As for the second channel through which zakāh supports poor households (i.e., direct payment), the available statistics revealed that zakāh has allocated a considerable fund to treat thousands of poor patients over the last ten years. Figure 5 reports on the number of cases that benefited from zakāh support along with the total amount of fund in Sudanese pounds over the 2015-2019period.

Figure 5: The amount of fund and number of cases that benefited from direct support



Source: Chamber of zakāh (2020)

Figure 5 indicates that the average of poor people who received treatment support is about 10,000 per year during the period of 2015-2019. As previously indicated, the process starts by submitting the treatment bills to the local zakāh unit and then to the chamber of zakāh in a certain state for the payment of the hospital or center where the poor received themedical treatments. This channel contributes significantly to facilitate the access of the poor to health care services and then reduces the impoverishment impact of OOP health payments.

5.2 The qualitative analysis results

As outlined in the methodology, ten interviews were administered to five NHIF' officials (three at the federal level and two at state one) and five executive people from the chamber of zakāh (three in Khartoum and two in Kassala state). The interviews aimed to answer the question on the extent to which zakāh contributes to improve access of poor households to health care? These interviews also aimed at evaluating the intervention adopted by zakāh to enroll the poor into the health insurance system. In this subsection, we summarized the main answers of the interviewees in the two institutions (NHIF and chamber of zakāh).

The chamber of zakāh representatives in the two states acknowledged that zakāh continuously supports the poor through promoting education, facilitating health insurance participation and paying treatment bills. In this regards, interviewee No.2 mentioned that, "Zakāh supports many poor programs including education, health and microcredit. The main objective of zakāh fund is to help the poor and needy, especially those who have no income to pay the costs of health care." Interviewee No.3 claimed that, "Zakāh engages in several programs that aim to improve individual and social conditions. Zakāh supports the health status of the poor in all aspects, through providing health insurance policy and treatment support for the poorest people". All the interviewees indicated that enrolling the poor into the health insurance program is the most important initiative adopted by zakāh in the last decade. Interviewee No 5 said that, "On monthly basis, zakāh is committed to pay insurance premiums for thousands of poor households in Khartoum state, hence, preventing thousands from being exposed to poverty, as health payments send many households to below poverty line. Thus, through the health insurance program, zakāh contributes significantly to poverty alleviation and hence to achieving the main objective of Shari'a (preserving the life)".

The interviewees from the chamber of zakāh pointed out that zakāh as an Islamic obligation that considers life preservation as a top priority. Thus, through providing health insurance for poor households, zakāh contributes to the economic welfare of the nation as healthy people are more able to engage in economic activities, which consequently increases production and economic growth. Interviewee No.1 from zakāh chamber said that "The overall goal of zakāh is to help the deprived people who are suffering from all kinds of discrimination. In this regard, zakāh often supports the healthcare system in Sudan for the benefit of the poor in order to reduce the burden of health expenses." Overall, the zakāh officials revealed that zakāh plays a crucial role in social protection through easing the access of the poor to health care services, hence mitigating the burden of OOP health payments and contributing to poverty reduction.

In the same vein, the information gathered from the interviews with the health insurance officials confirm the support of zakāh to poor households through paying the monthly insurance premiums for thousands of households. Most of the interviewees claimed that the intervention of zakāh in providing health insurance led to the increase of insurance coverage. Therefore, zakāh contributes to the universal health coverage policy in Sudan. For example, interviewee No.2 mentioned that, "Since the beginning of zakāh program, the health insurance coverage has increased remarkably". He added that "Zakāh supports the NHIF plan that aims to accommodate the poor and informal workers under the umbrella of health insurance". Interviewee No.3 from the NHIF pointed out that, "Through zakāh initiative, many poor households and their dependents benefited from health insurance coverage and health service packages provided by the NHIF in the form of medical consultations, drugs and diagnosis". These views confirm the expansion of health insurance coverage during the last decade as shown in Figure 1.

Moreover, there is an agreement among most interviewees that zakāh prevents poor households from catastrophic health charges. The interviewees also indicated that zakāh protects thousands of beneficiaries against becoming a victim of extreme poverty due to high out-of-pocket health payments. For example, Interviewee No. 4 indicated that, "Through insuring poor people, zakāh contributes significantly to reducing the burden of health expenses endured by families, and eventually helps curb poverty in the country"

Both NHIF and zakāh' interviewees mentioned that there is a good collaboration between zakāh and the health insurance fund regarding the provision of health care services to the poor population at both federal and state levels. Overall, most of KIIs confirm that zakāh has a significant role in facilitating the poor access to health care services and contributes significantly to the UHC efforts in Sudan. They also confirm that zakāh reduces the negative consequences of OOP health spending among the poor population in Sudan.

However, despite the positive role of zakāh providing the poor with access to health care, the interviewees raised some concerns about the engagement of zakāh in enrolling the poor into health insurance, and suggested some recommendations to maximize the role of zakāh. The NHIF interviewees claimed that the lack of awareness among zakāh beneficiaries hampers their efforts to enable the poor benefit from health care. In addition, political intervention in selecting zakāh beneficiaries indirectly prevents potential poor persons from accessing health care services. Therefore, the process of identifying beneficiaries needs to be revised. On the other hand, some chamber of zakāh officials claimed that the health care package provided by the health insurance does not cover all medications, causing some of the poor to request extra support from zakāh and other charitable organizations. They also indicated that the high inflation and increase in insurance premiums over the previous years weakened the ability of zakāh to expand health insurance coverage for poor households.

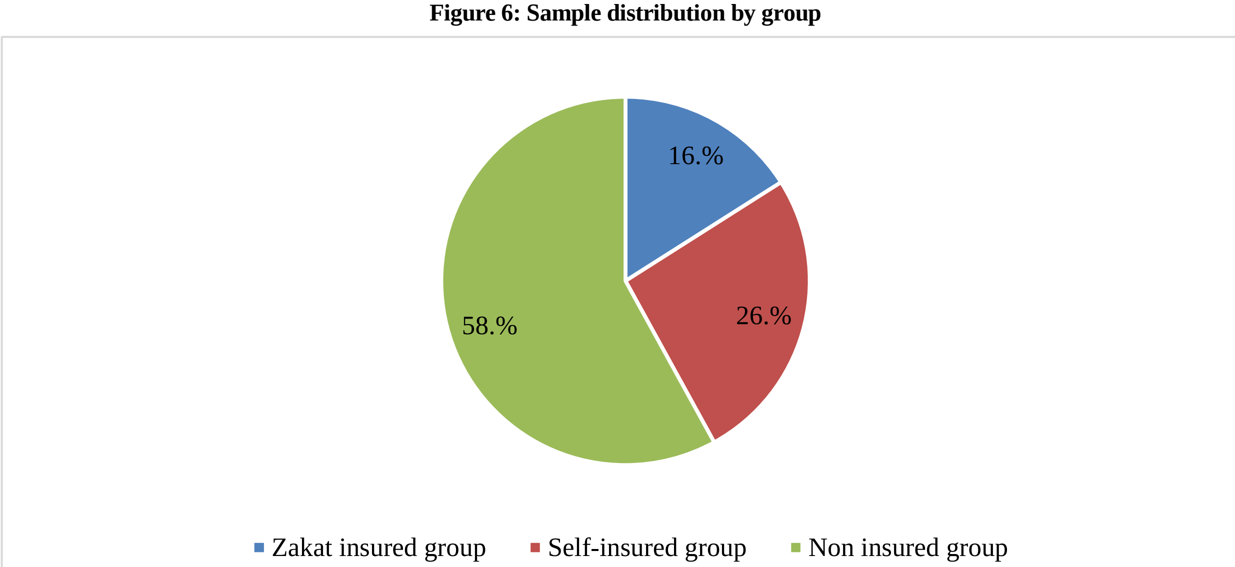
5.3 The role of zakāh in providing health insurance to the poor: A household level analysis

This sub-section introduced the results of quantitative analysis based on the data collected from the household survey. It is divided into two parts: the first part reported on the descriptive statistics of the sample while the second one detailed the econometric results of estimating the impact of zakāh on OOP health expenditure.

5.3.1 Descriptive Statistics

To understand the respondents' demographic and socioeconomic status, we introduced some descriptive statistics about the sample used in the analysis. As previously mentioned, the sample is divided into three groups as shown in Figure 6 below. The first group consists of poor households who enrolled in the health insurance via the chamber of zakāh (116) while the second group involves the self-insured households (192). The third group, however, includes the poor households without health insurance (434). Figure 6 shows the distribution of the sample by group.

Figure 6: Sample distribution by group



Source: Survey data, 2018

The pie chart in figure 6 shows that most of the respondents (58%) do not have health insurance. This indicates that a sizable portion of the poor population in Sudan is out of the health insurance coverage. This also reflects the low rate of health insurance coverage among the poor households in Sudan, as already stated in section 2. The percentage of households that pay for their insurance themselves is about 26%, while the portion of those enrolled through the chamber of zakāh is 16%. Since zakāh fund concentrates on the poorest population, this percentage emphasizes the efforts made by zakāh institutions to provide health coverage for the poor households. This result is also consistent with the administrative data, which shows that the average of poor households who received insurance has been around 11% at the national level, during the last five years.

Table 1 reports the respondents' demographic characteristics, dividing the sample into three groups: zakāh insured, self-insured and non-insured people.

Table 1. Demographic characteristics of the head of households

Respodents	Measure	Zakāh insured		Self-insured		Non-insured	
		Freq.	Percent	Freq.	Percent	Freq.	Percent
Age	>= 24 year	1	1	4	2	20	5
	24-35 year	13	11	26	14	108	25
	36-50 year	47	41	80	42	208	48
	51-64 year	35	30	56	29	77	18
	More than 64	20	17	26	14	21	5
Gender	Female	18	16	27	14	53	12
	Male	98	84	165	86	381	88
Size of household	1-3 members	13	11	31	16	61	14
	4-7 members	39	34	68	35	229	53
	More than 7	64	55	93	48	144	33
Marital Status	Married	101	87	168	88	361	83
	Single	2	2	12	6	47	11
	Divorced	4	3	5	3	14	3
	Widowed	9	8	7	4	12	3
Educational status	Illiterate	39	34	50	26	123	28
	Primary	37	32	53	28	116	27
	Intermediate	9	8	13	7	37	9
	Secondary	20	17	45	23	116	27
	University and above	11	9	31	16	42	10

Source: Survey data, 2018

Table 1 indicates that compared to the self-insured and non-insured groups, the majority of zakāh beneficiaries are elders with above 50 years. This implies that zakāh targets the elderly, who are more needy and vulnerable to unemployment and illnesses. The percentage of female respondents in the zakāh sample is also higher than those of the other two subsamples, implying that zakāh supports the poorest females. Moreover, the table shows that the percentage of large households (i.e, having more than seven members) is high for zakāh group (55%) compared to self-funded (48%) and non-insured groups (33%). Since the large households are more vulnerable to poverty and involve a greater number of dependents, targeting this type of households ensures that more people from poor families enjoy health care services. Regarding the marital status, all sub-samples are similar, since married category is similar to the bulk of the respondents. Interestingly, this table also shows that the majority of zakāh beneficiaries have a low educational level if not illiterate, as the percentages of the illiterate and primary education level for zakāh sub-sample are 34% and 32%, respectively, compared to 26% and 28%, for self-insured, and 28 and 26%, respectively for the non-insured group. The high rate of illiterate (34%) among zakāh group indicates that about one third of zakāh beneficiaries are not educated, which might justify their misery. Likewise, the table indicates that the proportion of the respondents who have completed tertiary education is very small among zakāh beneficiaries. Regarding the socio-economic characteristics of respondents, Table 2 reports on the main socio-economic indicators for the three groups under study.

Table 2. Socio-economic Characteristics of the Respondents

	Measure	Zakāh insured		Self-insured		Non-insurance	
		Freq.	Percent	Freq.	Percent	Freq.	Percent
Monthly Consumption	Less than SDG 500	15	13	2	1	8	2
	SDG 500 - 1500	52	45	26	14	36	8
	SDG 1500 - 2500	28	24	34	18	78	18
	SDG 2500 - 3500	15	13	58	30	134	31
	SDG 3500 - 5000	2	2	39	20	79	18
	> SDG 5000	4	3	33	17	99	23
Employment status	Employed	96	83	169	88	372	86
	Unemployed	20	17	23	12	62	14
Residence' building materials	Wood and grass/net	46	40	72	38	191	44
	Mud	42	36	64	33	150	35
	Bricks	28	24	56	29	93	21

Source: Survey data, 2018

The table revealed that compared to self-insured and non-insured groups, the majority of zakāh beneficiaries live with income less than 1500 SDG per month. This indicates the extreme deprivation among zakāh beneficiaries, measured by monthly income. In other words, different from the self-insured and non-insured groups, more than half of zakāh respondents live on less than 1500 SDG income. This result confirms once more the fact that zakāh targets the poorest households. Interestingly, the respondents with a monthly income above SDG 5000 represent about 3%, 17% and 23% for zakāh, self-insured and non-insured, respectively. Table 2 also indicates that the unemployment rate among zakāh beneficiaries is high (17%) compared to 12% and 14%, for the self-insured and the non-insured, respectively. Furthermore, the table shows that a considerable segment of the respondents from the zakāh group (i.e. about 46%) resides in houses made of wood and grass, confirming that the majority of the zakāh beneficiaries live in extreme poverty. The big number of houses made of wood and grass may also indicate that poor households lack access to sanitation and hygiene services and are more likely to be exposed to poverty and illnesses. Moreover, living in such harsh conditions is more likely to increase the incidence of infections and acute diseases and, as a result, expose such people to high OOP health payments.

To get better insight into the health situation of the respondents, we introduced some facts about their health characteristics. This would enable us to understand the role of zakāh in facilitating the poor access to healthcare. Table 3 sheds some light about the health situation of the respondents.

Table 3. Respondents Health Status

	Measure	Zakāh insured		Self-insured		Non-insured	
		Freq.	Percent	Freq.	Percent	Freq.	Percent
Respondents Health Situation	Healthy	48	41	113	58	342	79
	Disabled	4	3	1	1	3	1
	Chronic diseases	64	55	78	41	89	21
Types of chronic Diseases of the Respondents	Diabetes	28	44	26	33	21	30
	Hypertension	11	17	10	13	18	26
	Asthma	5	8	2	3	4	6
	Heart disease	4	6	1	1	5	7
	Others	4	6	6	8	6	9
	Co-morbidity	12	19	33	42	15	22
Dependents chronic diseases status	Yes	52	45	64	33	93	21
	No	64	55	128	67	341	79
Number of consultation/ visits to health centers/hospitals	None	0	0	2	1	16	4
	One time	8	7	15	8	43	10
	Two times	3	3	21	11	62	14
	Three times	12	10	20	10	91	21
	> three times	93	80	134	70	222	51
Out of pocket health Expenditures	Nothing	5	4	3	2	17	4
	< 100 SDG	23	20	19	10	10	2
	100-500 SDG	30	26	42	22	95	22
	500-1000 SDG	12	10	40	21	88	20
	1000-1500 SDG	18	16	36	19	88	20
	> 5000 SDG	28	24	52	27	136	31

Source: Survey data, 2018

The table shows that more than half of zakāh-insured respondents (i.e. 55%) suffer from chronic diseases. For the other two groups, however, the proportion of respondents with chronic diseases are about 41% and 21% for self-insured and non-insured groups, respectively. Likewise, the proportion of healthy respondents among zakāh beneficiaries is very small compared to the other two groups. These statistics indicate that the incidence of chronic diseases among zakāh beneficiaries is approximately the double of that of non-insured group. It is worth mentioning that households with a high rate of chronic diseases are more likely to require health care services and be vulnerable to high out-of-pocket health expenditure. Thus, zakāh plays an important role in facilitating access of the poor to health care and reducing their OOP health payments.

Regarding the types of chronic diseases, Table 3 indicates that diabetes and hypertension are among the most common chronic illnesses among the full sample and zakāh respondents. Respondents suffering from diabetes represents 44%, 33% and 30% in zakāh, self-insired and non-insured groups, respectively. The prevalence of these illnesses among poor households may signify the widespread of chronic diseases among the poor population in Sudan. This also confirms the eligibility of zakāh beneficiaries for a health insurance coverage. Moreover, the table reveals that the prevalence of chronic diseases among the dependents of zakāh beneficiaries is high compared to other groups. Since the members of the household benefit from the subscribed head of the family in insurance, zakāh provides a huge segment of the poor population with health care.

The table also reveals that the majority of the respondents in the three groups seek medication more than three times throughout the six months preceding the survey. The high rate of visits to health care facilities among zakāh beneficiaries implies that health insurance enhances health care resort for the poorest families. Interestingly, the table shows that, compared to the non-insured group, zakāh respondents pay less for healthcare, implying that zakāh beneficiaries are less likely to incur high out of pocket health expenditure. This also means that zakāh plays important role in reducing risk associated with OOP health payments; in other words it promotes access to health care. Moreover, despite the high morbidity rate among zakāh beneficiaries, their OOP expenditure is less than that endured by non-insured group, indicating the importance of insurance in reducing OOP health spending. Overall, the above findings imply that zakāh has a significant impact in facilitating access of poor households to health care, with low OOP health expenditure.

Concerning the respondents' perception on the quality of the health insurance services, table 4 reports some responses regarding service satisfaction and insurance coverage. Since we have only two groups of insurance participants, we rather focused on zakāh and self-insured groups only.

Table 4. The perspective of insurance enrollees regarding satisfaction

Measure		Zakāh insured		Self-insured	
		Freq.	Percent	Freq.	Percent
Beneficiaries' Satisfaction	Excellent	44	38	44	23
	Good	51	44	91	47
	Acceptable	13	11	41	21
	Bad	8	7	16	8
HI's coverage	Covers all prescribed drugs	19	16	24	13
	Covers part of prescribed drugs	96	83	159	83
	Does not Cover the drugs	1	1	9	5
How long under HI	Less than 6 months	5	4	19	10
	6 moths- one year	12	10	17	9
	One year- two years	17	15	42	22
	More than two years	82	71	114	59

Source: Survey data, 2018

Table 4 informs us that about 38% and 23% of zakāh and self-insured groups, respectively, believe that the services provided through health insurance are excellent. About half of the participants in both zakāh and self-funded group declared that these services are good. It is also claimed that the majority of the participants in both groups indicated that health insurance covers only a part of the prescribed treatments. This confirms the claim of zakāh participants who recognizeded that the insurance does not cover all health care services. Finally, according to the same table, the majority of the respondents from the two groups indicated that they have been registered in the health insurance for two years. This confirms the continuous support of zakāh to enroll poor household members into the health insurance coverage.

5.3.2 Econometric Results

As outlined in the methodology, to examine the role of zakāh in health care provision, the study estimated the impact of zakāh on OOP health spending. The first step in the analysis is to apply the Heckman (1979) two-step selection model to test whether it suffers from the problem of sample selection bias. The results in Table 5 indicate that the lambda coefficient (the selection term) is significant, implying that our model is suffering from this bias problem. Therefore, we proceeded with the Heckman selection approach to estimate our model. The Heckman model estimation results are displayed in Table 5.

Table 5: Heckman Selection Model Estimation Results

Dependent variable is the log of health expenditure

Variables	Outcome equation		Selection equation	
	Coefficient	Std. error	Coefficient	Std. error
Zakāh	-0.338***	0.038	-1.329***	0.324
Male	0.105**	0.043	-0.187	0.407
Age	0.001	0.001	0.009	0.012
Married	-0.010	0.042	0.834**	0.326
Years of schooling	0.002	0.003	-0.029	0.028
Household size	-0.002	0.005	-0.015	0.043
No of rooms	0.013	0.010	0.339***	0.119
Chronic	0.032	0.034	-0.305	0.288
Admission	0.195***	0.027	0.105	0.266
Urban	-0.041	0.035	-0.143	0.395
Khartoum	0.059*	0.034	-0.810*	0.465
Distance	0.121**	0.052	-0.066	0.500
Health facilities	-		0.494***	0.102
Constant	1.348**	0.084	0.277	0.820
lambda	-0.262**	0.107		
Observations	550			

Standard errors in parentheses

***, ** and * indicate significance at the 1%, 5% and 10% level, respectively

Focusing on the obtained equation, we can observe that the zakāh coefficient is negative and statistically significant, implying that zakāh significantly reduces out-of-pocket health expenditure among poor households. This also suggests that zakāh reduces the risk of catastrophic health payments, something that was avoided by th poor; hence zakāh positively contributes to their access to health care. In other words, since high OOP health expenditure reduces access to health care, the negative sign of zakāh coefficient implies that zakāh improves access of the poor to health care. This finding also confirms the results reported in the descriptive statistics, as zakāh respondents are less likely to incur high OOP health payments compared to non-zakāh beneficiaries.

Concerning the control variables, the Heckman two-step selection model results indicate that most of the variables are associated with the expected signs and their magnitudes are in agreement with previous studies. Specifically, this result implies that males are more likely to expose to OOP health expenditure than their female counterparts. Admission into hospital has a positive and significant impact on OOP health payment, implying that this admission increases OOP health spending. Finally, and as expected, the distance coefficient is positive and statistically significant, suggesting that households residing in remote areas tend to spend more in order to get access to health care services.

6. Conclusion and Recommendations

Over the past two decades, the chamber of zakāh in Sudan has exerted sizable efforts to provide health care for poor people. However, despite the relatively long engagement of zakāh in health care provision, the information available on its role is very scanty. This study, therefore, aimed to examine the role of zakāh in facilitating the poor access to health care in Sudan. To this end, it used administrative data, household surveys and key informant interviews.

The results revealed that zakāh accommodates a considerable portion of Sudanese poor households into the health insurance coverage throughout the country. Specifically, zakāh enrolls about 11% of poor households into the health insurance annually, targeting families with disabled members and living in extreme poverty. Zakāh also contributes to the treatment of thousands of patients every year. The key informant interviews indicated that during the last two decades zakāh has allocated considerable resources to support poor patients and enroll thousands of poor household members into the health care coverage. Thus, the zakāh intervention obviously improved the access of the poor to health care services in Sudan. The insurance officials mentioned that zakāh initiative to accommodate the poor into the insurance coverage has significantly contributed to the universal health coverage in Sudan, mainly during the last ten years. The qualitative analysis also pointed out that the lack of awareness among zakāh beneficiaries and the mistakes in selecting target groups are among the main constraints that hamper the role of zakāh in facilitating access of poor households to health care services.

Moreover, the household survey indicated that zakāh accommodated about 16% of poor households into the health insurance in the two states under study. The socioeconomic and demographic characteristics of the respondents confirm that zakāh targets the poorest households. The results also proved that zakāh beneficiaries are less likely to be exposed to out-of-pocket health expenditure, thanks to the zakāh intervention, which noticeably reduced the health expenses. Furthermore, the econometric results revealed that participating in the health insurance programme through zakāh reduced the OOP health expenditure, confirming the fact that zakāh significantly facilitated the poor access to health care in Sudan.

Based on the above findings many recommendations can still be proposed to promote the role of zakāh in providing health care for poor households. First, awareness among zakāh beneficiaries should be enhanced to increase health care utilization among participants. Second, the selection mechanism of target beneficiaries needs to be revised to maximize the role of zakāh by targeting the poorest households. Third, given the increase in poverty in the recent years, further resources need to be mobilized for zakāh fund to expand the insurance umbrella and accommodate more poor people so as to help achieve the universal health coverage. Fourth, collaboration between the chamber of zakāh and health insurance fund should be strengthened via an exchange if information in order to enhance the role of zakāh in this health coverage.

Nevertheless, the results of this study are subject to some limitations. First, the findings resulting from the household survey are based on data collected from two states (Khartoum and Kassala). Although these states represent about 30% of the Sudanese population, the quantitative analysis results cannot be generalized to the rest of the states. Second, the administrative data covers a very short period of time (2015-2020); hence, the unavailability of data that spanned over a longer period prevented us from investigating the effect of zakāh on health sector on the long run. Third, during the past few years, Sudan has witnessed unfavorable economic performances due to the COVID-19 pandemic and political instability after the Sudanese revolution (2018-2019). All these definitely influenced the role of zakāh in supporting the poor population. Therefore, the lack of new data disallowed us to examine the performance of zakāh under the new economic setting of Sudan.

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دور الزكاة في تقديم الرعاية الصحية للفقراء في السودان

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المستخلص. على الرغم من أن تطبيق الزكاة في السودان في جانب الرعاية الاجتماعية وتخفيف حدة الفقر، امتد لسنوات طويلة، إلا أنه لا توجد أدلة علمية تشير لاستفادة الفقراء من الزكاة في مجال الرعاية الصحية. هَدَفت هذه الدراسة إلى تقييم دور ديوان الزكاة في تقديم الرعاية الصحية للأسر الفقيرة في السودان، من خلال تحليل بياناتٍ أوليَّة وثانويَّة جُمِعت من ولايتين في عام ٢٠١٨. اعتمدت الدراسة على منهج التحليل الكمي والنوعي، وتوصَّلتْ إلى أن الزكاة ساعدتْ مجموعة كبيرة من الأسر الفقيرة في الاستفادة من الرعاية الصحية عبر برنامج التأمين الصحي. كما بيَّن التحليل الكمي أن فرصة المستفيدين من الزكاة أكبر للحصول على خدمات الرعاية الصحية بتكلفة أقلّ، مقارنة بغير المستفيدين، ما يعني أن الزكاة تُسهِم في تقليل النفقات الصحية للأسر الفقيرة، وبالتالي تحميهم من مخاطر الإنفاق الصحي الكبير. كما أشارتْ نتائج المقابلات إلى أن ديوان الزكاة يُخصِّص جزءًا معتبرًا من موارده لتمويل الرعاية الصحية للأسر الفقيرة. بناءً على نتائج البحث تُوصي الدراسة بتعزيز التعاون بين ديوان الزكاة وصندوق التأمين الصحي؛ مما يدفع باتجاه تقديم المزيد من الرعاية الصحية للمحتاجين، كما توصي الدراسة كذلك؛ بالاستفادة من التجربة السودانية في هذا المجال بغرض تسهيل استفادة الفقراء من هذه الخدمة في الدول ذات الأغلبية المسلمة.

الكلمات الدَّالة: الزكاة، الرعاية الصحية، التأمين الصحي، الحماية الاجتماعية، السودان

تصنيف JEL: I12, I13, I31, I38

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Institutionalized zakāh in addressing well-being problems in non-Muslim Majority Sri Lanka

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Abstract. Institutionalized zakāh has long been a decisive tool that provides various types of support to addressing a variety of well-being problems of the Muslim community in Sri Lanka, a country where such a community is a minority. Being significantly successful to empowering the underprivileged of the community, the zakāh has also faced challenges that negatively impacted its effective functioning. This study aimed to investigate institutionalized zakāh's multiple support, identifying its challenges and suggesting some recommendations to make its' role more effective. This is an exploratory study used qualitative data collected through interviews with five zakāh institutions in the Eastern part of the country. The findings showed that: zakāh provided the target community with access to basic needs, economic opportunities and assistance for higher education. However, the shortage of professional and properly trained human resources, misuse of support, lack of beneficiary monitoring mechanism, and lack of community awareness on zakāh were all identified as prime challenges that have to be addressed to attain the utmost benefits from the embedded potential of zakāh.

Keywords: Institutionalized zakāh, zakāh institutions, zakāh payers, zakāh beneficiaries, Muslim minority, Sri Lanka

JEL CLASSIFICATION: D64
KAUJIE CLASSIFICATION: E12, E15

1. Introduction

Sri Lanka, an Island nation in South Asia, is a multi-ethnic, religious and linguistic country. About 22 million people of the county belong to three major ethnic groups: Sinhalese, Tamils and Muslims. While Sinhalese are majority, Tamils and Muslims form the first and the second ethnic minorities of the Island respectively. Sinhalese are predominantly Buddhists, overwhelmingly living in the South of the country, and speak Sinhala as their native tongue. Meanwhile, Tamils, mostly Hindus, are largely concentrated in the North and East, and speak Tamil as their mother tongue. For the Muslim minority is scattered across the Island, living in the Southern, Northern and Eastern of the Island. While Muslims living in the South use Sinhala as their first language, their counterparts in the North and East speak Tamil (Ali, 1997; Ali, 20004; Imtiaz and Hoole, 2011; Imtiaz and Iqbal, 2011; Imtiaz and Amjad Mohamed – Saleem, 2015; Mayilvaganan, 2008). However, the Muslims are the only community that is able to speak both languages fluently compared to the two other communities (McGilvray, 2007; Ali, 2004). Religion, language and culture are unique features differentiating the three ethnic groups as they are inseparably tied to them (McGilvray, 1998; McGilvray, 2008; McGilvray, 2011).

Zakāh is known as a religious tax wealthy Muslims have to pay to help the underprivileged members in their community for their well-being. Being an integral part of their religious life among the Muslims of Sri Lanka, zakāh has long been an in institutionalized way and a significant tool to assist people in need to deal with the various problems that affected their daily lives. This study aimed to investigating how institutionalized zakāh has addressed people's well-being problems and the challenges it has experienced. The study has also suggested some recommendations to deal with those challenges to help the zakāh play a more effective role.

In early times, Sri Lanka, Muslims did not have any institutionalized zakāh nor did they have any organization to handle it formally. Although they complied with this Islamic obligation, their zakāh was more personal, unsystematic and socially unproductive in responding to the problems of needy in their community. Many reasons contribute to this situation: First, Muslims have not achieved a full implementation of the zakāh as a social responsibility to help the needy in the community. Second, they therefore have not have not seriously considered the establishment of any institution to bring together all zakāh providers in the community to pay zakāh collectively through a formal channel as a community program. And finally, those zakāh providers in their community followed no proper criteria when choosing their beneficiaries, these were always their friends, relatives and neighbors even though they are not entitled for it (A B. Sharifdeen, personal communication, August 9, 2020).

In modern Sri Lanka, the Muslims' approach to zakāh has witnessed several change that were triggered by various factors this change. Sri Lankan society began to face a new domestic social context that embraced neo-liberal economy that effectively promoted marketing, privatization, microfinance-economy and migration of local labour force. While bringing some progress , this new social climate brought about some disadvantages to the community. It widened the already existing socio-economic disparity in the community, destroying the poor access to their basic needs. It turned the basic services into marketable commodities that have become inaccessible to all the members of the community since the underprivileged were unable to pay for them. A Life in modern Sri Lanka has become a competitive where vulnerable groups in the community had little/no opportunities to live and therefore turned to others for support. These new social order characteristics changed the Muslims' traditional socio-economic perception and behaviour, prompting them to respond to the needy problems in their community with a collective and formal support. Institutionalized zakāh was therefore the ultimate result of this change (Hashim, Personal communication, October 20, 2020).

In 1957, Ceylon Baithulmal Fund (CBF) was established by the Sri Lankan Muslims as the first organization to formally handle the zakāh of their community. While the CBF actively pursued zakāh , it could not function as a zakāh institution for the entire community after it faced many challenges. In fact, it suffered from a shortage of physical and human resources, which made unable to cover since the people who deserve the zakāh were scattered across the country. In addition, a good number of CBF employees were inexperienced and untrained to properly achieve their work, which affected its' effective functioning. Furthermore, the financial difficulties made the CBF unable to pay its staff salaries which limited the CBF's capacity in delivering the zakāh to the community. Such challenges ultimately resulted in mosques becoming zakāh organization in many neighbourhoods (K.M. Najmudeen, personal communication, October 19, 2020).

2. Literature Review

The word "zakāh ", known as one of the five pillars of Islam, emanated from the Arabic word "Zakāh ," which means purification (thaharah) and growth (mana) (Machado, Bilo and Helmy, 2018). While Islam has promoted zakāh as a religious duty of Muslims, it has equally encouraged it as a tool to redistribute wealth among the poor and the different vulnerable groups of people in society (Damilola, Nassir and Baba, 2015; Khuluqo, 2016). Traditionally gold, silver, agricultural products and livestock are the sources of zakāh , but today they have been expended to involve business assets, financial assets, bank accounts, and rentable buildings too (Machado, Bilo and Helmy, 2018).

In our modern socities, the zakāh has been institutionalized and has become a critical source of social welfare, helping the underprivileged through monetary and in-kind intervention to ensure their well-being. In both Muslim and non-Muslim majority countries, several formal zakāh institutions have been established and a variety of social welfare programmes have been launched by these institutions to empower the various vulnerable groups of people in the community socially and economically. In predominantly Muslim countries- such as Sudan, Egypt, Jordan, Palestine, Indonesia, Malaysia, Turkey, Pakistan Bangladesh, the institutionalized zakāh has contributed to reduce poverty, provide some kind of social protection; promote the civil organizations capacity building, develop the infrastructure and even promote social reforms. As such the institutionalised zakāh helped the beneficiaries a) access basic services like education, healthcare, water and sanitation, self-employment; b) generate income source; c) enhance their purchase power; d) reduce inequality; e) address a number of social problems like crime, joblessness, begging and loss of a partner (widows) (Damilola, Nassir and Baba, 2015; Gümüş, Yardımcıoğlu and Altıntaş, 2019; Machado, Bilo and Helmy, 2018).

Mosque as zakāh institution

Traditionally, the mosque, known as a worship place, has played the role of a zakāh institution. In the times of the Prophet Muhammad (PBUH), the mosque was the most influential community organization that provided people with services to overcome their problems (Ajeel, 1995). People used mosques not only as a place for prayer, but also as a venue for their social and cultural events. The events were opportunities for people to meet together where they learned about each other's' problems through discussions and offered to help address them. They considered mosque most suitable social institution and provided their support to the needy through these mosques (Wahid et al., 2011).

Role of Institutionalized Zakāh

Institutionalized zakāh has played a decisive role in ensuring people well-being. When people had difficulties to meet their basic needs, institutionalized zakāh has effectively answered through offering shelter, livelihood, water and sanitation, and healthcare. The other role included providing economic opportunities for those who needed to sustain an income. Such people were offered some kind of self-employment- fishing, farming, retail businesses, rice-grinding, hopper-making- among other opportunities (CBF, n.d.; Mahmud, Hassan, Sohag and Alam, 2011; Wahid, Kader and Ahmad, 2011). Last but not least, institutionalized zakāh enabled people with some assistance for educational, religious and cultural needs (Ahmed, 2004; Mahmud et al., 2011).

Challenges of Institutionalized Zakāh

While helping people deal with their different problems, institutionalized zakāh has faced several challenges that harmed its effective functioning. To begin with the zakāh institutions lacked proper planning to promote zakāh in society. In fact, it was important to educate the wealthy and make them aware that providing the zakāh is their religious duty that would allow helping the poor in the community. Besides, several zakāh institutions struggled to identify zakāh providers and recipients because they did not have an appropriate mechanism to achieve this procedure professionally. This resulted in the zakāh institutions inability to include the potential providers, and hindered their efforts to reach all the recipients. Additionally, the zakāh institutions lacked adequate physical and human resources and their workers had poor skills in administering zakāh . Furthermore, these institutions did not have any post-distribution monitoring strategy to follow up the recipients and ensure they used zakāh assistance in a proper way. Finally, the selection process of the beneficiaries was sometimes affected by bias and favouritism of the zakāh organizations, challenging their credibility and neutrality (Asma, 2010; Wahab and Rahman, 2011).

Method

This was meant to be an exploratory study using qualitative data. It is for this reason that the authors opted for the qualitative method. The qualitative approach has been a viable tool to clearly capture the research participants' perception and the real meanings of their experiences over their problems or events (Jones, 2004). The qualitative method increasingly serves to gather rich information to generate full picture of a phenomenon to be investigated in a research (Sadala & Adorno, 2002). Finally, in social science research, this method has been more popular after it tackles people's experiences about problems presented in their own words in order to hear the voice of "others" (Askeland & Bradley, 2007; Creswell, 2007). This study, therefore, relied on the qualitative method in order to capture the whole picture about institutionalized zakāh contribution to social wellbeing of people (Asma, 2010; Burnard et al., 2008; Yumna and Clarke, 2011).

Sample

The study's sample consists of five zakāh institutions perating as part of mosques but have separate administrations. They are located in the two districts of Ampara and Batticaloa in the Eastern Province. Our choice of this province is due to many reasons: First, the province has a relatively high concentration of Muslims. Second, this province included the oldest zakāh institutions that have been very active and served the local people for decades. And finally, these zakāh organizations involved a large number of different types of zakāh providers such as farmers, merchants and herders, who receive significant amounts of zakāh every year.

Out of the five institutions, four were based in Ampara and one in Batticaloa. Purposive sampling and separate recruitment criteria were set up and applied by the researchers of the study themselves. These criteria included: 1) zakāh institution should be active and part of any mosque 2) it should have a minimum of a five-year experience in the zakāh field 3) the institution should have a formal administrative structure to run zakāh ; and 4) it should willingly express its readiness to participate in the study.

Data Collection

Data were collected through interviews, which were conducted with the representatives of all the five zakāh institutions. They were asked to explain: how they were conducting their zakāh programme; what their experience in the fields was; and the challenges they met while pursuing the zakāh programe. Open-ended questions were used in interviews that lasted for 80-90 minutes on average with each organization. The interview venues were the organizations' offices as chosen by interviewees themselves.

With the participants' consent, the interviews were digitally recorded for a later analysis. Setting the questions, conducting the interviews and recording them were all carried out by the researchers of the study with the help of two research assistants.

Data Analysis

The digitally recorded interviews- data collected from the zakāh institutions- were transcribed into verbatim transcriptions, which were later split into main, sub and supportive themes. While the sub themes were integral part of the major themes, the supportive ones remained less important but could still serve the analysis of the findings. Three factors played a key role in determining the themes: these included different types of supports from zakāh , its success and its challenges.

Selecting the themes was essential, because there was a need to a) learn the ways the institutionalised zakāh benefited people to achieve their well-being; b) recognise how it empowered them, and c) identify the types of challenges it faced. Meanwhile, splitting the data into multiple themes, according to the qualitative method, is important to align the findings with the research objectives (Corbin & Strauss 1998; Halmi, 1996).

The data were manually analysed and run with the support of a computer data management system. Data analysis, themes organization and management were all carried out by the researchers of the study with the support of research assistants.

Results

Table one shows that all the five zakāh institutions were founded in different years and were in different neighbourhoods of both Ampara and Batticaloa Districts in the Eastern Province of the country. Meanwhile, Table 2 proves that the research participants, representatives from all the zakāh organisations, had different backgrounds and experiences in the zakāh field.

Table 1 . Socio-demographic Characteristics of the Zakāh Institutions

Institutions	Characteristics		
N= 5	Establishment	Affiliation	Town/District
Zakāh Foundation	2000	All Mosques Federation	Akkaraipattu/Ampara
Zakāh Fund	1972	All Mosques Secrateriat	Sammanturai/Ampara
Baithul Zakāh	1997	Grand Jummah Mosque	Saintamarutu/Ampara
Zakāh Foundation	1986	All Mosques Federation	Maruthamuna/Ampara
Zakāh Foundation	1985	All Mosques & Muslim Organisation Federation	Kattankudi/Batticaloa

Table 2 . Participants' Socio-demographic Characteristics (Officials of Zakāh Institutions)

Participants		Characteristics				
N=5	Age	Education	Occupation	Position (Zakāh)	Year	Experience
P1	44	Master's	Deputy Director	President	2015	13
P2	56	Bachelor	Retired Principal	In charge	2014	06
P3	59	Bachelor	Medical Doctor	President	2016	10
P4	42	Bachelor	Child Officer	President	2014	16
P5	56	Mater's	Lecturer	President	2015	15

Mosque as Zakāh Institution

All the zakāh institutions were part of mosques but independent entities with separate constitutions and administrative structures in providing zakāh . In all the neighborhoods. The mosque upheld enormous influence as a popular social organization that could help the disadvantaged of the community build a decent life. The mosque provided advices to people on how to deal with problems affecting their life based on the ground of religion. They simply followed such advice considering it as alternative to help bring changes in their life. All the zakāh institutions increasingly wanted to be part of mosque to use the mosque's social clout to gain a legitimacy for them from the community as it could serve them to run zakāh more effectively. A representative of one of the zakāh institutions stated:

‘Our organisation’s success in zakāh simply lies in being part of mosque that wields greater influence on people at the community level.’

Multiple support

Institutionalized zakāh was a tool of change, providing multiple support for the vulnerable groups in society to improve their life situation. Giving such groups access to the basic needs was its most crucial support. There were families that lived with relatives for years. Being extremely poor, these families sought a housing support after they found themselves unable to afford to own or rent a house. While some of the homeless possessed a piece of housing land, others did not, but they all needed to be helped. Institutionalized zakāh responded to this kind of problem. The families were selected and each of them was given RS 500,000 (US$ 3,500) in three separate pays to build a house themselves on their land. They were also given a six- month period as a deadline for completion and were monitored if they met the deadline. Meanwhile, zakāh institutions purchased the lands, built the same Rs 500,000 worth houses within six months and offered them to other homeless who owned no land. Each shelter had minimum living conditions and consists of two bedrooms, a multipurpose room and a kitchen and was enough for a family of five to live in. When selecting beneficiaries, the zakāh institutions gave priority to age, occupation, income and number of children in the families. The families had to abide by an agreement with zakāh institutions that the house ownership could be transferred only to any family member and that the house could not be sold for any reason. One zakāh organisation’s official noted:

‘The support really made a difference in the beneficiaries’ life, addressing prolonged housing problem.’

In the Muslim community, there were families who lacked clean water and a toilet facility since they were extremely poor and unable to afford to. The families had long used other people’s facilities, which sometimes led to a conflict between these families and the facility owners. Zakāh institutions had effectively overcome this problem by providing these families with drinking water connection and separate toilet. One zakāh institution said:

‘We have given families safe water and separate toilets that cost Rs. 40,000 and Rs. 100,000 respectively. Our help not only satisfied their basic needs but also put an end to an unwanted conflict between them. ‘

The lack of a steady income was also one of the most serious problems that increasingly put some families’ livelihood at risk. Families, including women-headed ones, sought financial or material assistance to generate a source of income. Institutionalized zakāh provided these families with several types of self-employment projects. Some families whose traditional occupation was cattle -rearing were provided with cows or goats. Each family was given a couple of dairy cows or four goats, depending on their own choice. Women-headed families received a Rs 50,000-worth rice grinder or hopper-maker as a form of support to sustain a steady income. They make their own choice by themselves on the form of support they would like to get.

Financial assistance was also part of the self-employment support offered by institutionalized zakāh . Those who were traditionally shopkeepers sought support to resume their shop-keeping to ensure an income. To start a retail business, they were given Rs 300,000 each. Those who were artificial flower makers, for instance and looked for self-employment support to keep their business going on were given Rs. 250,000 by zakāh organizations helped them expand their business and earn more.

Many other families received different other forms of help in the Muslim community in the studied regions. Underprivileged parents whose daughters reached maturity but could not marry because of financial hardships were given Rs 250,000 from zakāh organizations to help them with the marriage expenses and set their own families. Helping the needy children with education was another significant support of institutionalized zakāh . Many of these children got selected to access public universities such fields as medicine, engineering, management, law, information technology, business administration, social sciences and humanities but unfortunately could not join these universities after they achieved had good grades in the government’s highly competitive university admission test. These children were able to pursue their studies after zakāh institutions gave each child Rs 15,000 a month and the support was to continue for four years.

Other Effects

After institutionalized zakāh helped those in need to ensure their basic needs, the follow up of their support resulted in positive impacts on the recipients while rebuilding their lives. For example, a woman who received a hopper-making self-employment assistance from one zakāh organisations was later able to build her house herself from her own earnings. Institutionalized zakāh also empowered its recipients to become those who provide help to the other needy in the community later on. One recipient who was helped with a self-employment project of goat-raising later became a zakāh provider, endowing a certain number of goats every year as zakāh to the institutions to help others after his business took off. Another recipient who got a support for plastic flower making project was later able to employ some from the poor families when his business flourished. It was also noticed that the number of the needy dropped significantly among the Muslim community. This was obviously achieved thanks to zakāh . One of the zakāh organizations' official claimed:

While our zakāh has helped people with basic facilities, it has equally helped reduce the number of the needy in the community. Today the number of applications we received has dropped significantly compared to the past.

Challenges

Institutionalised zakāh experienced several challenges, which badly hampered its' effective operation in many aspects. Almost each of the zakāh organizations lacked skilled staff and the dire shortage of human resources increasingly limited their ability to run zakāh properly. This made organizations unable to accommodate all the potential zakāh providers in their community when collecting zakāh . Missing such a potential led to the reduction in the collected zakāh 's amounts, affecting the needy recipients and limiting the volume of support for them. One zakāh organization representative complained:

'Residents in our town include about 30,000 families. To carry out zakāh collection in the town, we need at least 300 workers- a worker per 100 families. We don't even have 100 volunteers. The shortage really challenges our work.'

The second challenge was the poor awareness in the community, particularly among the rich, on importance of paying zakāh . Many of the wealthy in the community who ought to be zakāh providers were apparently indifferent to religious duty after they were not informed that paying it is a religious obligation. Meanwhile, some of those who were already zakāh providers were not regular in doing so since they had not perceived it as mandatory. All this had a significant impact on the zakāh program.

At this point, it is worth mentioning that zakāh institutions had no proper mechanism to monitor their beneficiaries and check whether they used the zakāh assistance in the right way to improve their life conditions. The lack of such monitoring strategies led to the recipients' misuse of the support, and even using it or other purposes. A representative of one zakāh organization said:

'One beneficiary who got a financial support for self-employment did nothing and he used our money to just buy a television although his family was struggling to provide their basic needs.'

An official from another organization reported:

'A householder received some financial assistance for self-employment of plastic flower making, instead he used the support for purchasing a motorcycle to just ride even though his family had no secure income for a living'

Another zakāh organization member added:

'The fundamental problem challenging our success is that we don't have a proper mechanism to make sure that our support is productively used by beneficiaries to address their problems.'

Discussion

Zakāh institutions has been an integral part of mosque in almost every Muslim neighbourhood throughout the country even though they were independent entities operating with separate constitutions and administrations in pursuit of zakāh . Being aware of the mosque's role in the community, helping people with their socio-economic problems brought this alignment. It increasingly helped zakāh organizations gain a social recognition and popular support in their mission. It consisted mainly in handling the zakāh , particularly identifying the zakāh providers, collecting the endowed contributions and distributing among the underprivileged. This finding echoed the results of Ajeel (1995) and Wahid, Kader and Ahmad, (2011).

Institutionalized zakāh has played a decisive role to effectively address various socio-economic problems that deeply disturbed people's everyday life. When several families experienced homelessness for long time, institutionalized zakāh effectively responded to the problem by providing such families with lodging. When basic facilities, like water and sanitation, were inaccessible for the needy for years, making them depend on others and leading to sporadic conflicts with the hosts, institutionalized zakāh provided a permanent access to these facilities and brought conflicts to an end. When livelihood became a protracted problem for people because they lacked a steady income, institutionalized zakāh empowered them by providing different types of self-employment support, which not only helped them build a sustained income, but quickly turned them into zakāh providers able to help others. Finally, institutionalized zakāh helped young girls when they lacked opportunities to get married and found a family since their parents were financially too vulnerable to afford it. These findings dare in line with those of Mahmud, Hassan, Sohag & Alam (2011); Yumma & Clarke (2011) and Ahmed (2004).

However, despite its multiple achievements, institutionalized zakāh still faced several challenges. First, they lacked an awareness program to encourage the wealthy in the community to pay zakāh and this impacted the zakāh organizations' efforts in many ways. Due to the lack of this social awareness, zakāh institutions could not reach out all zakāh providers for collection, which had impacted the volume of the collected zakāh from people every year. While number of entitled zakāh payers was on the increase in the community, collection has not seen any simultaneous growth. Because of the lack of awareness among the zakāh providers, many of them were not giving what they owe on a regular basis since they do not know the importance of paying zakāh as a religious obligation. On the other hand, zakāh organizations also did not have a proper follow-up mechanism to monitor recipients and guide them effectively use endowment to achieve its objectives. Lack of guidance for beneficiaries in the after math of zakāh provision made zakāh assistance unproductive. Recipients misused the zakāh at will. Incompetent staff and acute shortage of human resources are another shortcoming in zakāh organizations causing serious implications on zakāh . This result corroborates with that of Asma (2010) and Wahab (1995).

Conclusion

Institutionalized zakāh has effectively addressed various well-being problems of people in Sri Lanka, a country where Muslims are a minority community. It has helped people access basic needs, establish livelihood, generate a sustainable income, achieve marital life, and receive tertiary education. However, it still faced significant challenges that could affect its effective functioning. These challenges remain serious and need to be addressed. This study therefore proposes some recommendations to deal with those challenges to make the institutions work more fruitful.

Recommendations

To address their staff shortage, zakāh institutions need to collaborate with volunteer organizations in the community. Such a collaboration will help zakāh institutions get enough human resources from volunteer bodies to be able to carry out their work properly.

All zakāh organizations need to launch a social awareness campaign to educate people in their community, particularly the rich, on the importance of paying zakāh as a religious obligation in order to encourage them to become regular zakāh providers in the future. Religious teachings and real life situations of the needy in the community should be used in the campaign to further sensitise zakāh payers. Zakāh organizations can conduct open seminars, workshops, house to house conversing, question-answer sessions and use Friday sermons too. Banners, posters, leaflets and social media could be useful for advertisement. The target group should not be only locals within the community even the migrants who live abroad in significant numbers could be involved. The could be reliant zakāh contributors since thy enjoy significant earnings.

There are several local and international non-governmental organizations that have been operating in Sri Lanka for decades, delivering multiple humanitarian support to people in need. These agencies have their own well established strategies with international standards to guide their beneficiaries to use their assistance in a constructive way. Zakāh institutions can obtain expertise and other necessary help from these human service agencies and develop their own post-zakāh monitoring mechanism to supervise their recipients. Finally, zakāh organizations have to develop a working policy which holds their employees to account for any malpractice, and ensures fair and equal treatment and social justice when selecting beneficiaries for help.

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دور المؤسسات الزكوية في معالجة مشكلات الرفاه في دولة سيريلانكا ذات الغالبية من غير المسلمين

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المستخلص. استطاعت المؤسسات الزكوية في سيريلانكا توفير أنواع مختلفة من الدعم لمعالجة مشكلات الرفاه الاجتماعي للأقلية المسلمة في هذا البلد. وعلى الرغم من النجاح الذي حققته تلك المؤسسات في توفير الحاجات الضرورية لتلك الأقلية، إلا أن هناك العديد من التحديات الماثلة التي أثرت سلبا على أدائها. تهدف هذه الدراسة إلى معرفة نوع الدعم الذي تقدمه المؤسسات الزكوية في سيرلانكا، والتحديات التي تواجهها مع اقتراح بعض التوصيات التي من شأنها زيادة فاعليتها. ولتحقيق أهداف الدراسة تم جمع بيانات من عن طريق إجراء مقابلات شخصية مع عدد من العاملين في خمس مؤسسات زكوية تعمل في الجزء الشرقي من البلاد. أظهرت النتائج أن الزكاة وفّرت لتلك الأقلية الحاجات الضرورية، ووفرت لهم فرصًا استثمارية، كما ساعدت في مجال التعليم العالي. وعلى الرغم من تلك النتائج الإيجابية؛ فإن نقص الموارد البشرية المؤهلة والمُدَرَّبة، وإساءة استخدام الدَّعم، وعدم وجود آلية لرصد المستفيدين بدقة، ونقص الوعي المجتمعي بالزكاة، تشكل تحديات عدة يجب التصدي لها بغية الاستفادة القصوى من توزيع الزكاة.

الكلمات الدَّالة: المؤسسات الزكوية، مؤسسات الزكاة، دافعو الزكاة، مستحِقُّوا الزكاة، الأقلية المسلمة، سيريلانكا

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IFSB Standards Adoption and Its Impact on Islamic Banking Practices: Evidence from Pakistan

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Abstract. The adoption of the Islamic Financial Services Board (IFSB) criteria for Islamic banks is more challenging for a bigger number of supervisory and regulatory authorities than for conventional banks. This paper investigated the IFSB-15 standard; revised capital adequacy standard for institutions offering Islamic financial services [excluding islamic insurance (takāful) institutions and islamic collective investment schemes], by evaluating the possibility of its adoption within a dual banking system and introduced an analysis of the effects of Islamic banks in Pakistan. The study found that in practise, investment account holders are treated as conventional depositors that are capital-guaranteed rather than basing that allocation on the basis of profit and loss sharing (PLS) in accordance to Sharīʿah norms and stipulations. This treatment forced Islamic banking institutions to take a market-perspective approach to profit distribution. This makes them ensure a steady profit pay-out (paying a competitive rate of return by accepting displaced commercial risk). The paper therefore suggested that the implementation of technical standards has to be accompanied with institutional growth, like that involved in the Islamic banking structure and institutional capacity in accordance to the substance of Sharīʿah norms and stipulations rather than the form.

Keywords: Islamic Banks; IFSB Standard; Capital Adequacy, Pakistan, profit and loss sharing.

JEL CLASSIFICATION: G1; G2; G21; G28
KAUJIE CLASSIFICATION: W

NOTE: Any opinions, findings, and conclusions or recommendations expressed in this paper are those of the author(s) and do not necessarily reflect the views of those affiliated institutions.

1. Introduction

The financial system of Pakistan is evolving through time in response to the country's economic growth and the government's development objectives. Pakistan's financial sector heavily relies on banks and needs diversification in order to fulfil the future financial requirements (IMF, 2017)). The system consists of the State Bank of Pakistan (SBP) – a central bank, commercial banks, and a variety of non-bank financial institutions (NBFIs) including development financial institutions (DFIs), investment banks, mortgage companies, rental companies, modaraba companies, investment funds, brokerage firms, and insurance companies. The SBP supervises banks and DFIs and is responsible for the monetary policy. Investment banks, leasing firms, insurance companies, modaraba companies and mutual funds are all regulated by the Securities and Exchange Commission of Pakistan (SECP).

Islamic banking in Pakistan has grown rapidly in response to both economic and cultural as well as religious demands (SBP, 2021). The elimination of riba from the economy began in the 1970s, but the most significant and practical steps were taken in the 1980s. The efforts to re-establish the Islamic banking in Pakistan were restarted in 2001, when the government decided to promote this sector in a progressive yet compatible way, in compliance with the highest international standards.

In 2021, the total deposits of the Islamic banking sector were expected to increase by 24.2 percent. By the end of December 2021, the Islamic banking sector's assets grew to 5,577 billion Pakistani rupees (US$31.6 billion), and deposits reached to 4,211 billion rupees (US$23.9 billion). The Islamic banking sector's financing increased by 38.1 percent in 2021. Pakistan also declared an ambitious aim of boosting this sector participation by 76 percent by 2025 (Table 1).

Table 1: Pakistan Islamic Financial Industry Progress (billion Rs.)

Period	No. of Islamic Banks	No. of Branches[1/]	No. of Windows	Assets	Deposits
Dec, 2020	22	3,651	1,579	4,884	3,822
Dec, 2021	22	3,956	1,442	5,577	4,211
Growth (in %)	0	14.5%	-12.9%	18.6%	19.4%

Note: 1/ including sub-branches
Source: State Bank of Pakistan

By the end of December 2021, the network of Islamic financial institutions consisted of 5 full-fledged Islamic banks (IBs), 17 conventional banks with stand-alone Islamic banking branches (IBBs), and 3,956 branches distributed over 125 regions (Table 2).

Table 2: Islamic Banking Industry in Pakistan as of 30 December 2021

Type	Name of Bank	No. of Branches
Islamic Banks	Al Baraka Bank (Pakistan) Limited	176
	BankIslami Pakistan Limited	229
	MCB Islamic Bank Limited	176
	Dubai Islamic Bank Pakistan Limited	210
	Meezan Bank Limited	905
	Sub Total	**1,693**

Islamic *Branches* of Conventional Banks	17 conventional banks (including having standalone Islamic banking branches)	**2,103**
Sub-branches	6 Conventional and 3 Islamic Banks (except for Meezan Bank and MCB Islamic Bank) have sub-branches	**160**
	Grand Total	**3,956**

Like any other majority Muslim country, the Pakistani central bank is working toward the adoption of IFSB standards. This paper evaluated the viability of the IFSB-15 Standard adoption for Islamic banking institutions in Pakistan. This research contributes to the body of knowledge by addressing the following issues: i) conduct the impact study on the IFSB Capital Adequacy Standard; ii) assess the implications of BASEL II on Islamic banks; and iii) review the IFSB standard and propose changes to the Capital Adequacy Standard (CAS) in Pakistan.

The remainder of the paper is organised as follows. Section 2 provided a brief summary of the pertinent literature to the theoretical model of Islamic banks and the empirical investigation of Islamic bank behaviour. In Section 3, the application of IFSB standards in Pakistan was discussed. Section 4 explained how to calculate capital adequacy for Pakistani banks. The methodology adopted in this study as well as the used data were introduced in Section 5. Section 6 was devoted to the discussion of the achieved results, while the conclusion and recommendations were suggested in Section 7.

2. Review of the Theoretical and Empirical Studies

The following features distinguish the Islamic banking concepts from the conventional banking principles: i) risk-sharing, in which financial capital providers and entrepreneurs share business and financial risks in exchange for profit shares; ii) money as potential capital, where the money becomes an actual capital only when combined with other resources to engage in productive activity; iii) prohibition of speculative behaviour, which discourages hoarding and prohibits transactions involving extreme uncertainty, gambling, and risk; iv) money as potential capital, in which money becomes actual capital only when combined with other resources to engage in productive activity; and v) *Sharīʿah*-compliant actions.

Islamic banking seems to lack the need for a radically distinct prudential framework. More broadly, anecdotal evidence indicates that the Islamic banking practice is evolving, albeit not always in the direction of what some regard as the ideal of increased risk and return sharing. Numerous Islamic banks have launched new *Sharīʿah*-compliant accounts that mimic more traditional fixed-return deposits. On the liability side, however, profit-sharing and risk-bearing *Muḍārabah*-based investment accounts continue to be widely used across jurisdictions, accounting for a substantial amount of Islamic banks' funding in the vast majority of countries. (IFSB, 2021).

Islamic financial institutions conform to *fiqh al-mu'amalat* (Islamic commercial jurisprudence), which involves a variety of interest-free commercial contracts that do not share risk in the conventional sense of asset-based contracts. Exchange-based contracts involve the lender selling or leasing the asset to the client (*Ijarah*) and financing working capital via advance purchase or progress payments (*Salam* and *Istisna'*). *Musharakah* and *Muḍārabah* are two types of partnerships based on contracts involving risk sharing or equity.

Risk- and reward-sharing contracts, often in the form of profit-sharing investment accounts, are typically used to mobilise funds on the liabilities side of an Islamic bank's balance sheet. The majority of jurisdictions have witnessed an increase in the use of these investment accounts (IFSB, 2021). Contracts for investment accounts are often constructed on the basis of *Muḍārabah* in the majority of Islamic banks (IFSB, 2021). The *Muḍārabah* contract is not always, and in the case of unrestricted profit-sharing investment accounts, a time-limited investment. In fact, it can continue as long as the contractual terms are favourable to both the *Mudarib* (Islamic bank) and the *Rabb al-mal* (investment account holder), who may also choose to retain his funds voluntarily.

Recent Islamic finance study aims to distinguish between conventional and Islamic bank interest rates through empirical studies, (Ergec and Arslan, 2013; Sarac and Zeren, 2015; Aysan, Disli and Ozturk, 2018; Zulkhibri, 2018). All findings support the notion that overnight interest rate movements have unequal effects on Islamic and conventional banks in Turkey and are strongly cointegrated with conventional bank movements. Similarly, Cervik and Charap (2011) prove that conventional bank deposit rates and profit and loss sharing (PLS) rate of return exhibit a long-run link and that conventional bank deposit rates affect returns on PLS accounts.

Most empirical investigations show that there are no substantial variations in business model or efficiency between Islamic and conventional banks (Beck, Demirguc, and Merrouche, 2013; Abedifar, Ibrahim, Molyneux, and Tarazi, 2015). Hasan and Dridi (2010 discover that Islamic bank profits fell more than those of conventional banks in 2009 and attribute the disparity to Islamic banks' inadequate risk management procedures. Similarly, Rashwan (2012) indicates that prior to the 2007–2009 crisis, Islamic banks were more efficient and profitable than their conventional counterparts, but their efficiency and profitability declined during the crisis.

3. Implementation of IFSB Standards in Pakistan

The Islamic Financial Services Board (IFSB) is an international standard-setting organisation that issues prudential standards and guidelines for the banking, capital markets, and insurance sectors in order to promote and enhance the stability and soundness of institutions offering Islamic Financial Services. Although the majority of Islamic finance countries conform voluntarily to Islamic finance practices (Lukonga, 2015), full compliance is the only way to avoid potential concerns with stability and soundness (Hussain, et al., 2016; Shabsigh et al., 2017). It is essential to evaluate the effect of the standard on Islamic Bank in Pakistan and, value of 'α' under the supervisory discretion and the risk-weights for *Musharakah* and *Muḍārabah*.

As a new standard for Islamic banking institutions, the IFSB-2 on Capital Adequacy Standard for Institutions (other than Insurance Institutions) Offering Only Islamic Financial Services was published in December 2005. The aims and objectives of this standard are:

1. To address the unique structure and contents of *Sharīʿah*-compliant products and services offered by the IIFS that are not addressed by the currently adopted standard.
2. To suggest international capital adequacy standards, *Sharīʿah*-compliant mitigation, and standardise the approach to identifying and assessing risks in *Sharīʿah*-compliant services and products.

The IFSB-2 Capital Adequacy Standard relies heavily on Basel-II principles. The Basel-II framework did not adequately address particular risks associated with certain *Sharīʿah*-compliant Islamic forms of financing or investments, nor the structure or substance of *Sharīʿah*-compliant goods and services. Consequently, significant modifications were made to address these risks. In the existing Basel-II Capital Adequacy Ratio (CAR), the value of 'α' was expected to be 0.7. Changes and additions to the IFSB-2 Capital Adequacy Standard, as well as its implementation and issuance to Islamic banks in Pakistan, could not be implemented.

In January 2009, the IFSB issued IFSB-7 on Capital Adequacy Requirements for *Ṣukūk*, Securitization, and Real Estate Investment in response to concerns that capital adequacy was not adequately addressed by the IFSB-2 Standard, particularly in regard to types of ṣukūk not covered by IFSB-2, ṣukūk origination and issuance, as well as property investment. To address these problems, the IFSB decided to adopt a single supplemental standard, IFSB-7. The standard was developed for non-insurance IIFS. Supervisory agencies could, at their discretion, apply this criterion to self-contained Islamic 'window' activities or other applicable IIFS in their respective countries. In addition, the risk weighting method should be applied to ṣukūk or real estate investments, especially for non-Islamic "window" corporations and other organisations. However, modifications and amendments for its implementation and standardisation to Islamic banks in Pakistan could not be implemented, either.

The IFSB published IFSB-15: Revised Capital Adequacy Standard for Institutions Offering Islamic Financial Services in December 2013. The IFSB-15 standard consists of six sections and is a combination, revised, and updated version of IFSB-2 and IFSB-7. The standard also includes rules specific to various sources of capital. In addition, the Standard specifies how to apply the additional features introduced by the BCBS in its Basel III papers, such as the capital conservation buffer, the countercyclical buffer (CCB), and the leverage (or common equity to total exposures) ratio, with changes required for IIFS.

Various aspects of the supervisory evaluation procedure, such as capital planning and the Internal Capital Adequacy Assessment Process (ICAAP), were not discussed in detail in this standard (ICAAP). This guideline does not include the Basic and Advanced Internal Rating-Based (IRB) methodologies for determining credit risk capital requirements and the Advanced Measurement Approach (AMA) for computing risk management capital requirements. Supervisory authorities may allow IIFS in their jurisdiction to migrate to advanced techniques at their discretion if they are satisfied with i) the robustness of internal models, ii) the availability of sufficient and reliable data, and iii) the fulfilment of other applicable requirements.

4. Capital Adequacy Standard for the Banking Industry

Banks perform unique roles in the economy, and as a result of their highly leveraged business model, they are subject to stringent restrictions, including large regulatory capital requirements relative to other businesses. Capital adequacy is the extent to which the assets of a bank exceed its obligations, and it is a reliable measure of the bank's solvency or ability to withstand a revenue loss. Bank regulators were concerned about capital sufficiency because their duty is to prevent bank panic and contagion. A bank with such a high capital-to-asset ratio would be better equipped to withstand a sudden collapse than one with a low capital-to-asset ratio. As a result, the likelihood of a bank failing or otherwise being subject to a run decreases. In Pakistan, regulatory capital requirements are enforced both in nominal and risk-based terms (Minimum Capital Requirements – MCR[1]and Capital Adequacy Ratio – CAR respectively).

The Capital Adequacy Ratio (CAR) is a risk-sensitive indicator of capital adequacy used to evaluate a bank's capital sufficiency in light of its exposure to risk. The Basel Committee on Banking Supervision (BCBS) of the Bank for International Settlements (BIS) creates guidelines regarding member countries' risk-based capital adequacy requirements. The Basel Capital Framework specifies the detailed criteria for determining CAR components, namely Total Eligible Capital (TEC) and Total Risk-Weighted Assets (TRWAs). Under this paradigm, the computation of capital (for use in capital adequacy ratios) entails adjustments to the amount of capital reported in the financial statements. The quantity of risk-weighted assets (RWAs) represents a bank's risk-weighted exposure to a specific risk aspect, such as credit, market, or operational risks. CAR is calculated by converting TEC to TRWAs using the supplied parameters.

Pakistan is presently subject to the Basel III Capital Adequacy system, which has been phased in from December 31, 2013, to December 31, 2019, with CAR + CCB norms rising gradually from 10 percent to 12.5 percent. Due to the fact that the Basel Capital Adequacy Framework being implemented in Pakistan does not discriminate between conventional and Islamic institutions,

1 MCR is the absolute amount of paid-up capital/assigned capital (net of losses) required to be maintained by each bank/DFI at all times.

both conventional and Islamic banks in Pakistan apply the same legal and regulatory framework for capital adequacy purposes.

In 2013, the IFSB developed the IFSB-15 standard on capital adequacy ratio to cover the IIFS *Sharīʿah*-compliance. The IFSB-15 standard introduces numerous new capital adequacy-related areas not previously addressed by the IFSB standards. This also intends to provide the supervisory authorities with more comprehensive guidance on implementing capital adequacy criteria for IIFS by combining and enhancing the IFSB-2 and IFSB-7 content, thereby levelling the playing field between IIFS and market players. It also allows financial supervisors the freedom to use it across regions and on small to large and complicated IIFS.

4.1 International Practices with IFSB-15 Capital Adequacy Standard

The supervisory authorities in the various jurisdictions mandate that IIFS use a capital adequacy approach that takes into account the degree of risk-sharing between being an IIFS own capital (shareholder funds) and that of its Investment Account Holders (IAHs). It also considers the resulting levels of Displaced Commercial Risk (DCR) or the associated ‘α’ factor (Gulf Research Council, 2012). Additionally, assets sponsored or invested by URIA might receive ‘α’ related discount which would promote the Islamic banking by lowering capital adequacy requirements for IBs. When setting ‘α’, no specific quantitative technique is used since it is rather perceived as an effort to advance Islamic banking. Table 3 shows the values of ‘α’ used by various countries to calculate CAR.

Table 3: ‘α’ levels in different countries for CAR

Country name	Implemented ‘α’ Value
Qatar*	0.50
Sudan	0.50
Turkey	0.50
Dubai	0.35
Bahrain	0.30
Malaysia	1.00

Source: Gulf Research Council, July 11-14, 2012, University of Cambridge, UK; *Qatar Central Bank Circular No. 6 of 2014.

5. Methodology and Data

5.1 Comparison between Basel III guidelines and IFSB-15 standard

IFSB-15 standard on Capital adequacy of IBIs is basically an Islamic version of Basel III Capital Adequacy accord. The Basel III capital adequacy framework for banks aims to not only establishing a solid foundation for prudent capital regulation, supervision, and market discipline, but also enhancing risk management and financial stability. Therefore, it should not effectively cover the concepts utilised in Islamic finance (Table 4). In response, the IFSB published capital adequacy standards that are mostly based on the Basel methodology, with changes and adaptations to account for the distinctive nature and characteristics of *Sharīʿah*-compliant goods and services.

Table 4. Comparison between Basel III and IFSB-15 standard

IFSB-15 additional features	Gap
1. Additional Tier-1 capital instruments should be *Musharakah Ṣukūk* that are capable of absorbing losses alongside the bank's underlying assets.	Not covered by existing Basel Capital Framework.
2. Tier-2 instruments may be issued as *Musharakah*, *Muḍārabah* or *wakalah*. To	Not covered by existing Basel Capital Frame-

avoid *gharar*, the terms of conversion should be clearly specified. 3. Subordination only in the event of loss absorbency (point of non-viability or insolvency) –not applicable in the ordinary course of business.	work. In IFSB-15, subordination is contingent upon a trigger event only.
4. PER, IRR and profit-sharing investment accounts are not to be treated as part of the regulatory capital. However, the impact of PER and IRR is accounted for in the denominator of IFSB-prescribed CAR calculation. 5. Leverage Ratio - since exposures regarding assets financed by PSIA funds are borne by the IAH, for the purpose of calculating the leverage ratio; these bank exposures are included after deducting any relevant balance of IRR. 6. Leverage Ratio – assets financed by restricted PSIA must not be included in exposure unless they are a source of DCR for the bank.	Not covered by the existing Basel Capital Framework The treatment of PER and IRR for capital purposes needs to be decided Restricted and Un-restricted PSIAs need to be discussed
7. *Zakāh* obligations (on bank's assets) are to be deducted as part of Regulatory Adjustment and Deduction from CET1.	Not covered by existing Basel Capital Framework
8. Discussion on Capital Conservation Buffer (CCB) – additional sections pertaining to profits or interim profits	Not covered by existing Basel Capital Framework Further, more clarity would be required for profits/ interim profits
9. Islamic Windows could be permitted to raise its own capital (through the issue of *Ṣukūk*s) which could then be turned into Islamic Banking Fund (at trigger point). On the occurrence of the trigger, the loss absorbency clause (convertibility into bank's capital or IBF) will be based on whichever comes first (non-viability of Islamic window or the bank).	Not covered by existing Basel Capital Framework
10. Risk weighting regime for nine classes of Islamic financing assets are to be defined in a matrix format, enabling the bank to apply market risk or credit risk based on the corresponding contract stage.	Not covered by existing Basel Capital Framework Treatment of risk weighting regime needs to comply with the IFSB-15 standard.
11. IFSB-15 allows all qualified collaterals to be pledged for Credit Risk Mitigation (CRM) purposes.	Basel rules do not allow pledged assets as collaterals for capital purposes.
12. Under the CRM section, new types of (Islamic) Collaterals like *Hamish Jiddiyah, Urbun* etc. have been introduced.	Islamic collaterals are not covered by existing Basel III

13. As per IFSB-15 standard, *Musharakah* or *Muḍārabah* investments in commercial enterprises are risk weighted at 300% (listed) or 400% (unlisted).	SBP Basel III standard requires application of 1000% risk weight on significant investments in commercial entities.
14. IFSB-15 allows the use of Supervisory Slotting Method to apply risk weights to projects or commercial enterprises.	SBP Basel rules restrict the use of Supervisory Slotting Method under IRB approach only (not under standardized approach).
15. Under Market Risk Section, Section pertaining to Commodities and Inventory Risk.	Existing SBP Basel directives do not account for Commodity and Inventory Risk.
16. IFSB-15 includes section on *Ṣukūk* and Securitization and investment in Real Estate Activities	Basel guidelines contain conventional securitization instructions that are distinct from its Islamic equivalent.
17. CAR formula and method for calculating 'α'	Basel CAR formula differs from that of the IFSB-15, which does not prescribe IRR, PER and the use of 'α' to reduce Risk Weighted Assets. Required to fulfil the disclosure requirements and Excel format for 'α' calculations. IBD has to develop the Profit Distribution mechanism, pool administration, and weighting assignment in order to complete the 'α' calculation format. In addition, the protection of depositors' principal has to be analysed in light of existing laws and regulations.

Source: author's own

Numerous IBIs provide capital-protected products that necessitate a capital charge on the liabilities side of the balance sheet. In addition, the relationship between the special risk of *Sharīʿah*-compliant financial institutions and conventional financial risks is largely overlooked. Out of the various IIFS distinguishing aspects covered in IFSB-15 and its related standards already implemented in Pakistan, IBIs must adhere to additional regulations for *Sharīʿah* Governance and compliance etc. In addition, under the Pool Management Guidelines, IBIs in Pakistan may maintain reserves whether they are profit equalisation reserves (PER) or investment risk reserves (IRR), to smooth out the income or cover the losses. Furthermore, until December 2014, *Hibah* (general and special) mitigated the Displaced Commercial Risk but since January 2015, IBIs are not allowed to offer special *Hibah*.

The CBP conducted a special evaluation to determine the viability of the IFSB-15 standard, which may aid IBIs in calculating CAR for improved capital adequacy management. In this regard, the CBP investigates the viability of IFSB-15 as a parallel standard to Basel-III. To evaluate the adoption of the IFSB-15 standard for IBIs in Pakistan, the following quantitative and qualitative research techniques were used by the CBP: review and analyse the 2010 impact study on IFSB-2; research international practices regarding the IFSB-15adoption; review papers, data, and information pertinent to the standard; collect data from IBIs on CBP and IFSB templates; and perform extensive data analysis.

The CBP developed a template (i.e., CBP-Alpha template) based on GN-04 of IFSB for the calculation of 'α'**,** while the IFSB provided a template. The main difference between the two templates is the value of 'C' that is used only in CBP-Alpha **'α'** template and not in IFSB template. The value of 'C' is the confidence interval at 99 percent confidence level. The study determined the value of the two under Section 5.1 templates. In Section 5.2, the study matched the CBP templates with IFSB templates established on RWA for IBIs in order to develop a harmonised template that incorporates the components of both Basel III and IFSB templates on RWA. The standard formula for calculating CAR is given below.

$$\frac{Eligible\ Capital}{\left\{\begin{matrix} Total\ Risk - Weighted\ Assets\ (Credit + Market\ Risks) + Operational\ Risk \\ Less \\ Risk - Weighted\ Assets\ Funded\ by\ PLS\ A/C\ (Credit + Market\ Risks) \end{matrix}\right\}}$$

In order to reduce shifted commercial risk, withdrawal risk, and systemic risk, the IFSB modified the fundamental technique to include reserves held by IBIs. In markets where IBIs maintain PER and IRR, the supervisory authorities retain the authority to adjust the denominator of the CAR calculation. The following is the IFSB-15 standard formula for calculating CAR.

$$CAR = \frac{Eligible\ Capital}{\left\{\begin{matrix} Total\ Risk - Weighted\ Assets\ (Credit + Market\ Risks) + Operational\ Risk \\ Less \\ Risk - Weighted\ Assets\ Funded\ by\ PLS\ A/C\ (Credit + Market\ Risks) \\ Less \\ (1-\alpha) Risk - Weighted\ Assets\ Funded\ by\ Unrestricted\ PLS\ \frac{A}{C}(Credit + Market\ Risk) \\ Less \\ \alpha[Risk - Weighted\ Assets\ Funded\ by\ PER\ and\ IRR\ of\ Unrestricted\ PLS\ A/C(Credit + Market\ Risk)] \end{matrix}\right\}}$$

The IFSB-15 formula for CAR now includes 'α' component in the denominator, which impacts the denominator values for any 'α' value (0, 1 or between 0 and 1) This influence of the **'α'** factor does not appear in the typical formula for calculating the CAR's denominator. For the analysis, monthly data are compiled from four selected banks (Bank A, Bank B, Bank C, and Bank D), while secondary data for qualitative analysis are obtained from various sources.

6. Empirical Results

6.1 Calculation of 'α' under CBP-Alpha template

If PSIAs are utilised as risk absorber, the CAR denominator will be reduced by the volume of the PSIAs (both restricted and unrestricted) while the related operational risk is borne by the bank. When the banks use PER to mitigate DCR rather than allow the IAHs to absorb the losses i.e., when DCR exists, the IBI requires the denominator of the capital ratio to include a specified proportion of assets funded by the investment account owner. This percentage, known as 'α', reflects a proportion of business risk borne by Islamic financial institutions as a result of the DCR implementation. The IAH is required to absorb a portion of the commercial risks indicated by the residual value (1- α). IBI's PER and IRR were not included in their capital according to the IFSB-15.

Under the CBP-Alpha template, the following description is used to calculate the values of 'α':

Alpha = DCR / Maximum DCR

where 'DCR' is a Displaced Commercial Risk

DCR = Ul_1 – Ulo and
Maximum DCR = Ul_2 – Ul_1, hence,
Alpha = [Ul_1 – Ul_o] / [Ul_2 – Ul_1]

Unexpected Loss is denoted by Ul_o under Scenario-1; Ul_1 under Scenario-2 and Ul_2 under Scenario-3.

i) Scenario-1 (Ul_O): *PSIAs are treated as Pure Investment Products (PIP)*

In this scenario, IAH is responsible for any commercial risks linked with the assets it finances. In other words, there is no actual 'smoothing' of IAH payments. As a result, there would be no DCR, and the values of 'α' and 'w' will be zero. In this scenario, additional risk factors, including PER and IRR, as well as income transfer from shareholders to IAH, would be zero, thus *Mudarib's* share would be fixed (i.e., 'α' = 0, w = 0, RI = RA – SP, and IRR/PER = 0). As a result, the rate of return to shareholders would be solely determined by the rate of return on investment (i.e., return on assets and *Mudarib's* share):

$$\boldsymbol{RE0 = RA - SP}$$

ii) Scenario-2 (Ul_1): *PSIAs are treated as pure deposit-like products (PDP)*

IAH bears no losses throughout this hypothetical scenario, while owners face all the commercial risks associated with assets financed by IAH. As a result, the DCR is at its maximum, and the values of 'α' and 'w' would also be at their maximum – that is, 1 – whereas some risk determinants such as PER and IRR, *Mudarib's* share, as well as earnings transition from shareholders to IAH would then differ depending on the IIFS pay out policy (i.e., under this scenario, 'α' = 1, w = 1, $R_I = R_m$). The equity rate of return is as follows:

$$\boldsymbol{RE_1 = (R_A - S_P) + DI/K.\ (R_A - S_P - R_m)}$$

iii) Scenario-3 (Ul_2): *PSIAs are treated in between PIP and PDP*

In scenario 3, the PSIAs are regarded as a middle ground among pure investment or deposit-like assets. The letter "C" stands for a constant factor that is being used as a dummy variable. It may have a negative value to account for the difference between rate of return on assets and the rate of return on IAH as well. In this scenario, which represents a midway ground between the two extreme scenarios (Scenarios 1 and 2), the payment to IAH seems to be a weighted average of market and investment returns. As a result, there has been some risk-reward sharing between IAH and IIFS shareholders, leading to certain DCR. As a result, the values of 'α' and 'w' would be set between zero and just one. PER and IRR, *Mudarib's* share, or income transfer from shareholders to IAH, which are determined by the IIFS pay out policy and the sufficiency of IAH's reserves, are additional risk factors. The rate of return on investment is calculated as follows:

$$\boldsymbol{RE_2 = (R_A - S_P) + DI/K.\ w.\ (R_A - S_P - R_m)}$$

Ul_o is a multiple of standard deviation (SD) of Re_o (UL-Scenario-1)
Ul_1 is a multiple of standard deviation (SD) of Re_1 (UL-Scenario-2)
Ul_2 is a multiple of standard deviation (SD) of Re_2 (UL-Scenario-3)
Re – Rate of return on shareholders' equity
Re_o – PSIAs are treated as pure investment products (PIP)
Re_1 – PSIAs are treated as pure deposit-like products (PDP)
Re_2 – PSIAs are treated in between PIP and PDP
PSIA – Profit sharing investment account
RM- Muḍārabah income
K – Shareholders' funds
(1-β) – Mudarib share
A – Total assets
R_k – Rate of return on shareholders' funds that is invested in other assets
R_p - Appropriation to PER as % of total assets
S_p – Provisions made out of current income as % of total assets (Total Provision of Current Income/Average Assets)
R_A - Gross rate of return on assets
IAH –Investment account holder

$$R_1 = \beta * RM/D_1\text{-}RIR \text{ and put value of } RM*$$

$R_1 = \beta*[A*(R_A\text{-}R_p\text{-}S_p) - KR_k]/D_1\text{-}RIR$
R_1 - *Rate of return attributable to IAH*
β - *IAH's share of Mudarib profit*
D_1 - *PSIAs funds*
RIR – Investment risk reserve
KR_k – *Income attributable to shareholders outside of Muḍārabah*
$*R_M = [A*(R_A\text{-}R_p\text{-}S_p) - KR_k]$

$R_M = A*(R_A\text{-}R_p\text{-}S_p) - KR_k$ ………………….……… (a)
$R_k = A/K*(R_A\text{-}S_p\text{-}R_p\text{-}D_k)$ ……………………….……(b)
$R_i= W*(R_m)+(1\text{-}W) *R_A+C$ ……………….………(c)
R_m – *Market benchmark rate*
R_i –*Rate of return to be paid to IAH*
W – Weight attached to Rm in the decision on pay-outs to IAH
D_k – *May take the form of a donation, out of shareholder's profit*

$Re = (1\text{-}\beta) *[R_M/K+A*Rp /K] +R_k$ ………………………………..…… (1)
$Re_o = (R_A\text{-}S_p)$ ………………………………………………………..…. (2)
$Re_1 = (R_A\text{-}S_p) +D1/K*(R_A - S_p - R_m)$ ……………………………. ….. (3)
$Re_2= (R_A\text{-}S_p) +D1/K*W*(R_A - S_p - R_m)$ …………………………..……. (4)

A regression was applied for the calculation of 'W' using the CBP-Alpha template on the data from eight selected banks applying the following equation (derived from Eq. c above).

$$W = [R_i – R_A - C] / [R_m - R_A$$

Table 5a: Calculation of W and 'α' based on IFSB templates

		Avg. Dep. Rates		*Ṣukūk* rates		T-Bills rates	
No.	Bank Name	W	'α'	W	'α'	W	'α'
1	Bank A	0.33	0.36	0.34	0.32	0.35	0.33
2	Bank B	0.39	0.37	0.32	0.33	0.34	0.34
3	Bank C	0.38	0.38	0.38	0.39	0.39	0.37
4	Bank D	0.59	0.71	0.26	0.22	0.36	0.29

Source: author's own

The results under the CBP-Alpha template (Appendix 1) do not fulfil the requirements of 'C' and the values of 'α' and 'W' are found negative. Therefore, we proceed to the calculation '*α'* under the IFSB template.

6.2 Calculation of 'α' under the IFSB

As the results of CBP-Alpha template were unanticipated, the study calculated the values of 'W' and 'α' using the IFSB template. The data of four banks were analysed using three different market rates i.e., *Sukuk* rates, Treasury Bill (T-Bill) rates and average deposit rates. The regression results are displayed in Tables 5a, Table 5b and Table 6. The study calculated the values of W and α, using three market rates. These market rates were applied on panel data to calculate W and 'α'.

The panel data helped reduce the residual errors in the time series data and the regression model used in the template contained parameters for return on assets and profit paid to IAHs by banks. In this model, there is no dummy variable and the actual data from the four selected banks provided suitable values for W and 'α'.

Table 5b: Panel Data Regression for the calculation of W and ‘α’

Market rates	Unexpected loss to shareholders (Ul_0)	Unexpected loss to share-holders (Ul_1)	Unexpected loss to shareholders (Ul_2)	Value of ‘W’	‘α’ = (UL_2-UL_0) / (UL_1-UL_0)
Ṣukūk	0.3991	56.836	29.141	0.51	50.92 %
Average Deposits	0.3991	56.821	34.877	0.63	62.41%
T-Bills	0.3991	57.192	21.060	0.37	37.82 %

Source: author’s own

Credit RWA attempts to determine the level of credit risk associated with the various asset categories based on the obligor and asset type. Market RWA attempts to measure the market risk associated with a certain asset class based mostly on the asset’s issuer or maturity. Operational risk is the risk of losses either from insufficient or failed internal procedures, people, and systems, or from external events, such as legal risk and *Sharīʿah* non-compliance risk. This definition excludes both strategic and reputational considerations.

Table 6 is a summary of a comprehensive review of data received from four banks. It is found that the CAR values are based on three categories: (i) Tier-1 to adj. RWA amount, (ii) Total Eligible Capital to adj. RWA both without impact of ‘α’ and (iii) Capital Adequacy Ratios (Supervisory Discretion Formula) with impact of ‘α’. These values were calculated using three market rates i.e., *Ṣukūk* rates, Average Deposit rates and T-Bill rates.

Table 6: Calculation of CAR based on IFSB-15 Standard RWA Format (in Million Rupees)

		Bank A	Bank B	Bank C	Bank D
	a. Tier-1 Capital	*7,333*	*9,779*	*10,654*	*32,014*
	b. Tier-2 Capital	1,115	1,646	2,729	9,123
1	Eligible Capital = (a + b)	8,448	11,425	13,383	41,227
	c. RWA Credit Risk	73,596	58,233	89,396	253,576
	d. RWA Market Risk	2,723	530	1,479	11,952
	e. RWA Operational Risk	7,947	9,695	8,189	39,323
2	Total Risk Weighted Assets (TRWA) = (c + d + e)	84,266	68,458	99,064	304,851
3	Total Adjusted RWA*	39,045	41,471	46,261	180,019
4	CAR *without* ‘α’ impact on RWA				
	(i) Tier-01 to adjusted RWA	19	24	23	18
	(ii) Total Eligible Capital to adj. RWA	22	28	29	23
5	(iii) CAR *with* ‘α’ impact on RWA				
	CAR based on *Ṣukūk* rates	22	26	19	20
	CAR based on average deposit rates	21	16	19	15
	CAR based on T-Bills rates	22	26	22	19

Note: *Total adjusted RWAs are calculated by subtracting the sum of Total RWA funded by PLS account and RWAs funded by PER and IRR from Total RWAs amount.

Source: author’s own

6.3 CAR calculation under IFSB-15

The analysed data was collected from some selected banks and the IFSB-15 template was used for CAR calculation for the month of September 2019. The Bank wise analysis in Table 7 shows that Bank A has similar CAR values (22%) for: i) *Sukuk* rates and ii) T-Bills rates, but a lower CAR value (21%) for average deposit rates. Similarly, Bank B has similar CAR values (26%) for: i) *Sukuk* rates and ii) T-Bills rates, but a lower CAR value (16%) for average deposit rates. Bank C has similar CAR values (19%) for i) average deposit rates and ii) *Sukuk* rates, too. Nevertheless, it has a higher CAR value (36%) for T-Bills rates. Bank D has no comparable CAR value under the three rates. The analysis is based on the following regression model.

$$\mathbf{R_i = Constant + a_1 * ROA + W * R_m}$$

The analysis ran a regression on the data and calculated the value of 'W', which is a weighted rate that banks apply to market rates while calculating 'R_i' i.e., returns payable to IAHs. As 'α' has significant importance in the calculation of CAR, the value of 'W' is significant for 'α' estimation. W is the multiple of market rate (R_m), ROA is return on Assets and a_1 is the ROA coefficient. The discretionary power of the regulator has a significant impact on the selection of one rate (R_m) among the three market rates (Average deposit, Sukuk and T-Bills) used in the analysis (Table 7). The results of Table 7 corroborate with Table 5a that depicts the value of 'α' ranges from 0.22 to 0.71. These values are in conformity and under the limits of 'α' values implemented by the six countries under study.

Table 7: Calculation of CAR based on IFSB Standard

		Under IFSB Template		
No.	Bank Name	**Average Deposit**	***Sukuk***	**T-Bills**
1	Bank A	21	22	22
2	Bank B	19	26	26
3	Bank C	19	19	36
4	Bank D	15	20	19

Source: author's own

6.4 Panel Data Analysis for CAR

A panel data analysis was conducted for the 'α'calculation in order to have a comprehensive insight of the impact of three market rates on IAHs' returns from IBIs. Table 8 illustrates these values using panel data for all banks and provides a summary of the CAR results.

Table 8: Results for Panel data on 'α' calculation for CAR

		Million Rupees			Capital Adequacy Ratio (CAR)		
		Capital		Adj. RWA	Under IFSB Template		
No.	Bank Name	Tier-1	Total		**Average Deposit**	***Sukuk***	**T-Bills**
1	Bank A	7,333	8,488	39,045	13	15	17
2	Bank B	9,779	11,425	41,471	19	21	23
3	Bank C	13,383	13,383	46,261	16	19	22
4	Bank D	32,015	41,227	180,019	15	17	19

Source: author's own

Table 9 provides a conclusive comparison of the CAR values calculated using different values of ‘α’ under the IFSB template and different values of CAR calculated using the CBP-CAR template, based on Basel III. The findings show that when α=1, all the selected banks generate low CAR values with the exception of Bank B; the CAR values for all the banks are approximately similar to the CAR values under CBP-CAR template. However, when α=0 is used, all the selected banks yield high CAR values. In fact, in this case, no single value of CAR is close to the CAR values calculated using CBP-CAR template. It also confirms the inverse relationship between **‘α’** and CAR. CAR values derived using the IFSB template and based on three market rates indicates that Average Deposit rates yield lower CAR values than the other two market rates as shown below:

Table 9: Calculation of CAR under different values of ‘α’

No.	Bank Name	Values of CAR based on CBP-CAR Template	Values of CAR at different values of ‘α’				
			α=0	α=1	‘α’ at Average Deposit	‘α’ at *Sukuk*	‘α’ at T-Bills
1	Bank A	11%	22%	11%	12%	22%	22%
2	Bank B	13%	28%	17%	14%	26%	26%
3	Bank C	13%	29%	14%	16%	19%	22%
4	Bank D	14%	23%	14%	15%	20%	19%

Source: author’s own

The study further computed the RWAs values based on data obtained from four banks and a comprehensive mapping of two templates. In the IFSB template, the RWAs are based on different risk weights of the Islamic finance modes (*Mudarabah*, *Musharakah*, and *Mudarabah* and *Ijarah* etc.) and *Sukuk*, whereas in CBP-CAR templates, they used debt-based modes. Therefore, the IFSB format is deemed to be more suitable than the CBP-CAR template for the calculation of RWAs and CAR for IBIs.

7. Conclusion

The study of market practices reveals that IAHs are treated as conventional PLS deposits that are capital-guaranteed. IBIs take a market perspective on profit distribution, which in turn makes it virtually obligatory to distribute profits smoothly (accepting DCR and paying a competitive rate of return, i.e., to cushion losses. From a *Shari’ah* standpoint, IAH should be considered as a pure investment with no promise of principles or profits. To analyse these issues, three different market rates (Sukuk, T-Bills, and Average Deposits) were used as benchmark rates for the calculation of ‘W’, ‘α’, and DCR. The average deposit rate is the best estimator among the three rates used in these computations, as the CAR values for all the selected bank institutions are close to those of Basel III.

This analysis suggests that the rights of PLS depositors/IAHs are not specifically protected by the existing legal framework due to their loss-sharing and risk-taking characteristics. Moreover, in the event of an IBI liquidation, the priority of claims does not take into consideration the deposit/investment account hierarchy. Concerning the maintenance and recording of data/information for CAR (IFSB-15), the study indicated that the maintenance of the system-based data required for CAR computation under the IFSB-15 is a serious concern. In addition, there was a lack of essential data due to the unavailability of suitable software applications and their integration with the core banking application. In addition, IBIs disclose capital adequacy in a comparable way as that of conventional banks, i.e., by assigning risk weights based on counterparty, even for products such as *Musharakah*, which are classified as investment or financing.

International regulatory and *Shari'ah* standards such as IFSB and AAOIFI require fulfilling the fiduciary responsibility. Each IBI should have a Governance Committee, a body charged with overseeing governance matters pertaining to IAH. IBIs must have an effective accounting system that can determine the type of each asset at the time of reporting, since the risk weights fluctuate with the change in the nature of bank assets. To monitor the PLS depositor or IAHs based pool activities, separate disclosure requirements must be met. A review on IFSB standards and documents considering major updating or advancement of BCBS consultative documents may affect their adaptation.

The assessment of the IFSB-15 adaptation in other jurisdictions shows that in almost all countries (Bahrain, Oman, Qatar, and Sudan), this standard was adopted partially on a subjective basis by allowing low risk weights for assets financed/invested by UIAHs through supervisory discretion. This was allowed due to underlying *Shari'ah* compliant contract (often *Mudarabah*-based) between UIAH and IBI on risk (proportional loss to their investment) and reward on agreed profit-sharing basis after securing adequate supporting regulatory measures. The formation of a governance committee (at board of directors or senior management level with *Shari'ah* board of IBI representation) to oversee and protect IAHs interests, risk warnings with mitigation, periodic transparent disclosures regarding the use of smoothing methods (PER and IRR), transparent and fair profit calculation and distribution IT-based system, and deposit insurance coverage, to name but a few, are regulatory steps adopted by the above-mentioned countries.

In Pakistan's current legal and regulatory framework, the adoption of IFSB-15 without solving or addressing the mentioned flaws does not seem to be rational. The study implies that the Malaysian model may be followed i.e., the value of 'α' may be '1' if a legal framework and complete rules are promulgated. Before the implementation of capital standard on 'α', Islamic banks should institutionalise and strengthen the framework of PER and IRR for smoothing returns to investment account holders and preventing any element of *hibah* to IAHs as proven in the findings of this study.

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Appendix 1

A1. Summary on Bank As' monthly data for 'W' and 'α'

Market rates	Unexpected loss to shareholders (UL_0)	Unexpected loss to shareholders (UL_1)	Unexpected loss to shareholders (UL_2)	Value of 'W'	ALPHA = $(UL_2-UL_0)/(UL_1-UL_0)$
Ṣukūk	0.0153	0.1444	0.0316	-0.2147	12.6 %
Avg Dep.	0.0153	0.1072	0.0827	0.7485	73.3 %
T-Bills	0.0153	0.1130	0.0471	-0.3887	32.6 %

A2. Summary on Bank Bs' monthly data for 'W' and 'α'

Market rates	Unexpected loss to shareholders (UL_0)	Unexpected loss to shareholders (UL_1)	Unexpected loss to shareholders (UL_2)	Value of 'W'	ALPHA = $(UL_2-UL_0)/(UL_1-UL_0)$
Ṣukūk	0.0159	0.0367	0.0297	0.7077	66.5 %
Avg Dep.	0.0159	0.0412	0.0423	1.0429	104.54 %
T-Bills	0.0159	0.0921	0.0518	-0.5100	47.11 %

A3. Summary on Bank Cs' monthly data for 'W' and 'α'

Market rates	Unexpected loss to shareholders (UL_0)	Unexpected loss to shareholders (UL_1)	Unexpected loss to shareholders (UL_2)	Value of 'W'	ALPHA = $(UL_2-UL_0)/(UL_1-UL_0)$

Ṣukūk	0.0599	98.3615	48.7198	0.4950	49.5 %
Avg Dep.	0.0599	97.0342	97.5394	1.00520	1.01%
T-Bills	0.0599	99.6010	35.6899	-0.35893	36.8%

A4. Summary on Bank Ds' monthly data for 'W' and 'α'

Market rates	Unexpected loss to shareholders (UL_0)	Unexpected loss to shareholders (UL_1)	Unexpected loss to shareholders (UL_2)	Value of 'W'	ALPHA = (UL_2-UL_0) /(UL_1-UL_0)
Ṣukūk	0.0004	15.5521	0.4067	-0.0261	2.61 %
Avg Dep.	0.0004	9.2132	0.6842	-0.07427	7.33 %
T-Bills	N.A	N.A	N.A	N.A	N.A

A5. Summary on Bank Es' monthly data for 'W' and 'α'

Market rates	Unexpected loss to shareholders (UL_0)	Unexpected loss to shareholders (UL_1)	Unexpected loss to shareholders (UL_2)	Value of 'W'	ALPHA = (UL_2-UL_0) /(UL_1-UL_0)
Ṣukūk	0.0108	0.1406	0.0173	- 0.1032	5.01 %
Avg Dep.	0.0108	0.0764	0.0102	- 0.1488	-0.93 %
T-Bills	0.0108	0.1036	0.0144	- 0.0702	3.82 %

A6. Summary on Bank Fs' monthly data for 'W' and 'α'

Market rates	Unexpected loss to shareholders (UL_0)	Unexpected loss to shareholders (UL_1)	Unexpected loss to shareholders (UL_2)	Value of 'W'	ALPHA = (UL_2-UL_0)

					/(UL_1-UL_0)
Ṣukūk	N.A	N.A	N.A	N.A	N.A
Avg Dep.	0.0180	0.1602	0.1397	0.8676	85.57 %
T-Bills	0.0180	0.0322	0.0207	-0.3549	18.59 %

A7. Summary on Bank Gs' data for 'W' and 'α'

Market rates	Unexpected loss to shareholders (UL_0)	Unexpected loss to shareholders (UL_1)	Unexpected loss to shareholders (UL_2)	Value of 'W'	ALPHA = (UL_2-UL_0) /(UL_1-UL_0)
Ṣukūk	0.0412	0.2656	0.0468	0.0737	0.25 %
Avg Dep.	0.0412	0.3232	0.0411	- 0.0125	-0.03 %
T-Bills	0.0412	0.2929	0.0516	0.1012	4.13%

A8. Summary on Bank Hs' monthly data for 'W' and 'α'

Market rates	Unexpected loss to shareholders (UL_0)	Unexpected loss to shareholders (UL_1)	Unexpected loss to shareholders (UL_2)	Value of 'W'	ALPHA = (UL_2-UL_0) /(UL_1-UL_0)
Ṣukūk	N.A	N.A	N.A	N.A	N.A
Avg Dep.	0.0566	0.3224	0.1027	-0.4659	17.33 %
T-Bills	0.0566	0.2114	0.17885	0.7927	78.93 %

Note: N.A denotes not applicable

Appendix 2

B1. Panel Data Regression Analysis for Calculation of ‘W’ and α

Market rates	Unexpected loss to shareholders (UL_0)	Unexpected loss to shareholders (UL_1)	Unexpected loss to shareholders (UL_2)	Value of ‘W’	ALPHA = (UL_2-UL_0) /(UL_1-UL_0)
Ṣukūk	0.3024	41.1883	3.3565	-0.0774	7.47 %
Avg. Dep.	0.3024	40.4502	0.2502	-0.0049	-0.13 %
T-Bills	0.3152	44.1144	6.5468	-0.1448	14.23 %

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اعتماد معايير مجلس الخدمات المالية الإسلامية و أثره على الممارسات المصرفية الإسلامية: أدلة من باكستان

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المستخلص. ينطوي اعتماد معايير مجلس الخدمات المالية الإسلامية الخاصة بالمصارف والمؤسسات المالية الإسلامية، مقارنة بالبنوك التقليدية، على تحديات كبيرة للعديد من السلطات الإشرافية والتنظيمية. تُسَلِّط الدراسة الحالية الضوءَ على معيار المجلس الخامس عشر (١٥)؛ المتعلق بكفاية رأس مال المؤسسات التي تُقدم خدمات إسلامية (يُستثنى من ذلك مؤسسات التكافل وصناديق الاستثمار)، من خلال تقييم إمكانية اعتماده ضمن نظام مصرفي مزدوج، عبر مقاربة تقوم على تحليلٍ الآثار التي يمكن أن تترتب على تطبيق هذا المعيار على المصارف الإسلامية في باكستان. توصلت الدراسة إلى أنه من الناحية العملية يتم التعامل مع أصحاب حسابات الاستثمار كأنهم مودعون تقليديون لا يتقاسمون الربح والخسارة -كما هو مطلوب وفق معايير الشريعة وضوابطها-؛ حيث يتم ضمان رأس المال بغض النظر عن نتيجة المشروع الذي استخدمت فيه تلك الأموال. وهذا ما فرض على المؤسسات المصرفية الإسلامية إلى اتباع منهج يتماشى مع ما هو سائد في أسواق المال لتوزيع الأرباح، لأن ذلك يضمن لها عائدًا ثابتًا للربح (دفع معدل عائد تنافسي من خلال قبول المخاطر التجارية المستبدلة). توصي الورقة بأن يترافق تطبيق المعايير الفنية لمجلس الخدمات المالية الإسلامية مع نمو مؤسسي مماثل لما يتضمنه الهيكل المصرفي الإسلامي والقدرة المؤسسية وفق قواعد الشريعة وضوابطها حقيقة لا شكلاً، مضمونًا لا مظهرًا.

الكلمات الدَّالة: البنوك الإسلامية، معايير مجلس الخدمات المالية الإسلامية، كفاية رأس المال، باكستان

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Convergence of Values between Islamic Finance and Socially Responsible Investment (SRI): What are the Limits of SRI Sukūk Issuance?

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Abstract. Ethical investments, such as socially responsible investment (SRI), and faith-based investments, such as Islamic finance, have become commonplace in the economic development discourse. Given that SRI bonds dominate SRI markets, one might ask why SRI *Sukūk* (Islamic bonds) have not contributed more to certain social or sustainability-related causes or sectors to achieve the objectives of *Sharīʿah* (Islamic law). This study will mainly examine the aspects considered ethically or socially responsible as incorporated in SRI and Islamic finance. In doing so, this study will compare the values or principles of SRI bonds and the SRI *Sukūk* framework to enable Islamic finance players to make good use of the opportunity of the segment. This study further examines what limits the involvement of Islamic financial market participants in socially responsible investment. Drawing on the 2014 SRI *Sukūk* framework and other SRI legislation, this study reveals that both have similar qualities, characteristics and objectives. However, SRI *sukuk* are challenged by investors' appetite for a profitable return, lack of awareness of social investment and lack of data and methodology associated with the Triple Bottom Line or 3Ps (people, planet and profit) approach. These problems have, to some extent, limited the Islamic financial market players from investing in social responsibility programes.

Keywords: *Sukūk*, socially responsible investment, *Sharīʿah*, Islamic finance, ethical investment

JEL CLASSIFICATION: N20
KAUJIE CLASSIFICATION: I34, K16

1.0 Introduction

Ethical investment, such as socially responsible investment (SRI) and faith-based investment, such as Islamic finance (Reddya, Mirzab, Naqvic, & Fu, 2017) have become widespread in the economic development discourse. These two ma rkets are the fastest growing areas of finance, where total Islamic finance assets grew by 7%,and were valued at US$2.2 trillion in 2016 (United Nations 2018). Globally, SRI assets soared from US$18.3 trillion in 2014 to US$23 trillion in 2016 (Global Sustainable Investment Alliance, 2015). This rapid growth has triggered a discussion regarding the convergence of SRI and Islamic finance, as both strive to exclude certain industries considered unethical from their investment strategies, including alcohol, tobacco, arms, pornography, etc. (Binmahfouz & Hassan 2013; Binmahfouz 2012). Meanwhile, many studies have shown that Islamic ethics are compatible with business ethics which is the theoretical foundation of SRI practices (Beekun & Badawi, 2005; Brammer, Williams, & Zinkin, 2007; Dusuki, 2008; Dusuki & Abdullah, 2007; Mir, Hassan, & Hassan, 2017). The principles of Islamic finance emphasize equitable risk-sharing and the prohibition of interest-based financing. To date, SRI has focused on equity investments rather than fixed income, as financial intermediaries have found it easier and more direct to invest in SRI products in equities rather than fixed income (Bennett & Iqbal, 2013).

The "similarities" of SRI and Islamic finance, with a strong focus on ethics, have raised opportunities to consolidate the position of Islamic finance in a market dominated by conventional finance. Many have considered that among Islamic financial instruments, *Sukūk* or Islamic bonds are a financial model that bridges the gap between the two markets (Azman & Ali, 2016; Bennett & Iqbal, 2013; Noordin, Haron, Hasan, & Hassan, 2018). This could explain many similarities in the structure of *Sukūk* coupled with social impact bonds that potentially meet the demands of *Sharīʿah* (Islamic law) and SRI investors (Azman & Ali, 2016; Kassim & Abdullah, 2017). Moghul and Safar-Aly (2014) have established some criteria and guidelines for green *Sukūk* and proposed "how" integration between SRI and Islamic finance can be made possible. While the proposal sounds very appealing, in reality there is a contentious divide between the two markets and joint initiatives seem to be rare. This distinction reflected in *Sukūk* to date is only in a small number of SRI *Sukūk* successfully issued in global capital markets (Richardson 2019). A recent report by Standard & Poor's shows that the amount of *Sukūk* that takes into account environmental issues is still poorly addressed compared to the global green bond market, which saw US$168 billion of issuance in 2018, and subsequently social aspects seem to have taken a back seat (Damak, Roy, Bendersky, & Gorce, 2018). A review of the *Sukūk* market to date suggests that the objectives of those participating in *Sukūk* certificate issuances have not always been directly focused on the impacts of these instruments on society or collective welfare in general (Idraki, 2016).

The philosophy of Islam as a religion emphasizes the betterment of society and goodwill among humans. All activities of Muslims should be centered on the highest ethics and social responsibility. At the same time, Islamic economists believe that the norms of their religion provide clear guidance in every conceivable area of economics. They are also convinced that these norms would be equally effective in all Muslim societies, regardless of their size, history, level of economic development and institutional framework (Chapra, 1985; Kuran, 1983, 1995). The philosophical underpinnings of an Islamic financial system go beyond the interaction of production factors and economic behaviour (Iqbal, 1997). Financial aspects are emphasized as part of the broader Islamic ethical system since these factors in Islam are considered part of the "religion", and all business activities, wealth creation, economic activities, wealth distribution, and human welfare are the "affairs of religion" (Furqani, Laldin, & Mulyany, 2016). While the conventional financial system mainly focuses on economic and financial issues of transactions with their material outcomes, the Islamic system gives equal importance to various ethical, moral, social and public good dimensions to enhance equality and equity as well as the state's role (Iqbal, 1997). Therefore, one of the reasons for this acceptance could be due to its ethical promises. Islamic finance is perceived as an ethics-based system that operates with a set of moral precepts in financial transactions (Laldin & Furqani, 2013).

Ideally, if *Sukūk are* structurally aligned with the ethical principles of Islamic finance, they should have an established place within the broader responsible finance or SRI market.

Unfortunately, as this is not the case in practice, this has led to at least two significant problems. Firstly, Islamic finance is based on a religious worldview, and is therefore often considered ethical *in itself* (Nienhaus, 2011). Similarly, the basis or root of SRI is found in religious law. Many consider the close and substantial connection with the Christian religion to have long been the driving force behind the growth of SRI (Paranque & Erragragui, 2016). Although the two share many convergences and have their roots in religion, many argue that ethics and social responsibility in business and investment are complex issues. It has not been clear to what extent business ethics should depend on some general ethical codes universally applicable to all social structures. Nor is it clear to what extent it should rely on individuals' personal values and moral commitments to the social good, or to what extent it is simply a contradiction in terms or definitions (Hellsten & Mallin, 2006). These gaps have motivated this study to examine what is considered ethical or socially responsible as incorporated in SRI and Islamic finance. This analysis further compares the values or principles of SRI bonds and the framework or standards of SRI *Sukūk*, to enable Islamic finance players understand the real scope and purpose of SRI. Furthermore, it is important so as to match the segment opportunity available in SRI (MIFC, 2015).

Second, if Islamic finance has similarities with SRI, why are SRI *Sukūk* still absent from the financial sector? One may ask why the Islamic finance sector has not contributed more to certain sectors of society, as required by the principles of *maqasid al Sharīʿah* (higher objectives of *Sharīʿah*). Given the 'gap' between the principles and practices of Islamic finance, this could be due to different cultural traditions, differences in target markets, preoccupation with their own economic growth, perception and reputation issues, lack of initiative by industry leaders, or simply a lack of understanding each other (Hayat, 2013). However, these factors unfortunately remain ambiguous as any survey-based study has not proved them. Therefore, this study will examine "what" limits Islamic financial market players in issuing and structuring SRI *Sukūk*. It does so by collecting qualitative data from semi-structured interviews with *Sharīʿah* advisors in Malaysia, as the country is currently the largest *Sukūk* issuer in the world and has become the leading player in *Sukūk* development (IIFM, 2018). Moving beyond the academic discourse that has primarily focused on 'how' to align *Sukūk* with SRI, this study rather seeks to broaden the discourse by examining 'what' restricts or discourages Islamic financial market participants from participating in social responsibility investing.

The significant contribution of this study is to develop Islamic finance to cover the shortfalls that jeopardize the future Sustainable Development Goals 2030. The United Nations Conference on Trade and Development (UNCTAD) has argued that achieving the Sustainable Development Goals (SDGs) by 2030 will require the investment of $3.9 trillion in developing countries each year (United Nations, 2018). Mindful of this funding, *Sukūk* are considered appropriate for SRI investors as they offer investors a high degree of certainty that their money will be used for a specific and meaningful purpose. In order to comply with the underlying principles of *Sharīʿah*, the funds raised through the issuance of a *Sukūk* must be applied to the investment in identifiable assets or businesses (Bennett & Iqbal, 2013). For this reason, if *Sukūk are* structured to provide funds to a specific development project that attracts SRI investors, such as a renewable energy project or a low-cost housing scheme, there is little chance that investors' money will be diverted and used for another purpose (Bennett & Iqbal, 2013)**.** However, the issuance of *Sukūk* still faces a number of obstacles related to the legislative framework of *Sukūk*. The issuance of *Sukūk* often requires the issuing entity to create a special purpose vehicle (SPV) and transfer the assets underlying the *Sukūk* to that SPV. This can result in additional taxes and stamp duties.

For decades, conventional capital markets have been used to channel investments into development projects in poor countries (Standard & Poor's in Bennett & Iqbal, 2013). The World Bank, as a pioneer, issued its first bond in 1947 and used the proceeds to finance projects in developing countries, followed by other supranational institutions. While Islam has a long historical tradition of ethical practice, social issues have not been of great concern to Islamic financial institutions and the banking sector. It is not uncommon to find claims in the Islamic finance literature is failing to achieve the goals for which it was initially designed (see Azman &

Ali, 2016; Mohamad, 2014; Mohamad, Lehner, & Khorshid, 2016). Such conclusions invite the key question: has Islamic finance fulfilled the objectives of *Shari'ah*? This question means that assessments need to be made on the roles played by Islamic finance in, for example, poverty alleviation, income distribution, equal and expanded access to finance, and economic productivity and efficiency (Ibrahim, 2015). Therefore, this study argues that the role of *Sukūk* remains important insofar as the ideals of Islamic ethics need to be put into practice.

This paper uses the content analysis approach to examine the aspects that are ethical or socially responsible in SRI and Islamic finance. For comparison, three standards were considered, namely (i) the SRI *Sukūk* Framework 2014 published in Malaysia, (ii) the Social Impact Bond Act 2014 in the United States and (iii) the principles published by the International Capital Market Association (ICMA) for the European market. Content analysis is used to help researchers quantify and analyse the presence, meanings and relationships of certain words, themes or concepts. To examine what constrains Islamic financial market participants in the issuance and structuring of SRI *Sukūk*, semi-structured interviews were conducted with four *Sharīʿah* advisors working for the Sharīʿah Advisory Council, Securities Commission, Malaysia. All of them have worked for 10 years or more in this sector. The questions to be answered relate to the challenges and limitations of structuring SRI *Sukūk.*

This paper is structured as follows. First, the concepts of ethical investment in SRI and Islamic finance will be explained and compared. Then, a more in-depth examination of the facets that are considered ethical investment as reflected in SRI bonds and *Sukūk* standards or framework is presented. Next, aspects that limit Islamic financial market's participants in social responsibility investement are examined, focusing on SRI *Sukūk*.

2.0 The concept of ethical investment in SRI and Islamic finance: a comparison of social bonds and SRI Sukūk

In the world of SRI *per se*, defining this ethical investment is a somewhat difficult task, as there is no consensus on the "ideal" characteristics that SRIs should possess. In fact, its principles and limitations are still debated in the literature (Gillet & Salaber-Ayton, 2017; Miglietta & Forte, 2007; Statman, 2005). It is often used loosely with other general terms such as 'socially responsible' or environmentally friendly investment, ethical, social, green, alternative, divergent, focused, creative, developmental, strategic, etc. which have been used interchangeably (Cowton, 1998). However, from a practitioner's perspective, sustainable investing is the process of integrating environmental, social and governance (ESG) factors into investment decisions. Sustainable investors choose to invest in companies, organisations and funds with the aim of generating measurable and beneficial social and environmental outcomes, not just financial returns (Ernst & Young Global Ltd, 2020). On this issue, the paper discusses the aspects that are considered ethical in SRI based on its development (Lewis, 2010) and the investment criteria of SRI practices established in various countries (Gillet & Salaber-Ayton, 2017).

The development of SRI has taken place in three stages, from avoidance of sinful practices to positive screening to sustainable investment. The roots of SRI in the Western world go back to the 17th century, when the Quakers in the United States refused to make a profit from the arms and slave trade. The founder of Methodism, John Wesley (1703-1791), stated in his sermon "The Use of Money" that people should not engage in sinful trade or profit by the exploitation of others (Renneboog, Horsta, & Zhang, 2008). However, at the initiative of the Methodist Church, the first investment fund with ethical screening criteria, the Pioneer Fund, was established in 1928. This entity was reserved exclusively for a restricted religious community and prohibited investments in so-called "sinful" (in the biblical sense) companies, i.e. those involved in activities such as brewing, tobacco, weapons and gambling (Paranque & Erragragui, 2016). At this point, ethical investing is essentially built around negative screening - the exclusion of investments considered harmful and inconsistent with the values of investors or fund managers.

Originating from religious doctrine, SRI gradually expanded to include anti-war projects, promote human rights, and implement environmental protection policies (Abdelsalam, Duygun, Matallín-Sáez, & Tortosa-Ausina, 2014). Discontent among students and other youth led to protests against the Vietnam War in the 1960s, and the boycott of companies that supplied weapons used in the war meanwhile issues involving civil rights and racial equality arose and became very important. Community development banks set up in low-income or minority communities were part of a movement that gave rise to the Civil Rights Act of 1964 and the Voting Rights Act of 1965 in the United States. SRI entered the mainstream when Dreyfus, a major mutual fund distributor, launched its Third Century Fund, which included stocks of companies known for their sensitivity to the environment and their local communities (Knoll, 2002). Based on this positive screening, this second stage of SRI investment sought opportunities in industries that positively impact the economy, the environment and other relevant areas of society.

The third stage of SRI development occurred in the late 1990s and early 2000s, when SRI was increasingly defined as a means to promote environmental sustainability (Lewis, 2010). Coinciding with the increasing use of sustainability reporting, sustainable investing strives to identify and select the most sustainable companies in their sector through best-of-breed or best-of-class investing. Quantitative and qualitative measures are used to determine the environmental, social, governance (ESG) or ethical performance of companies, using criteria such as adherence to principles of good corporate governance, use of resources, treatment of employees, approach to customers and suppliers, and community involvement and contribution. These factors are often summarised by the acronyms ESG and corporate social responsibility, although all three approaches (ethical, environmental and sustainable) are concerned with environmental outcomes, albeit with different emphases.

Given the increasing globalization of financial markets, the foundation of the ethical criteria for SRI investment differs from country to country. For example, in the United States, socially responsible funds favour product exclusions of alcohol, tobacco, weapons and gambling companies (Social Investment Forum, 2007), while in Belgium, France and Switzerland they follow a combined best-in-class and standards-based selection approach (Eurosif, 2012). Elsewhere in Europe, the boundaries of SRI diverge significantly. The exclusion of alcohol companies from ethical funds is common in Denmark, Spain and Sweden, but not the case in Austria, France and Germany. Nuclear power plants are excluded from most socially responsible funds in Austria, Germany and Spain, but are not automatically excluded in other European countries. These product-based exclusions are more popular in continental Europe than in the UK, where they are mostly used by the church, charities and private investors (Gillet & Salaber-Ayton, 2017). Therefore, in SRI, the investment decision is based solely on what the company or a group of people perceive and believe to be ethical, sustainable and promoting good governance.

In Islam, ethics is referred to as *akhlāq* (plural *khuluq*), a term defined as the standards of right and wrong that prescribe what people should do, as taught in the *Qur'an* and demonstrated in the exemplary life (actions and words) of the Prophet (pbuh) (Furqani et al., 2016; Hashi, 2011). In the *Qur'an*, many terms describe the concept of ethics such as *khayr* (goodness), *maslahat* (public interest), *birr* (righteousness), *qist* (fairness), *'adl* (balance and justice), *haqq* (truth and righteousness), *ma'ruf* (known, approved), *nahi munkar* (avoidance of evil and harmful things), and *taqwa* (godliness) (Zarug, 1999). In short, the *Qur'an* wants all Muslims to do good and not engage in evil deeds; therefore, defining characteristic of finance, including investment, lies in the ethical principles embodied in *Sharīʿah* (Islamic legal and ethical system), the same source from which theological beliefs are derived. *Sharīʿah* originates from the rules dictated by the *Qur'an* (the holy scriptures of Islam) and its practices, as well as the explanations given (more commonly known as *Sunnah*) by the Prophet Muhammad (pbuh). For all aspects that are not covered by *Sharīʿah* but by *fiqh* or jurisprudence, the rulings are specified by Islamic jurisprudence scholars within the framework of the *Qur'an* and *Sunnah*.

Based on an ongoing exchange between some renowned banking experts and renowned Islamic scholars in the context of Islamic economies, five fundamental "pillars" that oversee the regulation and religious validity (*Sharīʿah* compliance) of any financial activity have been defined over the past two decades (Güller & Leins, 2010). Four pillars represent the fundamental prohibitions of Islamic finance, namely *riba* (usury), *gharar* (uncertainty), *maysir* (speculation) and investment in prohibited or *haram* activities, while the fifth pillar encourages the sharing of risks and returns. Prohibited activities include mainly alcohol, pork, tobacco, pornography, gambling activities, arms, non-mutual insurance and conventional banking, where some of these activities are tolerated on a minimal basis. In addition to filtering out exclusions, the Islamic investment process includes 'purification', which comes in response to the lack of fully *Sharīah-compliant* businesses worldwide. The objective is to exclude companies characterised by unacceptable levels of conventional debt, liquidity, interest-based investments and/or impure income, subject to the discretion of the *Sharīʿah* board in determining the tolerance level of ratios.

The pillars, including *Sharīʿah,* are all important in shaping Islamic economic transactions (Hayat, 2013). For a minimum requirement, any type of Islamic financial investment is considered *Sharīʿah-compliant* if it complies with this theological framework (Yusof, Bahlous and Kassim, 2010). The pillars must be combined together to preserve balance, distributive justice and equal opportunity and must always be honored in any transaction that is consistent with Islamic practice. *Sharīʿah* is not only about Islamic rules or legal principles, but also about values and ethics. All *Sharīʿah* prohibitions in financial activities are aimed at removing *mafsadah* (harm) that could be inflicted on the transacting parties, and these prohibited actions are in fact ethically harmful. Similarly, any *Sharīʿah* injunction aims to ensure the realization of benefits (*maṣlaḥah*) - positive values that would ensure fairness, justice and benevolence in a transaction (Laldin & Furqani, 2013). Therefore, if an investment is in line with *Sharīʿah* principles, it should be fundamentally ethical (Mohamad Damak in QInvest, 2017). At this point, the existence of the *Sharīʿah* Supervisory Board plays the most crucial role as a guardian to preserve the legitimacy of Islamic banking operations and products, which explains why the Islamic financial system is primary an ethical system.

It is clear that the ethics of Islamic finance are based on sacred revelation, whereas the ethics derived from the social values of SRI are inevitably more transitory. Islamic finance relies on *Sharīʿah* as an authoritative ethical and legal reference. The ethics of an Islamic system differ from those of a conventional system, as the ideals, theories and ethical practices of the former are shaped by the respect for Allah (SWT), while those of the latter are based on transient customs.

This unchanging basis creates a stable set of parameters for contemporary Islamic finance. Muslim jurists sometimes interpret *Sharīʿah* in different ways, which affects the scope of permissible investment products and transaction structures, resulting in flexibility and difficulties. On the one hand, the flexibility of *Sharīʿah is* supposed to help Muslims resolve problems and circumstances that arise in interpreting *Sharīʿah*. However, the flexibility offered by *Sharīʿah* in product development must be understood within the framework of Sharīʿah's rules and principles. On the other hand, different interpretations by Muslim scholars have led to a lack of standardization of *Sharīʿah* rules within the same jurisdiction and in various regions. This can create confusion and problems in presenting the Islamic industry brand to consumers and investors. Nevertheless, as long as the benchmark for Islamic investment is derived from *Sharīʿah,* there are clear rules about what is allowed and what should and should not be included in the investment. SRI, on the other hand, while reflecting much of the theological framework that shapes Islamic finance, does not use a single reference point, and the reasons for its sectoral exclusion are not systematically normative and may evolve in response to social issues[1]. There is a wide range of interpretations and inconsistencies as to what is considered ethically and socially responsible according to people's consciences and beliefs. However, the extent to which these 'interpretations' diverge from Islamic ethics explains the 'gap' between the two markets. The following section provides a more in-depth comparison of what is considered ethical investing, as reflected in their standards or framework.

3.0 Social Impact Bonds and SRI Sukūk: what aspects are considered ethical?

As concerns about social impact investment grow, SRI bond markets have developed a range of securities attached to individual SRI bond issues, in which the security used is usually linked to the nature of the projects to be funded with the bond proceeds (Richardson, 2019). From a practitioner's perspective, green bonds are more about environmentally beneficial projects, and social bonds fund projects that seek positive social outcomes. Meanwhile, sustainability bonds finance projects that have both green and social objectives. Another category of SRI instruments is social impact bonds, but these are not, strictly

[1] For example, French SRI managers do not exclude the nuclear industry, but it may be excluded in other countries (Paranque & Erragragui 2016).

speaking, a bond as repayment and return on investment are dependent on achieving the desired social outcomes, which is known as pay-for-success (International Capital Market Association, 2019).

Relatively new to the capital market is the SRI *Sukūk*, which aims to provide financing for societal welfare and environmental protection in accordance with Islamic principles (Securities Commission Malaysia, 2016).

Clearly, what characterises SRI bonds is the link between the use of their proceeds and the green and/or social project being funded. However, the categories of projects that can benefit from this funding have not been universally accepted (Hedley, Brown, Menon, Zaman, & Basu, 2015), which is similar to the concept of 'social' in SRI, and falls under social interpretation (Richardson, 2019).

By comparing projects deemed ethical from the SRI and Islamic finance perspectives, the SRI *Sukūk* Framework 2014 emerged as the first global standard for SRI *Sukūk*. The Social Impact Bond Act 2014 in the US and the principles published by the International Capital Market Association (ICMA) for the European market are equally important to consider because about half of all SRIs are assets under management in Europe, and more than a third of them exist in the US[2].

In addition to eligible projects, this study also provides an analytical comparison of the due diligence aspects of the respective frameworks or guidelines in structuring SRI bonds or *Sukūk*.

As shown in Table 1, the SRI *Sukūk* Framework 2014 was issued by the Securities Commission, Malaysia, which expands the existing *Sukūk* framework (or *Sukūk* guidelines) by including an eligible issuer, use of the product, eligible SRI projects, independent assessment and reporting requirements.

The framework was issued by the Commission to facilitate the creation of an enabling ecosystem for SRI investors and promote sustainable and responsible investment, in line with the growing popularity of green and social impact bonds (MIFC, 2015).

These government regulations are to be mandatorily implemented by foreign companies and governments when issuing SRI *Sukūk* in Malaysia[3] .

In the US, the announcement of H.R. 4885, otherwise known as the Social Impact Bond Act, was introduced by the U.S. Congress in June 2014, with the aim of improving the lives of those in need by funding social programs that work.

The bill will encourage and support public-private partnerships to improve the American nation's social programs and other purposes. In the European market, the International Capital Market Association (ICMA) published the Green Bond Principles (GBP) in 2014, followed by the Social Bond Principles (SBP), and the Sustainability Bond Guidelines (SBG) in 2018.

Very similar to the 2014 SRI *Sukūk* Framework, ICMA's principles provide guidance on four core elements: (i) use of the product, (ii) project evaluation and selection process, (iii) product management, and (iv) reporting. Unlike the Securities Commission of Malaysia and the U.S. Congress, ICMA is a voluntary, self-governing body, and therefore all types of issuers in the debt capital market can choose to join; in other words, membership is not imposed by the government.

While the London Stock Exchange (LSE) does not require that listed green/social bonds meet specific standards, it does require that the products be used for a class of eligible projects. Furthermore, a second opinion is required to certify projects, which is similar to the ICMA components.

[2] In terms of where sustainable and responsible investment assets are domiciled in the world, Europe continues to manage the largest proportion, with almost half of global sustainable investment assets in 2018. The proportions of global sustainable investment assets in the US (39%), Japan (7%), Canada (6%) and Australia/New Zealand (2%) have remained largely stable over the past two years (Global Sustainable Investment Alliance 2017).

[3] Eligible issuers of SRI *Ṣukūk* are companies within the meaning of sub-section 2(1) of the Capital Markets and Services Act (CMSA) 2007 and foreign governments, as set out in paragraph 3.1 of the *Ṣukūk* Guidelines.

Table 1 Comparison of eligible SRI projects and requirements under different SRI frameworks and legislation

Countries / criteria	Malaysia	US	European countries
Guidelines/ Framework	SRI *Sukuk* Framework 2014	The Social Impact Bond Act 2014 (H.R.4885)	▪ Green Bond Principles 2014 ▪ Social Bond Principles 2018 ▪ Sustainability Bond Guidelines 2018 By International Capital Market Association
Issuer	Corporation, foreign government	Public –private partnership	All types of issuer in the debt capital market
Eligible SRI projects	1. Natural resources 2. Renewable energy and energy efficiency 3. Community and economic development 4. *Waqf* properties/assets	1. Increasing work and earnings by individuals who have been unemployed in the United States for more than six consecutive months. 2. Increasing employment and earnings of individuals age 16 to 24. 3. Increasing employment among individuals receiving Federal disability benefits. 4. Reducing the dependence of low-income families on Federal means-tested benefits. 5. Improving rates of high school graduation. 6. Reducing teen and unplanned pregnancies. 7. Improving birth outcomes among low-income families and individuals. 8. Reducing rates of asthma, diabetes, or other preventable diseases among low-income families and individuals. 9. Increasing the proportion of children living in two-parent families. 10. Reducing incidences of child abuse and neglect. 11. Increasing adoptions of children from foster care. 12. Reducing recidivism among individuals released from prison. 13. Other measurable outcomes defined by the State or local government that result in positive social outcomes and Federal savings.	Green Bond Principles: Renewable energy, energy efficiency, pollution prevention and control, eco-efficient and/or circular economy adapted products, production technologies and processes, green buildings, terrestrial and aquatic biodiversity conservation, clean transportation etc. Social Bond Principles 2018 providing and/or promoting: affordable basic infrastructure, access to essential services, affordable housing, employment generation, food security, or socioeconomic advancement and empowerment Sustainability Bond Guidelines 2018 to finance or re-finance a combination of Green and Social Projects

Use of proceeds	▪ preserve and protect the environment and natural resources ▪ conserve the use of energy ▪ promote the use of renewable energy ▪ reduce greenhouse gas emissions ▪ improve the quality of life for the society	To overcome specified social illness and reduce federal government spending on social program	▪ Green Bond Principles 2018 - to finance or re-finance projects with clear environmental benefits ▪ Social Bond Principles 2018 - to address or mitigate a specific social issue and/or seek to achieve positive social outcomes, especially but not exclusively for a target population(s). ▪ Sustainability Bond Guidelines 2018 – to finance or re-finance a combination of green and social projects
Reporting and disclosure	i. prospectus or disclosure document (eligible SRI projects, objectives, compliance with the relevant ESG standards or best practices) ii. Annual reports to investors (original, utilized and utilized amount including impact objectives regarding the SRI project)	i. Progress report (Summarize progress of achievement, challenges, for each expected outcome including information on the improved future delivery) ii. Final report (evaluates whether social obligations have been fulfilled, challenges faced and unique factors that contributed to the success or failure of the projects)	Annual reports (lists of project which bonds proceed have been allocated, brief descriptions of the projects, amounts allocated and expected impact)
Appointment of assessor	▪ Appointment of *Shariah* advisors to advise on all aspects of *Shariah* ▪ Independent party	Independent evaluator	External Review
Assessment of the project	Use specified pre-determined key performance indicators (KPIs)	Use of experimental design using random assignment	Qualitative performance indicators and quantitative performance measures (where feasible)

Sources: Guidelines on *Sukuk* 2014, Social Impact Bond Act 2014 (H.R.4885), Green Bond Principles 2018, Social Bond Principles 2018 and Sustainability Bond Guidelines 20

3.1 Eligible projects and use of revenues

The 2014 SRI *Sukūk* Framework states that proceeds from the issuance of SRI *Sukūk* should only be used to finance eligible projects, specifically natural resources, renewable or efficient energy, community projects, economic development and *waqf* (endowments). The Social Impact Bond Act of 2014, however, explicitly outlines 13 social issues to be addressed as eligible SRI projects, which are consistent with the U.S. government's national programs to address several problems, largely based on increasing employment and eradicating social scourges. From ICMA's perspective, based on these principles, several categories have been defined as eligible green projects, social projects and a combination of these two categories as sustainable projects, as summarized in Table 1. Most of these projects deemed ethical are similar in these three standards or framework for socio-economic development projects, though with minor differences in emphasis. The SRI *Sukūk* Framework 2014 and the ICMA Principles are similar in considering renewable energy, environment and natural resources as eligible SRI projects. The guideline also covers eligible projects that aim to improve the quality of life for all members of society. This social objective emphasizes community and economic development projects related to public hospital/medical services, public education services, community services, urban revitalization, green building projects, or affordable housing. However, the difference between the SRI *Sukūk* Framework 2014 and other legislations lies in the former's unique provisions to channel *Sukūk* proceeds towards *waqf* development. In Malaysia, these eligible SRI projects are substantial and aimed at developing unused *waqf* land[4]. This provision is expected to achieve the potential of *waqf* in *Sharīʿah-compliant* SRI projects.

3.2 Reporting and Disclosure Requirements

The public disclosures are very comparable across the standards, including brief descriptions of eligible SRI projects, the amounts allocated and the expected impact of these projects. This relevant information to be prepared by the issuer is included in an annual report as described by ICMA. However, the Social Impact Bond Act of 2014, requires two reports to be submitted. In the progress report, the independent assessor summarises the progress and challenges in achieving each outcome, including information on improvements to the future delivery of those social impacts. In the final report, an assessment is summarized as to whether the state or local government awarded the social impact bond contract fulfilled each obligation and any documented factors that contributed to the success or failure of the project. However, the reporting requirement of the 2014 SRI *Sukūk* Framework is a bit more stringent than the other two. The disclosure requirements of the framework require details of qualifying SRI projects in the issued prospectus, as well as a statement that the project has complied with relevant environmental, social and governance standards and recognised best practices relating to the qualifying SRI project. However, there does not appear to be any further guidance on what these best practices should be, or whether (and if so which) international standards may be applicable. Similarly, when reporting to investors, the issuer must provide annual reports or other forms of disclosure regarding the amount of initial capital, the amount used (or not used) for the SRI project.

3.3 Appointment of Evaluator and Project Delivery

All of these standards include requirements for independent evaluators to provide an independent and valid assessment of the progress of these SRI projects. The ICMA principles require that the external valuation provider(s) confirm the alignment of their bond or bond program with the four core components in which the valuation takes place before and after the bond issue. ICMA further states that an issuer may seek the advice of consultants, institutions and/or rating agencies that provide more than one type of service, separately or in combination, in the form of an opinion, verification, certification or green bond rating. To communicate the expected impact of projects, ICMA recommends using qualitative performance indicators and, where possible, quantitative performance measures. ICMA does not specify in detail the qualitative and quantitative measures to be used, but issuers should nevertheless report on whether their green, social, sustainable or sustainability bond(s) remain aligned with all the key elements of the Green Bond Principles (GBP), Social Bond Principles (SBP) and Sustainable Bond Guidelines (SBG). Issuers will be exposed to significant reputational risk if their green, social, sustainable or environmental bonds fail to meet their environmental or social commitments and cease to be aligned with the GBP/SBP/SBG.

Meanwhile, the Social Impact Bond Act 2014 requires a local government that has secured a social impact bond as an approved project under the act to conduct an independent evaluation to determine whether it has achieved its intended outcomes. The law also emphasizes that the evaluator must have substantial experience in determining the effectiveness of the program. In terms of the techniques used, the evaluator must employ random assignment or other research methodologies that provide the strongest possible causal inferences. The metrics used to determine whether the proposed outcomes have been achieved and how these metrics are measured should be reported, but do not detail the qualitative and quantitative indicators to be used.

The SRI *Sukūk* Framework 2014 requires an independent party to undertake the assessment of eligible projects using a number of predetermined key performance indicators (KPIs). To report on the impact or expected impact of eligible SRI projects, the issuer may use qualitative performance indicators and, where possible,

[4] These properties and lands are underdeveloped, which is largely due to their location, as much of the *waqf* land is rural, scattered over large areas, so the potential for development is low. Current statistics indicate that of the nearly 13,500 hectares of *waqf* land in Malaysia, only 2% of the total area has actually been redeveloped (Nazrin, in New Straits Times, 2018).

quantitative performance measures, but again, the precise details of what these should be are missing. The framework does not appear to focus on the relevant institution with recognized expertise in social and/or environmental issues to provide an independent and valid assessment of the progress of SRI projects. Instead of appointing an independent party, SRI *Sukūk* must be reviewed and approved by *Shari'ah* advisors to ensure that the structures are *Shari'ah* compliant in all aspects including: structuring, documentation, investment, administration and operations. As the SRI *Sukūk* Framework 2014 is an extension of the existing *Sukūk guidelines*, all other requirements of these guidelines continue to prevail, which demonstrates that, Islamic finance, given its emphasis on avoiding excessive *riba* and *gharar*, is also concerned with how to structure the finance. This is not an ethical concern in socially responsible investing.

By comparing projects deemed ethical from an SRI and Islamic finance perspective, this study finds that the SRI *Sukūk* framework provides a comprehensive list of eligible SRI projects, and to some extent, the projects are similar to the ICMA principles that cover both environmental and social aspects. The Social Impact Bond Act 2014 explicitly describes 13 social projects that focus on addressing social and employment issues in the US, in which most socio-economic projects are deemed ethical and similar to these three standards or frameworks. Other due diligence aspects of the respective frameworks or guidelines present, to some extent, a comparable approach in the formulation of their respective methodology when issuing *Sukūk* or SRI bonds, although with slightly different emphases. However, this comparison highlights the substantial difference between the SRI *Sukūk* Framework 2014 and the specific reference to *waqf* property development as one of the important categories of SRI projects. Another difference between eligible SRI *Sukūk* projects and their conventional counterparts is compliance with *Sharīʿah* principles, which requires *Sharīʿah* advisors to oversee *Sharīʿah* issuances.

In conclusion, with the exception of *Sharīʿah*, *Sukūk* and SRI bonds are based on guidelines with essentially similar qualities, characteristics and objectives and are considered ethically and socially responsible. Given the broad definition of SRI, their ethical investment motives are largely similar to Islamic finance, which is also necessarily accurate for social impact bonds. Although social impact bonds do not have a unique approach in their implementation, they all share four necessary characteristics (Nicholls & Tomkinson, 2013):

i. A contract between a commissioner and a legally separate entity called a "delivery agency";

ii. A particular social outcome that, if achieved by the delivery agency, will activate a payment from the commissioner;

iii. At least one investor that is a legally separate entity from the delivery agency and the commissioner; and

iv. Investors to bear some or all of the financial risk of non-performance.

In this public-private partnership, private investors provide initial capital and the government agrees to repay them when good social outcomes are evident. In this scenario, the commissioner repays the investors their capital plus returns based on the level of success. If results are not forthcoming, investors may not get their investment and return back. With regard to the guarantee of capital and returns, coupled with returns dependent on the outcome of the programme or project, such features are inherent in the *Sukūk* structure. Looking more closely at the objectives of social impact bonds that go beyond economic returns, similar intentions embody the Islamic concepts of *maqasid al-Sharīʿah* (higher *Sharīʿah* objectives) and *maslahah* (public interest) (Dusuki, 2008). Therefore, it is not surprising that some scholars argue that the general model of social impact bonds does not violate *Sharīʿah* principles (Mujahid & Adawiah, 2015). Similarities therefore exist, however, until today, *Sukūk* have not yet been issued to specifically address financial inclusion issues as discussed in the previous section. The following section discusses the limitations of such issuance.

4.0 What are the limitations of Islamic financial market players in terms of socially responsible investment? The case of SRI Sukūk

In the context of the domestic *Sukūk* market, the Malaysian government, through the Securities Commission and the Central Bank of Malaysia, has provided the regulatory framework, infrastructure, and fiscal incentives for the growth of the nascent green and/or sustainable *Sukūk* segment. This infrastructure allows Malaysia to lead the *Sukūk* market with combined domestic and international issuance totalling US$612 billion from January 2001 to December 2017 (IIFM, 2018). However, it is important to note, for the further discussion on the challenges for SRI *Sukūk*, the following fact: historically, financial services, infrastructures and utilities sectors have been the main drivers of the Malaysian domestic *Sukūk* market, and historical trends show that these sectors have been the main drivers of the Malaysian domestic *Sukūk* market (RAM, 2019), while the number of SRIs remains low (Richardson, 2019). Although the Malaysian *Sukūk* market has grown significantly since the world's first *Sukūk was* issued in 1990, the issuance of *Sukūk* focusing on social and moral issues has not seen the same growth. The exploration of what hinders Islamic capital market players in social responsibility investing, will be based on what emerges from semi-structured interviews with several *Sharīʿah* advisors working for the *Sharīʿah* Advisory Board, Securities Commission of Malaysia.

In Islamic finance, *Sharīʿah* law governs the industry, hence it is important to understand the role of religious scholars in ensuring the industry's credibility and integrity, and that their role is no longer limited to *Sharīʿah* consultancy and products' approval. With the development of the Islamic financial market, *Sharīʿah* advisors are now involved in product development and innovation, in addition to overseeing Islamic finance transaction, as well as, on some occasions, policies and regulations. In exploring the limitations of Islamic financial market players in investing in social responsibility, various limitations were identified, which can then be classified as investors' appetite for good financial returns, lack of awareness of social investment, and of data and methodology associated with the business model - Triple Bottom Line or 3P (people, planet and profit). It should be noted, however, that this analysis is purely academic and is not intended to challenge the decisions made by *Sharīʿah* advisors.

4.1 Investors' appetite for financial returns

The glaring difference between *Sukūk* and SRI *Sukūk* is that *Sukūk* can fund a variety of commercial projects, whereas SRI *Sukūk*, as discussed in the previous section, aims to improve the quality of life of society, including a greener and better environment. Despite this difference, *Sharīʿah* advisors believe that when it comes to structuring *Sukūk* or even SRI *Sukūk*, the process and *Sharīʿah* considerations are quite comparable. Even if it is a simple structure, *Sukūk* can involve a complex task that includes a cash flow diagram riddled with multiple boxes and diagrams; however, the complexity of setting upSRI *Sukūk* is not an issue for them, as in the case of the Malaysian *Sukūk* market. The main obstacle to structuring the SRI *Sukūk* market is that most investors are still motivated primarily by financial returns.

Some *Sharīʿah* advisors point out that investors in *Sukūk* market still see *Sukūk as an* alternative to conventional bonds. In other words, they still want their profits and capital to be guaranteed and rewarded without taking any risk. The pressure on investors' "appetite" for a fixed return has meant that the vast majority of *Sukūk* in the market are structured to mimic conventional unsecured bonds, based on guaranteed income and principal, which can be reflected in the preference for the structure of *Sukūk* in practice. According to the International Islamic Financial Market, Annual *Sukūk* Report 2018, based on data from 2001 to 2017, *wakalah* (investment agency) and *ijārah* (lease) are the two most preferred structures required by issuers where *Sukūk wakalah* shares have increased to 75%. For example, in the case of corporate *Sukūk*, the issue size of *wakalah*, *ijārah*, *musharakah* (joint venture), *murabahah* (cost plus financing), *mudharabah* (profit sharing between the entrepreneur and investors) was one in which *Sukūk* amounted to more than 90% (IIFM, 2018). Given that Malaysia has long dominated global and domestic *Sukūk* issuance worldwide (Wright, 2016), it is reasonable to assume that *Sukūk wakalah* and *ijārah* structures reflect investor preferences in the Malaysian *Sukūk* market. 'Replication', however, uses Islamic legal contracts in a novel way to develop *Sharīʿah-compliant* financial products, in which the system differs from the conventional one. This approach has provided a practical solution to prevent Muslims from practicing *ribā* when dealing with conventional banking and financial institutions. It has also facilitated the development of a viable Islamic finance sector in the modern economic landscape (Laldin & Furqani, 2013).

Looking more closely at the types of *Sukūk* as described by the AAOIFI [5], *Sharīʿah* Standards

[5] AAOIFI (Accounting and Auditing Organization for Islamic Financial Institutions) is a non-profit organization that was established to maintain and promote *Sharīʿah* standards for Islamic financial institutions, participants and the industry as a whole. It was established on February 26,

No. 17 provides for 14 permissible *Sukūk* structures, of which Financial Accounting Standard No. 25 distinguishes between debt-type *Sukūk* and equity-type *Sukūk*. Debt-type instruments are defined as "investments whose terms provide for fixed or determinable payments of profits and capital." On the other hand, equity-type instruments are defined as "investments that do not have the characteristics of debt-type instruments and include instruments that prove a residual interest in the assets of an entity after deducting all of its liabilities." In the case of a debt contract such as *ijārah*, the structure most closely resembles a conventional lease and offers the flexibility of fixed and floating rate payments. The cash flows from the lease, including rental payments and principal repayments, are passed on to investors in the form of coupon and principal payments. In this context, *ijārah* can be used to ensure regular payments throughout the term of a financing agreement, while offering the possibility of adapting the payment profile. These features make the *ijārah* relatively straightforward, as it has similar characteristics to bonds, which is part of the reason why these structures are so popular in the *Sukūk* market. Similarly, for equity-based *Sukūk* that include *wakala*, including *musharakah* and *mudharabah* partnership-based *Sukūk*, the capital preservation structure, frequency of periodic distributions and rate of return also replicate conventional bond structures. The fundamental characteristics of equity-based *Sukūk*, which are anchored in the two capital bases, cannot be guaranteed. The periodic returns - which depend on actual earnings - may be variable and therefore not attractive to risk-averse investors with a conventional mindset. Based on this preference in the structure of *Sukūk*, *Sukūk* holders or institutional investors are looking for a stable cash flow over time, fixed payout of profits with little or no risk, whereas investment bankers should rely on on these two structures that best meet these expectations. Arguably, with such preferences and practices, the Islamic finance sector may create problems for SRI *Sukūk* in their development, as at some point the spirit and higher objectives (*maqasid al-Sharīʿah*) of Islamic finance are neglected.

4.2 Early stage of awareness of market participants regarding socially driven investment

In general, the concern of an SRI instrument, whether *Sukūk* or bonds, is what motivates investment in social values rather than purely commercial considerations. It broadens the definition of return on investment to include both financial and social returns - and is a way to use finance and investment tools to create social change.

This type of investment represents the intersection between philanthropy and conventional finance. Judging from the comments of most *Sharīʿah* advisors, SRI investment in Islamic form, particularly SRI *Sukūk*, is still a fairly new concept in Malaysia. Awareness of the value proposition implicit in socially responsible investing (SRI) in Malaysia is still a new concept compared to more mature markets that have long traded conventional bonds or SRI bonds. Although SRI *Sukūk* have made progress, it will take some time for the market to gain momentum and become a mainstream asset class for Islamic investors**.** The SRI strategy is very different from conventional or traditional approaches, in which decisions are almost always based on economic considerations, which to some extent has led to the assumption that limiting the possible investment universe will necessarily inhibit financial returns. As a result, the common assumption that an investor must sacrifice financial returns in the name of reform or societal improvement is unquestioned. In addition to the big question for investors, whether SRI strategies involve accepting lower financial returns, *Sharīʿah* advisors respond that many players in the financial services industry have adopted a wait-and-see attitude, including Islamic players. Not only investors, but also *Sukūk* market players of all kinds, still regularly face a dilemma when it comes to weighing financial versus social returns in their investment decisions, and any development of *Sukūk* for SRI still remains weak.

This dilemma is necessarily true if one considers, for example, the structure of the SRI *Ihsan Sukūk*. It was the first *Sukūk* issuance for social and/or sustainable investment in the Malaysian *Sukūk* market, issued in 2015 with the primary objective of improving access to quality education in Malaysia[6], and follows a "pay for success" structure that measures success through several key performance indicators (KPIs) for a period of 5 years. If, at maturity, the KPIs are

1990 to ensure that participants comply with the regulations of the Islamic finance industry.

[6] The discussion is based on the *Ṣukūk Ihsan*, and the key terms and conditions and information memorandum were obtained from the Securities Commission of Malaysia website.

fully achieved, *Sukūk* holders will forfeit or contribute up to 6.22% of the face value due under the *Sukūk*, reducing the return to 3.5% per annum. If the KPIs are not or are only partially achieved, *Sukūk* holders will receive up to the face value due on the *Sukūk* as agreed at issuance. In this top-down approach, higher returns are given to investors if the programme does not achieve the stated KPIs. Yet, the investors' principal and returns are fully guaranteed by Khazanah Nasional Berhad as the debtor, despite the program's future and less than ideal performance. Arguably, in the absence of financial risk or default for investors, the principle of "risk sharing", often touted in Islamic finance, is virtually nullified. However, such a structure has been developed in response to the current state of SRI, which is still new in Malaysia, as well as the profit motive and capital retention of institutional investors, meanwhile this creates some tension for issuers to align their economic decisions with the social or sustainability pillars that characterize *Sukūk* issuance. On the supply side, it is argued that important decisions need to be made between ethical investment and marketing issues on the demand side.

The central principle of an Islamic economic system requires a balance between financial and social objectives, in other words a disciplined approach to long-term sustainability. Unfortunately, this is not the case in the way the current Islamic finance industry is practiced. In weighing the needs between financial and social returns, it seems that investors with significant influence in the *Sukūk* market have prioritized profit, while the real objectives take a back seat. Therefore, there is a lack of awareness and appreciation of the true nature and spirit of the real value that should be espoused by Islamic finance.

In a conventional sense, the Social Return on Investment (SROI) method is the most commonly used method for measuring social impact or return (Florman, Klingler-Vidra, & Facada, 2016). Launched in 1997 by Robert's Enterprise Development Fund (REDF), the SROI method was the first comprehensive quantitative social impact assessment method, as it can be used for three purposes: screening, external reporting, and retrospective evaluation. Since the introduction of this method, the number of social impact assessment methodologies has increased, such as Social Value Measures (in 1999), Balanced Scorecards (1999), Progress Out of Poverty Index (2005), Product Social Impact Assessment (PSIA) in 2013 (Florman et al., 2016). In order to assess the level of contribution of Islamic finance to social outcomes, there is a need to design accurate measurement tools. Given that Islamic finance itself represents a distinct field with a unique concept and underlying principles, Mohamad and Borhan (2017) made a recommendation of appropriate metrics to measure the social impact of the finance industry from an Islamic perspective. The selected parameters represent the aspects to be fulfilled by the Islamic finance industry in order to preserve the five objectives of *Sharīʿah*: protection of religion, protection of life, protection of lineage, protection of intellect, and protection of wealth.

4.3 Data and methodology associated with the 'Three Bottom Line' or 3P (people, planet and profit) business model are probably still insufficient for implementing social and/or sustainable investments.

Based on interview data, some *Sharīʿah* advisors believe that the limitations of issuing *Sukūk* as a form of social investment may be related to the concept of the "3Ps" (people, planet and profit), an economic model developed to encourage corporate social responsibility and sustainability worldwide. In general, the archetypal social responsibility fund is characterized by an equal emphasis on the "three Ps": people, planet and profit. This "Triple Bottom Line" asserts that financial considerations (profit) are on equal footing with social (people) and environmental (planet) concerns. In Islamic financial management activities, profit is only achievable when all religious conditions are met, and under *Sharīʿah* principles, it is forbidden to invest in activities related to alcohol, pork, gambling, weapons, tobacco, unethical media, "conventional" financial institutions, pornography and anything else considered "*haram*" (illegal). It also ensures that not only the underlying investments but also the contractual terms agreed between the investors and the investment manager are in line with Islamic principles. In this regard, *Sharīʿah* advisors stated that through the screening and purification process, most of social responsibilities towards people were largely met.

The screening criteria used by the *Sharīʿah* Advisory Council (SAC) of the Securities

Commission (SC) Malaysia focuses on business activities and financial ratios. The business review (or qualitative review or sector review) is conducted to examine the nature of the core business, by excluding companies whose main activity is ineligible according to *Sharīʿah criteria*. If the main activity is *Sharīʿah compliant*, but some secondary activities are not, the review focuses on whether or not these secondary activities are within Sharīʿah tolerance level. Meanwhile, the financial ratios or quantitative examination is carried out to check the income of the business and to conclude whether it is free from prohibited income and unassociated with it, according to the acceptable ratio allowed by the *Sharīʿah* scholars. In this way, a type of investment that could harm people can be avoided.

However, several issues related to responsibilities to the planet (or the environment) have been raised. First, the most difficult challenges facing social finance revolve around the question of how to measure social impact. Quantifying social returns is somewhat complicated because there is no precise method for measuring social impacts or for creating a "green" environment. The crux of the problem is that social progress cannot be represented by dollars or any other universally accepted numerical equivalent; in fact, it is not compatible with financial accounting standards. In this regard, there is no sound, reasoned methodology for "calculating" social and/or environmental benefit, as this is a subjective undertaking that depends on the assumptions underlying the input variables.

Secondly, between the environment and socio-economic conditions, which one should be given priority for an investment decision? Simply put, how do you balance environment and social development, since both are considered SRI projects? The example of mining activities reveals the best aspects of opportunity cost and what can be achieved in monetary terms, as illustrated by the interviews with some *Sharīʿah* advisors. On the one hand, the development of the coal mining industry has undoubtedly created wealth and employment opportunities, and also contributes to local economic development, as mining companies provide and/or improve local infrastructures (e.g. roads, electricity and water supply). On the other hand, coal mining has led to significant environmental degradation, serious human health problems (e.g. directly through toxic or carcinogenic results) or indirectly, such as the reduction or contamination of water supplies. While SRI projects may ensure socio-economic development, they do not always guarantee a good future for the environment. *Sharīʿah* advisors have simply stated that if one prefers to preserve the environment, it means allowing the community to continue to live in darkness and remain poor, a decision that requires very reliable data and evaluation criteria.

It is clear that the SRI approach involves a high degree of subjectivity and requires much more in-depth data, beyond "extra-financial information", to evaluate the methodology and measure the results to determine the success level of specific social impact investment projects. According to the interviewees, it is quite difficult to issue SRI *Sukūk* without reliable data and proper environmental measurement. In Western economies or conventional finance, the social responsibility movement has a spectrum of approaches, including evaluation criteria to determine the marketing impact for business needs and the delivery of social improvements; these criteria are relatively easy to measure because they are based on raw data. However, in Islamic finance, to some extent, *Sharīʿah* advisors have stated that commonly accepted standards and a verification system for performance measurement are still limited; and the lack of a standard system for assessing and measuring environmental or social performance and of independent verification agencies in many Muslim countries has created an obstacle for investment market participants considering the benefits of SRI.

5.0 Conclusion

In analysing the ethical aspects of SRI and Islamic finance, we have highlighted that the ethics of Islamic finance are based on sacred revelation, as expounded in the *Qur'an* and *Sunnah*. The ethics derived from social values in SRI are inevitably more transitory, in which the SRI investment decision is based primarily on what the wider society or group of people perceive and believe to be ethical, sustainable and conducive to good governance. However, a closer look at the SRI *Sukūk* framework and other SRI legislation reveals that both have similar qualities, characteristics and objectives, given that SRI *Sukūk* are guided by *Sharīʿah* law. This is particularly true for the general model of social impact bonds, which do not appear to violate *Sharīʿah* principles.

While the objectives of the two forms of investment are similar, SRI *Sukūk* are challenged by investors' appetite for profit, lack of awareness of social investment and the absence of data and methodology associated with the Triple Bottom Line or 3P (people, planet and profit) approach. Indeed, *Sukūk* issuance focusing on social and moral outcomes for the economy and society has not been as successful in the Malaysian *Sukūk* market. This finding suggests that proper education on Islamic finance may be the key ingredient in making this work, especially at the postgraduate level, in order to raise awareness of the importance of the growth of Islamic finance in promoting and supporting an ethical and sustainable ecosystem and the environment globally. While academia engages in research, training and consulting through education, agencies will support the evaluation methodology and measure the results to determine some social impact investment projects' success (and payout).

Government policymakers, through central banks in Malaysia and other countries, should continue to engage with industry players to identify loopholes in business practices. Engaging investors in closer dialogue with borrowers demonstrate that there is a differentiating factor in pursuing the SRI path, which requires continued collaboration among local stakeholders to increase transparency and awareness among issuers and investors. There is also a need to find ways to increase investment returns and reduce the risk of *Sharīʿah-compliant* portfolios when they mimic Western or conventional portfolios.

Further research should therefore answer the question: how can these investors benefit from holding diversified portfolios or at what level should SRI *Sukūk* represent an appropriate risk-return ratio, comparable to conventional *Sukūk*/bonds?

Finally, given the wait-and-see attitude of investors and the lack of data and methodology for SRI projects, public-private partnerships could be considered as a form of start-up initiative to promote SRI *Sukūk* issuance. As this study points out, several overlapping sectors or projects are considered ethical from an SRI and Islamic finance perspective, and Islamic finance players can therefore look to the segmentation opportunities available in the SRI context. Nevertheless, this study considers only three standards or frameworks from three markets and embraces the views of Malaysian *Sharīʿah* experts, which may vary in terms of ethical aspects due to Islamic experts' different legal opinions in other countries.

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تقارب القيم بين التمويل الإسلامي والاستثمار المسؤول اجتماعيًا: ما هي حدود إصدار صكوك مسؤولة اجتماعيًا؟

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المستخلص. أصبحت الاستثمارات الأخلاقية ، مثل الاستثمار المسؤول اجتماعيًا (SRI) ، والاستثمارات القائمة على الدِّين، مثل التمويل الإسلامي ، شائعة في خطاب التنمية الاقتصادية. نظرًا لأن السندات المسؤولة اجتماعيًا تهيمن على أسواق الاستثمارات المسؤولة اجتماعيًا، فقد يتساءل المرء عن سبب عدم مساهمة الصكوك المسؤولة اجتماعياً (السندات الإسلامية) في بعض الأسباب أو القطاعات الاجتماعية أو المتعلقة بالاستدامة لتحقيق أهداف الشريعة الإسلامية. تناول هذه الدراسة بشكل أساسي الجوانب التي تعتبر مسؤولة أخلاقياً أو اجتماعياً كما هي مدرجة في الاستثمارات المسؤولة اجتماعيًا والتمويل الإسلامي. عند القيام بذلك ، ستقارن هذه الدراسة بين قيم أو مبادئ السندات المسؤولة اجتماعيًا وإطار عمل الصكوك المسؤولة اجتماعياً أو الصكوك لتمكين الفاعلين في التمويل الإسلامي من الاستفادة بشكل جيد من فرصة هذا القطاع. تتناول هذه الدراسة كذلك ما يحد من مشاركة المشاركين في السوق المالية الإسلامية في الاستثمار المسؤول اجتماعياً. بالاعتماد على إطار عمل الصكوك المسؤولة اجتماعياً لعام ٢٠١٤ وتشريعات الاستثمارات المسؤولة اجتماعيًا الأخرى ، تكشف هذه الدراسة أن كلاهما لهما صفات وخصائص وأهداف متشابهة. ومع ذلك ، فإن الصكوك المسؤولة اجتماعياً تواجه تحديًا بسبب شهية المستثمرين لتحقيق عائد مربح ، ونقص الوعي بالاستثمار الاجتماعي، ونقص البيانات والمنهجية المرتبطة بالنهج الثلاثي الأساسي أو نهج (3Ps = الأشخاص والكوكب والأرباح). أدت هذه المشكلات -إلى حد ما- إلى تقييد الجهات الفاعلة في السوق المالية الإسلامية عن الاستثمار في برامج المسؤولية الاجتماعية.

الكلمات الدَّالة: الصكوك، الاستثمار المسؤول اجتماعيًا، الشريعة الإسلامية، التمويل الإسلامي، الاستثمار الخُلقي

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Does Financial Performance Mediate the Effect of Good Corporate Governance on Indonesian Ṣukūk Rating?

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ABSTRACT. Ṣukūk is one of the products of Islamic financial institutions IFIS), so the rating of such instruments should be considered. This study aims to provide empirical evidence of the influence of Good Corporate Governance on Ṣukūk rating, with financial performance as a mediating variable. Multiple regression, ordinal logistic regression and Sobel test were used to test the Assumptions on 222 Ṣukūk, which were listed on the Indonesia Stock Exchange as of December 31st, 2020. The results show that the supervisory board's size, independence, experience, and the audit committee's size and experience directly affect the Ṣukūk rating. Financial performance has also been shown to have a direct influence on Ṣukūk rating, which in turn can mediate the effect of the three elements of the Good Corporate Governance supervisory function on Ṣukūk rating, namely: the size of supervisory boards, the independence and the number of Sharīʿah supervisory boards. It is therefore important for companies to pay due attention to the Good Corporate Governance, especially with regard to the supervisory function and financial performance to support Ṣukūk rating. This study confirms that the existence of a Sharīʿah supervisory board can support the achievement of financial performance and Ṣukūk rating in IFIs.

Keywords: Ṣukūk, Good Corporate Governance, financial performance, Ṣukūk rating, Indonesia Stock Exchange.

JEL CLASSIFICATION: C14, D25, G34, M41, N25

KAUJIE CLASSIFICATION: H33, H65, J32, K16, L34, T4

1. Introduction

Credit rating is an essential indicator of the credit quality of a company. Bond rating information is also essential in providing information and improving the efficiency of the capital market (Bradford et al., 2019). The publication of such bond rating information can increase the transparency of securities, which in turn can reduce the information asymmetry between management, shareholders and bondholders. The publication of bond ratings can also reduce the monitoring costs that need to be incurred by the company (Chiang et al., 2017). Companies that issue bonds must be monitored and evaluated by a government-appointed rating agency (Alam et al., 2018), such as PEFINDO in Indonesia. *Ṣukūk* ratings differ from other securities and are separate from the issuer (corporate) rating. *Ṣukūk* requires an underlying asset that guarantees the use of the asset per the Sharīʿah contract, and companies issuing *Ṣukūk* are supervised by a national religious supervisor. The implementation and effectiveness of religiosity through *Sharīʿah* guidance helps companies to better maintain ethics, which further reduces the problem of incentives and moral hazard behavior (Grassa, 2013). It is, therefore, interesting to examine *Ṣukūk* rating, which contains an aspect of religiosity in their issuance.

In Agency Theory, agency costs are the sum of the monitoring costs incurred by the owner, the bonding cost incurred by the agent, and the residual income (Jensen & Meckling, 1976). Empirical research proves that corporate governance attributes mitigate not only agency conflicts between owner and manager but also potential conflicts between bondholders and shareholders that may lead to wealth transfer effects between them (Jiraporn et al., 2014; Alkhawaldeh, 2012; Hong, 2019). Public debt cannot be separated from bond ratings, which are influenced by corporate governance (Alali et al., 2012; Aman & Nguyen, 2013). Corporate governance is reflected in several different dimensions and measures. Based on the guidelines of the Indonesian Stock Exchange, the structure of corporate governance is divided into an executive function performed by the CEO (Chief Executive Officer) and the board of directors, and an oversight function performed by the board of commissioners and its supporting committees (www.idx.co.id). At the same time, according to Law No. 21 of 2008, for companies that conduct business activities according to Sharīʿah principles, the existence of a Sharīʿah supervisory board is added to the supervisory function (Menkumham, 2008). Previous research has examined MCMs with a focus on the oversight function, including examining the role of the supervisory board (Ntim et al., 2017; Elhaj et al., 2018; Sahabbudin & Hadianto, 2020), the board of directors (Grassa, 2016), Sharīʿah board and the existence of an audit committee (Uhde et al., 2017; Putri & Prasetyo, 2020). However, previous research results provide inconsistent evidence on the effect of board size on bond ratings.

Several studies have found positive effects (Aman & Nguyen, 2013; Elhaj et al., 2018; Sahabbudin & Hadianto, 2020). Meanwhile, other researchers have found a negative impact (Altwijry, 2015; Zemzem & Zouari, 2016). There are even those who did not find any influence (Grassa, 2016; Mariana, 2016; Marfuah, 2016). Research on the impact of supervisory board independence on bonds rating also shows conflicting results. Some found a positive influence (Grassa, 2016; Sahabbudin & Hadianto, 2020), a negative influence (Marfuah, 2016; Mariana, 2016) and no effect (Altwijry, 2015; Zemzem & Zouari, 2016; Elhaj et al., 2018). Conflicting results also exist regarding the effect of audit committee's size on bond rating. Some studies show a positive influence (Marfuah, 2016; Sahabbudin & Hadianto, 2020) and others that show no effect (Mariana, 2016). The application of religious councils' authorizations is effective and efficient in monitoring management. The rating agency should also pay attention in the evaluation of *Ṣukūk* rating *(*Grassa, 2016). Research on the association of Sharīʿah board with bond rating also provides inconsistent results (Mseddi & Naifar, 2013; Grassa, 2016). For instance, OJK (Otoritas Jasa Keuangan) regulation number 34 of 2014 states that the remuneration committee is a committee formed to be able to provide suggestions regarding the remuneration of the board of directors and their ranking for their performance (OJK, 2015). Their existence will be able to improve the performance of directors and employees, which will impact the company's performance (Elmagrhi et al., 2020).

Therefore, this study uses an intervening variable, namely financial performance, which is supposed to mediate the effect of GCG on *Ṣukūk* rating. Previous studies have successfully provided evidence of the influence of GCG on financial performance (Mahrani & Soewarno, 2018; Chou & Buchdadi, 2018; Ghalib, 2018; Kurniati, 2019; Darwanto & Chariri, 2019). Other studies can also provide evidence of an influence between financial performance and credit ratings (Elhaj et al., 2018; Skousen et al., 2018; Qizam & Fong, 2019; Dewi & Utami, 2020). Based on the above evidence, it can be concluded that financial performance is appropriate to be used as an intervening variable in the influence between GCG and *Ṣukūk* rating.

This study differs from previous research in several ways. First, this study uses the financial performance variable as a mediating variable in the effect of GCG on *Ṣukūk* rating, and previous studies have never used this mediating variable. Second, most previous literature examines governance through shareholders' perceptions (Quttainah et al., 2013). This research focuses more on the perspective of bondholders with specific reference to Islamic bonds (*Ṣukūk*). Only a few papers have studied the effect of corporate governance on bond ratings (Alkhawaldeh, 2012; Alali et al., 2012; Aman & Nguyen, 2013; Sahabbudin & Hadianto, 2020) and credit in Islamic banking (Grassa, 2016). Meanwhile, few have conducted specific research on *Ṣukūk* in this area. Third, the corporate governance of a *Ṣukūk* issuer differs from that of bond or equity issuers, which lies in the existence of a Sharīʿah supervisory board that oversees the use of *Ṣukūk* funds to identify activities that do not violate the Sharīʿah contract.

The emergence of a vigorous *Sharīʿah-compliant* financial services sector concentrated in the Middle East and Asia represents an attempt to develop an independent financial system alongside the dominant one, and thus provides significant additional options for risk diversification (Sherif & Erkol, 2017). Much of the considerable asset growth in some countries has been fuelled by *Ṣukūk*, which are different from bonds or other debt instruments. *Ṣukuk*, like stocks, represent the ownership share of the assets of a project or a private investment activity; therefore, the rights of the *Ṣukūk* holder are determined in the assets of the project or company itself, while bonds are payable to the issuing company and are not linked to the specified assets (Aidi & Salama, 2019). As this difference is unique to *Ṣukūk*, it is worth exploring further.

This study aims to provide empirical evidence regarding the impact of supervisory function in GCG on *Ṣukūk* rating with financial performance as a mediating variable. This study makes a practical contribution to the prediction of *Ṣukūk* rating through governance, especially with the supervisory function performed by the *Ṣukūk* issuing company. This research is important in providing empirical evidence for corporate governance research related to *Ṣukūk* rating and financial performance, and it highlights the new developments in *Ṣukūk* including the role of the *Sharīʿah* board and the remuneration committee.

2. Literature Review and Assumptions

2.1. Agency Theory

The Agency Theory assumes that the CEO (agent) has more crucial information, as the principal cannot monitor the activities of the company on a continuous and periodic basis. Since the principal does not have sufficient information about the agent's performance, he can never be sure how the effort contributes to the company's actual results. This conflict is then referred to as agency costs. Jensen & Meckling (1976) divide agency costs into three types: 1) monitoring costs, costs designed for the activities carried out by the agent; 2) bonding costs, to ensure that the agent will not act in a way that may harm the principal, or to ensure that the principal will provide remuneration if the agent does indeed take the right action; 3) the residual cost, which is equivalent to a decrease in principal-based welfare due to differences in interests. According to Islamic principles, the agent is a fiduciary, so he does not need to be guaranteed unless he commits a breach through negligence or violation of instructions (Al-Masri, 2021: 204). The existence of the supervisory function in the MCM structure is one of the bonding costs that can ensure that the agent does not take actions detrimental to the principal. The board of commissioners (especially the independent ones), the Sharīʿah supervisory board, the audit committee and the remuneration committee under the board of commissioners are formed to supervise the managers (agents) to make the right decisions.

2.2. *Ṣukūk* (Islamic bonds)

Ṣukūk are securities of equivalent denominations representing ordinary shares in the ownership of property (*aʿyān*), returns, services or private investment activities. On the one hand, bonds depend on interest-based loans. On the other hand, *Ṣukūk rely* on the existence of legitimate assets that form the basis of the securitization process and generate income; investors own these assets based on their shares. It is not like a bond which is based on interest-based loans (Aidi & Salama, 2019). Also, unlike bonds, *Ṣukūk* issuers are not obliged to provide returns to investors if the investment performance is below expectations, so the risk of default is lower. In *Ṣukūk*, there should be no fixed payments to investors and the profit sharing is based on investment performance in the real economic sector (Aidi & Salama, 2019). Whether the *Ṣukūk is* equity-based (with similar characteristics to equities) or debt-based (with similar characteristics to convertible bonds in the conventional sense), the expected market reaction should not be the same as for bonds.

2.3. *Ṣukūk* rating

The credit rating agency (CRA) ranking indirectly affects income inequality, but also provides a better and broader understanding of income distribution, especially in developing countries (Biglaiser & McGauvran, 2021). Good Corporate Governance can affect the corporate bond rating. However, relative scale and audit fees have a negative effect on bond ratings. Bond specific attributes (collateral and credit size) are positively related to bond rating. Agency costs should be reduced with a reduction in shareholding, which in turn can benefit bondholders (Bradford et al., 2019). Shareholders who disagree with auditors have an impact on lowering yield spreads and bond ratings. Other test results also provide evidence that audit attributes (auditor seniority, auditor size, audit fees) and the auditor's characteristics affect the cost of debt based on perceived auditor's quality (Bao & Tanyi, 2020). Aman & Nguyen (2013) report that the better the company's governance, the higher its credit rating will be. Previous research has shown that credit rating has a negative effect on the size of the board of directors with 5% ownership, a positive effect on the rights of minority shareholders, and a positive effect on the quality of working capital accrual; and the speed of its acquisition is positively related to the independence of the board of directors and the ownership of the board of directors, while it is negatively related to the power of the CEO on the board of directors. Strong corporate governance will lead to a better credit rating, and the relationship is stronger for small companies than large ones (Alali et al., 2012). The credit rating estimation model is based on the financial information published by the company (Plakandaras et al., 2020). The structural MCM is divided into the executive functions, namely: CEO and oversight functions performed by the board of commissioners, remuneration committee and audit committee (Uribe-Teran & Mosquera, 2019). The above research results prove that there is an effect of corporate governance (CGM) on credit ratings. The better the corporate governance, the more reward the company will get by increasing its credit rating, including, in this case, its *Ṣukūk* rating.

2.4. Assumptions

Companies with good governance can guarantee their suppliers a return on the money invested in the form of dividends to shareholders, interest and principal to the bank, and coupons and principal to bondholders (Shleifer & Vishny, 1997). In implementing good governance, bond issuing companies must control the top management by appointing a supervisory board.

Indonesia adopts a two-tier system; as a result, there is a board of commissioners and directors in a company (Hartanto & Sulaksono, 2019). The resource-based view theory states that a large number of supervisory boards consisting of many experts are needed to provide advice to the board of directors to improve the performance of the company. Their existence will enable the company to achieve a high bond rating status (Aman & Nguyen, 2013; Elhaj et al., 2018). Directors are prohibited from investing the money from the issued bonds in dangerous projects favored by the controlling shareholders or distributing the money from the issued bonds as dividends to the company's shareholders. It is expected that the risk of outstanding bonds will decrease so that the rating status of the company's bonds will increase (Grassa, 2016).

Meanwhile, R. Khalil et al. (2020) found that independent directors with multiple directorships allocate their monitoring efforts unevenly depending on the relative prestige of the director. A bank loan from a company with a higher proportion of independent directors has a relatively higher bond rating. The attention of independent directors is associated with lower borrowing costs (Huang et al.,2018). The above research results prove the importance of having a board of independent commissioners to represent minority shareholders in a *Ṣukūk* issuing company.

Several studies have examined the different effects of the size of the Sharīʿah board. An Islamic board with a higher number of scholars will be an indirect incentive for the management's opportunistic behavior, which ensures better management decision-making and leads to better credit rating (Grassa, 2016). Previous research proves the importance of a Sharīʿah supervisory board, especially for *Ṣukūk* issuing companies whose mechanisms are regulated based on Islamic law, which is undoubtedly different from the rules for bonds in general. A Sharīʿah supervisory board also ensures that the company will apply Islamic rules accordingly (Menkumham, 2008). Islamic banks and bank management have the option to accept and follow their advice or not, which in turn can challenge the influential role played by the Sharīʿah board as a body to supervise Sharīʿah practices in Islamic banks (Grassa, 2013). The supervisory role of the Sharīʿah board will indirectly monitor and control the management activities to make better decisions to reduce the risk of default which in turn may affect its credit rating.

Accurate information must meet two principles, namely transparency and disclosure. Therefore, it is necessary to establish an audit committee that oversees the directors and ensures that these principles have been appropriately implemented (Grassa, 2016). If this committee can function properly, there will be a reduction in opportunistic board behavior. In addition, bond issuers will have a low risk of default and an increase in their rating status. The audit committee's effectiveness in performing this function depends on the number of individuals in the position; the more individuals in the audit committee, the better the rating status of the bonds (Marfuah, 2016). Based on previous research, it has been proven that the number of audit committees and their competence can affect a company's credit rating.

The effect of a remuneration committee has not been studied much, especially in *Ṣukūk* issuing companies. The remuneration of an independent committee strengthens the link between top managers' salaries and company performance. The independent remuneration committee pays top managers more (Usman et al., 2020). High salaries affect the performance of CEOs, which is consistent with the managerial premise because top managers who work for companies with better governance receive less income than companies with poor governance. The quality of the internal governance structure affects the sensitivity of performance payments. These results are consistent with the optimal contract theory and the managerial power assumption (Elmagrhi et al., 2020). More independent boards and larger companies strengthen the association between pay and performance (Blanes et al., 2020). The results of this study indicate that the existence of a remuneration committee can improve GCG, which in turn, affects increasing the rating of *Ṣukūk*.

Based on the above explanation, the first assumption of this research is as follows:

H1: Each supervisory function in the GCG structure affects Ṣukūk rating.

The empirical results confirm that the Sharīʿah board has a significant and positive effect on the financial performance of Islamic banks in terms of return on assets (as an indicator of return rate) and capital adequacy ratio (as an indicator of capital level), and has a negative effect on non-financial performance (as an indicator of funding risk). At the same time, the board of directors significantly affects the financial performance of Islamic banks, following the three components of the Sharīʿah supervisory board (Darwanto & Chariri, 2019). GCG and CSR (corporate social responsibility) mechanisms have a positive effect on financial performance and earnings management (Mahrani & Soewarno, 2018). Good Corporate Governance has a significant effect on stock returns in a negative direction but has no significant effect on financial performance (Kurniati, 2019). Bank governance scores can directly affect the performance of banks as measured by ROA and ROE. The bank governance score is positive and significant for ROA (Return On Asset) and ROE (Return On Equity) models. Bank stability is also favourable for bank performance, which shows an indirect contribution of GCG rating to bank performance.

Institutional ownership, a number of meetings and commissions have a significant positive effect on net working capital turnover (NWCT); only the number of commissioners variable is not proven. NWCT has a significant positive effect on ROE, while the variables of number of meetings and number of commissioners are not proven. NWCT is proven to mediate the relationship between several meetings and ROE, while the other variables are not proven (Wijaya, Rohman & Zulaikah, 2018). GCG is the most significant determinant of bank profitability. GCG and the combination of better credit risk management and the right business strategy can increase banks' profitability (Ghalib, 2018). The remuneration and nomination committee (CNC) has a negative relationship with executive remuneration (EC). While the variable of beneficial ownership (BO), which is used as the dependent variable in this study, reveals the possibility of agency problems or inactive block holder conditions that make the role of corporate supervision ineffective, as the results show that the more BO, the more EC, and worse corporate performance (Chou & Buchdadi, 2018). Based on the previous research results, the following assumption can be derived:

H2: Each of the supervisory functions in the MCM structure affects financial performance.

The reliability of the financial disclosure quantity (FDQ) affects *Ṣukūk rating*, but not that of bonds. Leverage is considered the most influential factor in rating *Ṣukūk* and bonds. FDQ, to some extent, was found to influence the relationship between ABR-Arbor Realty (i.e. operating income, leverage and ROI) and *Ṣukūk* or bond rating. The distinction between *Ṣukūk* and bond issuers is not empirically proven. Furthermore, there is additional evidence that relevance stands out more than reliability, and bond ratings are more affected by financial size variability than *Ṣukūk*; further research is needed to confirm this. This is sufficient evidence of the extensive relevance of the value of financial disclosures in *Ṣukūk* and bond markets (Qizam & Fong, 2019). Thus, it can be concluded that there are performance differences between *Ṣukūk* and bonds in terms of corporate performance and rating. Meanwhile, based on the research results and data on the effect of profitability and liquidity on bond ratings and their effect on bond yields, it can be concluded that profitability has a significant effect on bond ratings, liquidity has no significant effect on bond ratings, and bond ratings have a significant effect on bond yields (Dewi & Utami, 2020). The above research provides evidence of the importance of financial performance in increasing a company's credit rating.

The results of other studies indicate that after controlling company characteristics, *Ṣukūk* rating is positively related to CEO-Chairman duality, board size and independence, and negatively correlated with leverage, while positively associated more with profitability and size. The results of this study also prove that having two positions in an organization, CEO and chairman, can increase the responsibility in corporate decision-making and provide better rating performance of *Ṣukūk*. Furthermore, the results show that the larger the board size, the better the *Ṣukūk* rating. In addition, greater board independence leads to better ratings (Elhaj et al., 2018). There is a significant positive relationship between CEO network centrality and bond rating, indicating that companies with better-connected CEOs receive better bond ratings. Companies with better-connected CEOs experience a lower cost of debt, which is measured by bond yield. The results are consistent with the notion in social science that well-connected CEOs can provide positive outcomes and benefit their companies (Skousen et al., 2018). Based on the above explanation, the third assumption is derived as follows:

H3: Financial performance affects Ṣukūk rating.

Previous studies have successfully provided evidence of the influence of GCG on financial performance (Mahrani & Soewarno, 2018; Chou & Buchdadi, 2018; Ghalib, 2018; Kurniati, 2019; Darwanto & Chariri, 2019). Other studies can also provide evidence of the influence of financial performance on credit ratings (Elhaj et al., 2018; Skousen et al., 2018; Qizam & Fong, 2019; Dewi & Utami, 2020). A better supervisory function will lead to better governance, so it can improve the company's performance, which in turn can increase the rating of *Ṣukūk* issued. Based on the above evidence, it can be concluded that financial performance is appropriate to be used as an intervening variable in influencing the GCG on *Ṣukūk* rating.

H4: Financial performance can mediate the effect of the supervisory function in the GCG structure on Ṣukūk rating.

2.5. Control variable

This study uses company characteristics namely: company size, age and leverage as control variables. Company size shows the resources and capabilities of a company. Large companies tend to be more leveraged, which exposes them to a greater risk of bankruptcy. Previous research has shown that company size has a positive effect on the company's credit rating (de Souza Murcia et al., 2014; Borhan & Ahmad, 2018). The age of the company shows its maturity in managing the business. Previous research has shown that the age of the company affects the credit rating of the company (Marshall et al., 2019; Lin et al., 2020). Leverage shows how companies use their debt. The higher the company's debt relative to its equity, the greater the risk of default it may face. Previous research has proven that there is a negative influence between leverage and credit rating (Ashbaugh-Skaife et al., 2006; Harper et al., 2019).

3. Research Methodology

3.1. Sample

This research examines *Ṣukūk* that were still outstanding as of December 31, 2020, which is 250 *Ṣukūk*. After using the purposive sampling method by eliminating 9 MTN (Medium Term Notes) *Ṣukūk*, 1 *Ṣukūk* whose company was already bankrupt, 3 *Ṣukūk* that did not pay until 2020 and 15 *Ṣukūk* with incomplete data, the final sample used was 222 *Ṣukūk*. *Ṣukūk* rating data was obtained from the Indonesia Bond Market Directory report on the official website of the Indonesia Stock Exchange. Data on the supervisory function of each *Ṣukūk* issuing company can be found in the annual report published one year before the issuance of each *Ṣukūk*. The supervisory function here is divided into the number of commissioners, percentage of independent boards of commissioners, number of Sharīʿah boards, length of experience of the Sharīʿah board, number of audit committees and length of experience of the audit committee, remuneration committee and length of experience of the remuneration committee exercising supervisory function in each *Ṣukūk* issuing company. These divisions perform supervisory functions according to their respective areas.

3.2. Research Model

A structure-based oversight function in the MCM consists of a particular structure. First, is the existence of a Board of Commissioners and an independent Board of Commissioners. In Indonesia, which implements a two-tier system, there is a separation between the Board of Directors and the Board of Commissioners. On the board of commissioners, some commissioners are also shareholders of the company and a board of independent commissioners. An independent commissioner means that he or she has no relationship with the company, either as a shareholder or by serving in the executive structure of the company. This independent auditor is responsible for representing the minority shareholders, so his presence is necessary for the supervisory function. The second supervisory function is for companies that issue financial instruments with Sharīʿah contracts; for these, the existence of a Sharīʿah supervisory board is essential in the supervisory function. The number of Sharīʿah supervisory boards and their experience in this field are essential to ensure the implementation of Sharīʿah provisions. Third, there is the audit committee whose task is to review the company's financial statements and check whether they comply with the applicable accounting standards. Their existence and experience are necessary to ensure accountability and financial transparency in this area. Fourth, the remuneration committee is responsible for overseeing the awarding of remuneration for the executive function (company officer), to determine whether it meets the principles of fairness and honesty for all parties. Therefore, it is expected that the existence of the remuneration committee and its experience can achieve the GCGs in the company. Based on the above research model image, the following is the research equation model:

*Ṣukūk Rating = α + β1 Board size + β2 Board Independent + β3 Sharīʿah Board Size + β4 Sharīʿah Board Experience + β5 Audit Committee Size + β6 Audit Committee Experience + β7 Remuneration Committee Size + β8 Remuneration Committee Experience + β9 Leverage + β10 Firm Size + β11 Firm Age + ε......................**(H1)***

*Financial Performance (ROA) = α + β1 Board size + β2 Board Independent + β3 Sharīʿah Board Size + β4 Sharīʿah Board Experience + β5 Audit Committee Size + β6 Audit Committee Experience + β7 Remuneration Committee Size + β8 Remuneration Committee Experience + β9 Leverage + β10 Firm Size + β11 Firm Age + ε...**(H2)***

*Ṣukūk Rating = α + β1 ROA + β2- β4 Control Variable + ε...**(H3)***

*Ṣukūk Rating = α + β1 Board size + β2 Board Independent + β3 Sharīʿah Board Size + β4 Sharīʿah Board Experience + β5 Audit Committee Size + β6 Audit Committee Experience + β7 Remuneration Committee Size + β8 Remuneration Committee Experience + β9 Financial Performance + β10 Leverage + β11 Firm Size - β12 Firm Age + ε ....**(H4)***

3.3. Measurement of variables

In order to better understand each variable, we describe below the definition, measurement and type of scale for each variable in this study, which is described in Table 1 on operational variables:

Table 1. Variable Measurement

Variable	Measurement	Scale
Dependent Variable		
Ṣukūk Rating $_{t-1}$ (y)	Ṣukūk rating by Pefindo AAA = 7, AA+ - AA- = 6, A+ - A- = 5, BBB+ - BBB- = 4, BB+ - BB- = 3, B+ - B- = 2, D-CCC+ = 1	Ordinal
Independent Variable		
Supervisory Board Size $_{t-1}$ (x1a)	Number of commissioners a year prior to the issuance of the ṣukūk	Ratio
Supervisory Board Independence $_{t-1}$(x1b)	The ratio of the independent board of commissioners to the board of commissioners a year before the issuance of the ṣukūk	Ratio
Sharīʿah Supervisory Board Size $_{t-1}$ (x2a)	Number of Sharīʿah supervisory boards a year before the issuance of the ṣukūk	Ratio
Sharīʿah Supervisory Board Experience $_{t-1}$ (x2b)	The average length of experience of the Sharīʿah board in this field is a year before the issuance of the ṣukūk	Ratio

Audit Committee Size $_{t-1}$ (x3a)	Number of audit committees a year prior to the issuance of the ṣukūk	Ratio
Audit Committee Experience $_{t-1}$ (x3b)	The average length of experience of the audit committee in this field is one year prior to the issuance of the ṣukūk	Ratio
Remuneration Committee Size $_{t-1}$ (x4a)	Number of remuneration committees a year before the issuance of the ṣukūk	Ratio
Remuneration Committee Experience $_{t-1}$ (x4b)	The average length of experience of the remuneration committee in this field is one year prior to the issuance of the ṣukūk	Ratio
Mediating Variable		
Financial Performance $_{t-1}$ (z)	ROA (return on assets) a year prior to the issuance of the ṣukūk	Ratio
Control Variable		
Leverage$_{t-1}$ (c1)	Ratio of long-term debt to the market value of total assets 1 year prior to the issuance of the ṣukūk	Ratio
Firm Size $_{t-1}$ (c2)	Natural log of total assets a year prior to the issuance of the ṣukūk	Ratio
Firm Age $_{t-1}$ (c3)	The natural log of the firm's age (in years). One year prior to the issuance of the ṣukūk	Ratio

Source: Authors' Own

3.4. Assumption Testing Methods

Descriptive statistics were used to provide an overview and distribution of the research data. At this stage, they were used to determine the mean, median, standard deviation, minimum and maximum values that can provide information about the data distribution. Once the descriptive statistics were determined, the next step was to test the feasibility of the research model. Next comes assumption testing. This study used the same methodology as that used by (Ashbaugh-Skaife et al., 2006). The results of the empirical tests based on the above model were aimed at examining the effect of GCG supervisory function on *Ṣukūk* rating. Since the dependent variable (*Ṣukūk* rating) is an ordinal scale, this study uses ordinal logistic regression to test the Assumptions, as the seven categories of *Ṣukūk* rating are on an ordinal scale. The effect of GCG supervisory function on financial performance was tested by multiple regression. At the same time, the indirect effect of GCG supervisory function on *Ṣukūk* rating was tested through the financial performance calculated using Sobel test. After testing the assumption, the next step was to interpret the results and finally draw the study's conclusions, limitations and implications.

Descriptive statistics describing the data distribution across all observations in this study are presented in Table 2.

Table 2. Basic Statistics

Variable	N	Mean	Median	StDev	Minimum	Maximum
Ṣukūk rating	222	6.3108	7.0000	1.1003	1.0000	7.0000
Supervisory Board Size	222	6.613	6.000	2.191	3.000	10.000
Supervisory Board Independence	222	0.3302	0.3333	0.1771	0.0000	1.0000
Sharīʿah Supervisory Board Size	222	0.8694	0.0000	1.2389	0.0000	3.0000
Sharīʿah Supervisory Board Experience	222	2.511	0.000	3.934	0.000	17.000
Audit Committee Size	222	3.5586	3.0000	1.4122	0.0000	7.0000
Audit Committee Experience	222	3.525	2.833	2.964	0.000	13.667
Remuneration Committee Size	222	2.968	4.000	1.939	0.000	6.000
Remuneration Committee Experience	222	1.6814	1.7500	1.3803	0.0000	5.6667
Financial Performance	222	0.0123	0.0092	0.0289	-0.0572	0.0769
Leverage	222	18.168	17.821	1.708	15.168	21.184
Firm Size	222	3.6585	3.9703	0.5822	2.3979	4.7791
Firm Age	222	0.4596	0.3766	0.2252	0.0873	0.8953

Notes: This table reports summary statistics for the variables include in our main regressions.

Source: Authors' Own

Based on Table 2 above. we see that the average *Ṣukūk* rating is 6.3, meaning it has an AA-. AA or AA+ rating. The average number on the board of commissioners is 6.6. or rounded to 7 people in each company. The average percentage of independent commissioners is 33% of the full board of commissioners. The number of Sharīʿah supervisory boards is 0.86 or rounded to 1. This proves that not all *Ṣukūk* have a Sharīʿah supervisory board in their company. The experience of the Sharīʿah supervisory board is an average of 2.5 years having served in the same position in the company concerned and in other companies. The average number of audit committees is 3.55 or rounded to 4 people with an average experience of 3.5 years. The average number of remuneration committees is 2.9 or rounded to 3 people with an average experience of 1.68 or rounded to 2 years. The intervening variable in this study is financial performance as measured by ROA with an average of 0.01232, meaning that the net profit of the *Ṣukūk* issuing company to its total assets is 1.23%. This is because several *Ṣukūk* issuing companies suffered losses the year before issuing the *Ṣukūk*. The structure of the supervision function in GCG coupled with the company's financial performance and three control variables greatly influence the Ṣukūk rating, with an adjusted square value of 95.3%. Therefore, a company issuing *Ṣukūk* must pay attention to the structure of the supervision function within the company to increase its *Ṣukūk* rating.

4. Findings

4.1. The effect of the supervisory function in the GCG structure on Ṣukūk rating

The first assumption of this study examines the effect of each supervisory function of the GCG on *Ṣukūk* rating. The supervisory function of GCG greatly influences *Ṣukūk* rating, as shown by the concordance value of 95.3%. This means that 95.3% of the *Ṣukūk* rating is influenced by the structure of the GCG supervisory function, while other factors influence the rest, and it shows that the existence of a supervisory function in a company is essential, especially to increase the rating of the *Ṣukūk* it issues. The results of the first assumption test can be described as follows:

Table 3. First Assumptions Test

Variable	Coef	SE Coef	p-Value
Constant			
Supervisory Board Size	-0.5385***	0.1695	0.001***
Supervisory Board Independent	7.9743***	1.6691	0.000***
Sharīʿah Supervisory Board Size	-0.2903	0.3393	0.392
Sharīʿah Supervisory Board Experience	-0.4697***	0.1163	0.000***
Audit Committee Size	0.7063**	0.2790	0.011**
Audit Committee Experience	-0.2171**	0.1080	0.044**
Remuneration Committee Size	-0.1150	0.2069	0.578
Remuneration Committee Experience	-0.3419	0.3448	0.321
Leverage	-1.4247***	0.3087	0.000***
Firm Size	1.1346**	0.4626	0.014**
Firm Age	6.4484***	1.6466	0.000***

Source: Authors' Own

The results of the direct effect test of supervisory function on *Ṣukūk* rating in Table 3 prove that all the elements can exert influence, except the size of Sharīʿah supervisory board, the size of the remuneration committee and their experiences. The number of supervisory boards, the experience of the Sharīʿah supervisory board, the experience of the audit committee and the leverage have a negative effect on the rating of *Ṣukūk*. This means that the more boards and the more experience, the lower the *Ṣukūk* rating. On the other hand, the increase in the number of audit committees, the independence of the supervisory board, the size and age of the company have a positive effect, which means that the *Ṣukūk* rating results are higher. This result proves that an experienced supervisory function has indeed lowered *Ṣukūk* rating. This indicates that a *Ṣukūk with* a low rating requires staff in more supervisory functions and involves people with longer experience than *Ṣukūk* with a high rating.

4.2. The effect of the supervisory function in the GCG structure on financial performance

The GCG supervisory function model, which consists of nine financial performance variables, has an R-squared value of 46.26%. This means that 46.26% of financial performance is influenced by the supervisory function in the GCG structure, while other factors influence the rest.

Table 4. Test of the second assumption

Variable	Coef	SE Coef	p-Value	VIF
Constant	0.0129	0.0219	0.558	
Size of the Supervisory Board	-0.0061***	0.0010	0.000***	2.17
Supervisory Board Independent	0.0478***	0.0100	0.000***	1.44
Size of the Sharīʿah Supervisory Board	0.0131***	0.0022	0.000***	3.57
Experience of the Sharīʿah Supervisory Board	-0.0011	0.0009	0.215	5.50
Size of the Audit Committee	-0.0025	0.0015	0.111	2.21
Audit committee experience	-0.0011*	0.0006	0.077*	1.63
Size of the Remuneration committee	0.0035***	0.0013	0.008***	2.97
Remuneration committee Experience	-0.0011	0.0019	0.542	3.03
Leverage effect	0.0012	0.0013	0.360	2.13
Company size	0.0047	0.0030	0.123	1.41
Age of the company	-0.0401***	0.0125	0.002***	3.63

Source: Multiple regression results

Source: Authors' Own

The results of the statistical output in Table 4 show that there are 5 structures of the supervisory function in the GCG that affect financial performance, namely: the size of the supervisory board, and the size of independent supervisory boards. The size of the Sharīʿah supervisory boards, the experience of the audit committee and the size of the remuneration committee in *Ṣukūk* issuing companies. On the other hand, the experience of the Shari'ah supervisory board, the audit committee's size and the remuneration committee's experience do not affect the financial performance. As far as the control variables are concerned, only company size has an impact on *Ṣukūk* rating. This shows that the size of the company is taken into account by PEFINDO in determining the rating of *Ṣukūk*. The number of supervisory board and audit committee experiences has a negative effect, while the number of independent auditors, the number of Sharīʿah supervisory boards and the number of remuneration committees have a positive effect on financial performance. This proves that a company's financial performance is influenced not only by the number of people involved in the supervisory function or their experience, but also by other factors.

4.3. The effect of financial performance on *Ṣukūk* ratings

The feasibility of this model, which is indicated by the concordant value, is 89%. This means that 89% of *Ṣukūk* rating is influenced by the company's performance, while other factors influence the rest. After the model was declared fit, it could continue to test the Assumptions. The research results regarding the effect of financial performance as represented by ROA on *Ṣukūk* rating can be proved in the following table:

Table 5. Test of the Third Assumption

Variable	Coef	SE Coef	p-value
Const-Ṣukūk Rating C & D	22.3852***	4.3535	0.000***
Const-Ṣukūk Rating BBB	23.1120***	4.3291	0.000***
Const-Ṣukūk Rating A	23.5288***	4.3238	0.000***

Const-Ṣukūk Rating AA	27.2645***	4.4625	0.000***
Const-Ṣukūk Rating AAA	27.3919***	4.4678	0.000***
Financial performance	11.2015*	5.9060	0.058*
Leverage effect	-1.6878***	0.2434	0.000***
Company size	0.1804	0.3348	0.590
Age of the company	1.0734	0.8451	0.204

Source: Authors' Own

Table 5 provides the results of the test on the effect of financial performance (ROA) on *Ṣukūk* rating. This study proves its effect positively. This shows that profitability is one of the elements that determine the rating of *Ṣukūk* issued by a company; the higher the company's performance, the higher the *Ṣukūk* rating. At the same time, the only control variable that affects this model is the company's leverage, while the other variables have no effect. This proves that the leverage of the company is important enough to determine the *Ṣukūk* rating of the company.

4.4. The indirect effect of the supervisory function in the GCG structure on Ṣukūk rating through financial performance.

The last assumption tested the ability of financial performance to mediate the association between GCG supervisory function and *Ṣukūk* rating. This indirect effect was tested using the online Sobel test. The results of the study are presented in Table 6 below:

Table 6. Fourth Assumption Test

Note	Test statistics	p-value
x1a to y through z	-1.8125*	0.0699*
x1b to y through z	1.7629*	0.0779*
x2a to y by z	1.8966*	0.0579*
x2b to y by z	-1.0397	0.2985
x3a to y through z	-1.2258	0.2203
x3b to y through z	-1.2977	0.1944
x4a to y through z	1.5510	0.1209
x4b to y through z	-0.5832	0.5598

Source: http://quantpsy.org/sobel/sobel.htm

From Table 6, it can be concluded that financial performance, as measured by ROA, can influence the association between the supervisory function, including the number of supervisory boards, the percentage of independent supervisory boards, the number of Sharīʿah supervisory boards, and *Ṣukūk* rating. However, the financial performance failed to mediate the association of other supervisory function structures to *Ṣukūk* rating. The results of this study prove that the existence of a supervisory board, independent supervisory board and Sharīʿah supervisory board is necessary to increase the *Ṣukūk* rating of a company.

5. Discussion and Implications

A growing body of research focuses on the attributes of corporate governance from the perspective of bondholders (Alali et al. 2012; Alkhawaldeh. 2012; Aman & Nguyen. 2013; Jiraporn et al. 2014). Empirical research proves that corporate governance attributes mitigate not only agency conflicts between owners and managers but also potential conflicts between bondholders and shareholders that may lead to wealth transfer effects between them (Alali et al.. 2012; Aman & Nguyen. 2013; Jiraporn et al.. 2014). Therefore. GCG is needed which can help to reduce these conflicts. One of the most important functions of GCG is the supervisory function to create responsibility, accountability, transparency, independence and fairness between the parties with interest in the *Ṣukūk* issuing company.

The results of this study prove that the supervisory function is very important in GCG, as it can affect the company's performance and *Ṣukūk* rating. It has also been shown that the independence of the supervisory board affects the financial performance and *Ṣukūk* rating of a company. Companies with a high percentage of independent boards have relatively higher credit ratings and better financial performance (R. Khalil et al., 2020; Huang et al., 2018). An independent supervisory board is necessary to represent minority shareholders in a *Ṣukūk* issuing company. In addition, the existence of the Sharīʿah supervisory board in a *Ṣukūk* issuing company has also been proven to *have* a significant influence on both improving the financial performance and rating of its *Ṣukūk*. The Sharīʿah board is essential to ensure the implementation of transactions in accordance with Islamic rules so that it can increase the confidence of *Ṣukūk* investors and *Ṣukūk* rating agencies, which in turn leads to an increase in the rating of a company (Grassa. 2013; Grassa. 2016). The supervisory role of the Sharīʿah board is indirectly able to monitor and control the management activities to ensure better decisions.

The existence of an audit committee and a remuneration committee can meet two principles of financial reporting, namely transparency and disclosure. They are responsible for overseeing the board of directors, ensuring that the above principles have been appropriately implemented and providing remuneration incentives based on the actual performance of directors (Grassa, 2016; Usman et al., 2020). If executed properly, the audit and remuneration committees would reduce the risk of default and increase the rating of *Ṣukūk* (Marfuah. 2016). One of the qualities of corporate governance is influenced by the remuneration system so that it can improve the company's performance (Elmagrhi et al., 2020; Blanes et al. , 2020). The results of this study indicate that the existence of an audit committee and remuneration committee can improve financial performance.

It has been proven that company performance, both directly and as a mediator, can influence *Ṣukūk* ranking. Company profitability shows the ability of the company to generate profits, so this information is vital for *Ṣukūk* ranking (Qizam & Fong, 2019; Elhaj et al., 2018; Skousen et al., 2018; Dewi & Utami, 2020). The results of this study provide new evidence that financial performance can mediate the effect of GCG supervision function on *Ṣukūk* ranking. A better supervisory function will lead to better governance so that it can improve the performance of the company, which in turn can increase the rating of the issued *Ṣukūk*. The supervisory function can reduce the binding cost in the Agency Theory, to ensure that the agent (manager) does not harm the principal. In addition, it can also reduce the monitoring costs in the case of *Ṣukūk* issuance, which involves not only the usual monitoring function but also a Sharīʿah supervisory board that oversees compliance with Islamic rules in corporate transactions. The more the parties supervise the managers, the more the companies will stay on track.

6. Conclusion and Limitations

This study aims to provide empirical evidence of financial performance in mediating the association between supervisory function and *Ṣukūk* rating. A total of 222 *Ṣukūk* that were still circulating on the IDX (Indonesian index) as of December 31st 2020, were tested, in order to show the results of the effect of the entire structure of the supervisory function of the GCG on *Ṣukūk* rating. The supervisory board's independence and the audit committee's size are the variables that influence *Ṣukūk* rating the most. In addition, ṣukūk rating is also influenced by the size of the supervisory board, experience of the Sharīʿah supervisory board, and experience of the audit committee. It has also been proved that the supervisory function of GCG affects the financial performance, especially in the 5 supervisory functions, namely: the number of supervisory boards, the percentage of independent supervisory boards, the number of Sharīʿah supervisory boards, the experience of audit committees and the number of remuneration committees. Independent supervisory board and number of Sharīʿah supervisory boards are the most influential variables in the association. Financial performance as an intervening variable has also been shown to have a direct effect on *Ṣukūk* rating. The results of this direct effect were determined by entering three control variables, namely: company age, company size and leverage. At the same time, the indirect effect of GCG monitoring function on *Ṣukūk* rating through financial performance provides positive evidence. Financial performance has successfully mediated the influence of some supervisory functions (the number of supervisory boards, the number of independent supervisory boards, and the number of Sharīʿah supervisory boards) on *Ṣukūk* rating. On the other hand, there is no evidence that other elements of the supervisory function of GCGs are mediated by financial performance.

This study attempted to provide empirical evidence that the supervisory function of the GCG in *ṣukūk* issuance is different from that of conventional bonds, especially with the existence of a Sharīʿah supervisory board which is necessary to supervise the compliance of activities with Sharīʿah. This research may be a reference for Ṣukūk issuing companies in terms of its GCG structure and promoting Ṣukūk rating. As for the regulators, the results of this study can be used as a basis in setting rules for GCG in Islamic companies. In addition to being both a practical and theoretical contribution, this research also has some limitations; first, it uses a small sample, of only 222 *Ṣukūk* circulating on the IDX; second, the indirect effect on ordinal scale-independent variables cannot be tested directly with some statistical software, but by a calculation based on the Sobel test which can be performed online. Future studies could involve a larger number of *Ṣukūk* and compare them across different countries. The differences in rules and culture that exist in a country may lead to different results. In addition, future research can also use *Ṣukūk* ratings with different measures, for example, on a ratio scale, so that the effects can be tested using path analysis.

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هل يُعد الأداء المالي للشركات وسيطًا مؤثرًا في الحوكمة الجيدة لتصنيف الصكوك الإندونيسية؟

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المستخلص. تُعد الصكوك الإسلامية واحدة من منتجات المالية الإسلامية، لذلك ينبغي العناية بتصنيفها الائتماني . هَدَفت هذه الدراسة إلى تقديم دليل تجريبي عن تأثير حوكمة الشركات الجيدة على التصنيف الائتماني للصكوك الإندونيسية، حيث تم استخدام الانحدار المتعدد، والانحدار اللوجستي الترتيبي واختبار سوبل لاختبار الفرضيات في ٢٢٢ صكًا مدرجة في بورصة إندونيسيا في ٣١ ديسمبر ٢٠٢٠. أظهرت نتائج البحث أن عدد عضوية مجلس الرقابة واستقلاليته وخبرته، وعدد أفراد لجنة التدقيق وخبرتها تؤثران بشكل مباشر على تصنيف الصكوك الإندونيسية وإدراجها. كما أظهرت النتائج أن للأداء المالي تأثيرًا مباشرًا على تصنيف هذه الصكوك مما يؤثر بشكل رئيس في العناصر الثلاثة المهمة في وظيفة مراقبة الحوكمة الجيدة للشركات وهي: معيار المجالس الإشرافية، والاستقلالية، وعدد أعضاء مجالس الإشراف الشرعي. لذلك من المهم للشركات أن تهتم بالحوكمة الجيدة، لاسيما المتعلق منها بالوظيفة الاشرافية والأداء المالي لدعم تصنيف هذه الصكوك. أكدت الدراسة كذلك أن وجود مجلس للإشراف الشرعي يدعم تحقيق الأداء المالي في الشركات الإندونيسية يساعد على تصنيف الصكوك في المؤسسات المالية الإسلامية.

الكلمات الدَّالة: الصكوك، الحوكمة الجيدة للشركات، الأداء المالي، التصنيف الائتماني للصكوك، سوق المال الإندونيسي

تصنيف JEL : C14, D25, G34, M41, N25

تصنيف KAUJIE: H33, H65, J32, K16, L34, T4

Book Review and Reports

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A Book Review on Ṣukūk: Principles and Practices Beebee Salma Sairally & Marjan Abdullah International Shariah Research Academy for Islamic Finance (ISRA), 1st Edition, 2018

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Abstract. Ṣukūk is as essential a mechanism for developing the Islamic finance industry as the industry itself. It provides the opportunity to apply Sharī'ah principles in a modern outfit. The complex nature of Ṣukūk, beginning with the underwriting stage to the dissolution, requires a dynamic, but due diligent process. As such, selecting it alone for an in-depth publication is a momentum contribution to the existing literature. Ṣukūk: Principles and Practices has been a unique contribution to the overall development of the Islamic finance industry. Prior to its publication, the subject matter of Ṣukūk was usually scattered throughout a book chapter, a textbook or journal article on Islamic economics, finance, banking and capital markets. This never constituted a satisfactory material to quench the reader's thirst to the point of saturation. Nevertheless, this book has done a remarkable job of capturing all aspects of Ṣukūk and carefully summarizes its characteristics, scopes, types and classifications, structures, and underlying Sharī'ah contracts. The book digs deep to trace the origin and evolutionary emergence of Ṣukūk experience throughout history and connects it to current practice in different jurisdictions. As such, Sharīʿah rulings and standards, fatwa resolutions, legal, regulatory and tax frameworks have been carefully discussed in a step-by-step process through its five major parts and precisely fourteen chapters. Finally, the book explains the emerging issues and future direction of Ṣukūk practices. In spite of its comprehensiveness the book, like any other human work, needs evaluation and assessment to pinpoint to its strengths and limitations for the purpose of refining and improvement in future editions. This is what this review tries to accomplish.

KEYWORDS: *Ṣukūk*, Principles and Practices, Islamic Finance, *Ṣukūk* extinguishing, International *Sharīʿah* Research Academy

JEL CLASSIFICATION: P430, P40
KAUJIE CLASSIFICATION: K16, J0

Ṣukūk: Principles and Practices remarkably covers one of the most important and emerging topics in Islamic finance. The expansion and deepening of global Islamic capital markets increase the need to develop innovative products and diversify instruments to meet this high demand. This will satisfy the needs of investors and issuers and, more importantly, provide the market with Sharīʼah-compliant financing alternatives; in addition to providing a reading compendium for students, academics and professionals, this book is an excellent reference in the subject.

At nearly seven hundred pages, the book consists of five (5) major parts and more precisely fourteen (14) chapters, respectively. The style is both professional and intensely academic, with a clarity and sound jurisprudential substance that makes it a comprehensive and relevant material for all branches of the Islamic finance field. The book is critically appraised and reviewed by a team of ten editors, two publishers, and four review bodies. Eminent specialists of high academic and professional standing have contributed to the book, such as Beebee Salma Sairally, Farrukh Habib, Hafas Furqani, Hissam Kamal Hassan, Marjan Muhammad, Mohamed Zakariya Othman, Mohd Bahroddin Badri, Najeeb Zada, Shabana M. Hasan and Yussuf Adam Al-Badani. These scholars were selected proportionally from the world's leading academic, regulatory, and professional bodies, such as the International Sharīʼah Research Academy (ISRA); Ar-Raniry State Islamic University, Indonesia; SIMAH Rating Agency Ltd. Saudi Arabia; Islamia College University Peshawar, Pakistan and International Islamic Liquidity Management Corporation (IILM), Malaysia. In addition, the book was reviewed by four interested organizations, namely CIMB Bank Berhad, Khazanah Nasional Berhad, Malaysia Rating Corporation and the Securities Commission, all located in Malaysia.

To ensure the clarity of concepts, the book includes many illustrations. It has a total of 65 exhibits, 33 boxes, 67 tables and 54 figures to give more explanation and timely data for analysing trends and current performance of Ṣukūk in the market. At the same time, in three chapters, Part 1 (pp. 1-143) presents an overview of Ṣukūk. Beginning with Chapter 1 (pp. 1-51), it introduces the concept and scope of Ṣukūk, the benefits of Ṣukūk, and the difference between Ṣukūk, bonds, and stocks. The second chapter (pp. 52-99) discusses the historical background and development of Ṣukūk. Beginning with the medieval period and tracing the early uses of Ṣukūk, the various aspects of Ṣukūk development and the growth and expansion of Ṣukūk market were discussed. This is followed by the spread of the market across jurisdictions over time, and the new emerging sectors of Islamic finance such as the halal industry and other innovative structures for future development. Chapter 3 (pp. 99-143) presents a general classification of Ṣukūk according to Sharī'ah-based contracts, the nature and types of assets, and other miscellaneous characteristics such as technical and commercial aspects.

The book continues with Part 2 (pp. 144-234), which contains two chapters (4 & 5). Chapter 4 (pp. 144-193) covers Sharī'ah rulings for Ṣukūk issuance, and Chapter 5 (pp. 144-193) covers the general framework for issuing Ṣukūk. Interestingly, both chapters reflect the practicalities and requirements necessary to the issuance of Ṣukūk, which includes Ṣukūk as an instrument of trade, the parties involved, the terms and conditions of the valid contract, the underlining asset and possession *(Qabd)*, the negotiability of Ṣukūk certificates and the promise undertaking *(Wa'd)*, the discount *(Ibra')*, and the waiver rights *(Tanāzul)*. In Chapter 5, the general framework is discussed at length, starting with the capital market framework, then the book expands to Ṣukūk, legal and regulatory, tax and accounting, and Sharī'ah governance frameworks. It generally provides a step-by-step process for issuing Ṣukūk, whether public or private sector issues. It also provides a framework for the offering of Ṣukūk, the roles and responsibilities of SPVs and fiduciary agents, which are essential, while Ṣukūk pricing, quoting, clearing, and takaful application to manage risk in Ṣukūk trading serve as an important element for a successful issuance.

Nevertheless, tax and regulatory changes have been made by various countries to allow successful Ṣukūk issuance. There are different practices in different jurisdictions, for example, Malaysia offers tax incentives and neutrality on Ṣukūk issuances, structures, and issuance costs to make the market more attractive, which until now, are not tax exempt. Saudi Arabia has institutionalized the payment of zakāh on raising funds through the issuance of Ṣukūk. Turkey introduced a tax exemption on Ṣukūk, while the United Kingdom removed the double burden of stamp duty property tax on Ṣukūk. France and Luxembourg also made some changes to the regulatory and tax laws applicable to the issuance, clearing, and listing of Ṣukūk. Towards the end of the chapter, the book focuses on the risks that may affect the trading of Ṣukūk. Different types of risks were identified, with Sharī'ah-compliance, liquidity, market, trading and regulatory risks becoming more important. This and other issues highlighted the challenges of the Ṣukūk framework and operation. A comprehensive Sharī'ah governance, compliance, and interpretation framework, a robust legal and regulatory Islamic capital market, and a market-driven framework supported by innovative Ṣukūk products could solve these challenges.

In addition, the book continues with the third part (pp. 244-427) consisting of four chapters (6, 7, 8 and 9). The main topic addressed in this part is Ṣukūk structures based on underlying Sharī'ah-based contracts, specifically, chapter 6 (pp. 246-293) which discusses sale-based Ṣukūk structures such as murābahah, istisna', and salam contracts. The main features were discussed in both their Sharī'ah-related and practical aspects and the challenges of these structures. Chapter 7 (pp. 294-341) discusses lease-based structures and looks at different variants of Ijara structures, including sale and leaseback, master lease, sublease, and usufruct "Manfa'ah" Ṣukūk structures. The key features of the basic structures and stages of their practice vis-à-vis their differences in the application of various jurisdictions, in addition to other salient Sharī'ah issues regarding ijara contracts and their implication in market functioning. These issues reflect the practical challenges of Ijara Ṣukūk structures. The book identifies four issues, namely: pricing of Ṣukūk LIBOR and EURIBOR as a pricing benchmark, shortage of eligible underlying assets, rate of return risk; and high transaction costs such as *Takaful* hedging in case of loss or damage of the underlying asset.

In Chapter 8 (pp. 342-386), the book focuses on partnership-based structures using mudhārabah and mushārakah contracts. The main feature of these structures is that they represent neither a debt obligation nor a right of sale, and instead, they represent an ownership right in the underlying asset. Another feature is that their return is fixed based on the sharing ratio. This has paved the way for the emerging Sharī'ah-related issues, identified as third-party capital using (Tabarru'), commitment to purchase by the issuer or debtor at maturity, event of default or dissolution, liquidity facility in case of the shortfall through credit enhancement, and incentive fee using the right of renunciation (*Tanāzul*) by Ṣukūk holders. The book has remarkably well discussed these issues by citing the standards of the relevant IIFA resolution, AAOIFI and IFSB, and SAC Malaysia's regulation on the issue. The book concludes Chapter 8 by providing practical solutions for partnership-based Ṣukūk structures.

Similarly, Chapter 9 (pp. 388-427) includes agency-based structures using the wakālah contract. This is a nominating contract (*Aqad Musammā*) in which the proceeds will be managed and invested in an income-generating project by a designated agency. Different types of wakālah with their individual characteristics were discussed, ranging from general Wakālah (*Mutlaqah*) to restricted Wakālah (*Muqayyadah*), Remuneration Wakālah (Bai Al-Ujr) and Non-Renumeration Wakālah (Bi Dūn Al-Ujr), Temporary Wakālah (Mu'aqqatah) and Non-Temporary Wakālah (Ghayr Mu'aqqatah), as well as Binding Wakālah (Lāzimā) and Non-Binding Wakālah (Ghayr Lāzimā). However, on a practical level, Ṣukūk adopts the structure of wakālah bi al-istithmār or istithmār Ṣukūk. This type of wakālah becomes very important because it suits the preferences of both parties (issuers and investors). The process of issuance was discussed, and then the book moves to Sharī'ah-related issues of Wakālah bi al-Istithmār Ṣukūk. These are ownership issues of underlying assets, combination of underlying assets, third party guarantee, liquidity facility, incentive fee and purchase commitment. These issues resemble partnership-based Sukūk structures, as they are all trust-based (amānah) fiduciary contracts. Others are rules related to the parties involved, the terms of the underlying assets, and risk management practice, concludes the chapter.

Furthermore, Part IV (pp. 428-519), the penultimate part, examines another dimension of Ṣukūk types. This time, the commercial and technical characteristics are explained in two chapters (10 and 11). Chapter 10 (pp. 420-474) defines three types of Ṣukūk, namely (1) Convertible, which is a type of Ṣukūk where the right is given to the holders to convert their Ṣukūk into shares/stock in the issuer's company. (2) Exchangeable, which gives holders the right to exchange their Ṣukūk for shares in the issuer's company in another company; and (3) Perpetual Ṣukūk which combines elements of debt and equity that gives a regular return without a predetermined maturity. The first two are redeemable if not converted or exchanged. In comparison, the latter has a perpetuity element and a call option for the issuer with a subordinated debt obligation in the issuer's debt profile. These technical features are only found in hybrid Ṣukūk with complex structures different from simpler ones like plain vanilla Ṣukūk. The underlying issues of Sharī'ah include the conversion or exchange mechanism, the prior fixing of redemption and conversion or exchange rates in convertible and exchangeable Ṣukūk structures. However, perpetual Ṣukūk presents problems such as determining the maturity period, deferring the periodic yield, combining bay' and salaf, and subordinating the debt. The book discusses these issues in detail, based on classical legal opinions and the relevant modern Sharī'ah position according to the AAOIFI resolution. The chapter concludes with the regulatory issuances regarding the three types of Ṣukūk.

Meanwhile, Chapter 11th (pp. 476-519) introduces the other three types of Ṣukūk technical structures, namely, asset-based Ṣukūk, asset-backed Ṣukūk, and covered Ṣukūk. This chapter provides definitions of each type, their differences, and the salient features of their structures; for instance, the book describes the basic structures, significance, and practical issues related to each type. In asset-based Ṣukūk, there are issues such as Ṣukūk holders' ownership and the restriction placed on them over the underlying asset, which is likely to hamper the due diligence requirement over the asset. All of these problems are because the holders do not have actual ownership of the asset in the Ṣukūk arrangement. In the covered Ṣukūk structure, the return is low due to collateral coverage, prepayment with a generally short Ṣukūk life, and the problem of tax treatment of transnational assets. However, in the asset-backed structure, there may be issues of high transaction costs, asset class, regulatory restrictions in some jurisdictions such as in GCC countries, public perception and issuer's negative commitment in a previous issuance are some issues that likely affect asset-backed Ṣukūk.

Finally, Part 5 (pp. 520-666) describes the market requirements, problems and the way forward. This concluding part includes the remaining three chapters (12, 13, and 14). First, Chapter 12 (pp. 522-575), presents a discussion of Ṣukūk rating, which involves assessing various financial risks related to the issuer, the underlying asset, and the ecosystem of the issuing environment. The credit rating is generally similar to that of conventional products, except for Sharī'ah issues related to the underlying contract, terms and agreement, and structure of Ṣukūk. The book focuses more on the importance and scope of credit rating. It discusses the rating agencies and their methodologies. These include RAM, MARC, S&P, Fitch Ratings, Moody's, and the International Islamic Rating Agency (IIRA). The book also provides a comparison of all the above-mentioned rating agencies and their respective criteria. Examples have been given on various Ṣukūk structures such as BBA, Bay' al-Īnah, Mudhārabah, Istisna' and Ijarah. In addition, other issues related to Sharī'ah compliance regarding different Ṣukūk structures, purchase commitments and business models were also discussed from a practical perspective.

Chapter 13 (pp. 576-621), focuses specifically on defining the concept of default, insolvency, bankruptcy, financial distress, and restructuring and rescheduling. The different types of default, the reasons that led to default, and the volumes of Ṣukūk defaults are explained. It places more emphasis on Sharī'ah position on default and insolvency. While, in restructuring debt such as extending the maturity period and waiving some or all of the difference between current and ascribed asset value of the creditor's rights are usually applied. Others apply murābahah to settle the existing debt, exchange debt for shares, and increase the rental rate in the Ijarah contract have been described. Towards the end of the chapter, the book presents the debt restructuring process and the restructuring exercise steps. Finally, Chapter 14 (pp. 622-666), analyzes the future directions, prospects and challenges of Ṣukūk. This chapter is considered the conclusion of the whole book, having discussed in depth almost all aspects related to Ṣukūk. The chapter explains in more detail the problems in the market such as lack of repeat issues, inadequate liquidity of Ṣukūk in the secondary market, and complexity of various structures of Ṣukūk, with elaboration on some contested structures between jurisdictions due to the diversity of Sharī'ah rulings and standards adoption. Others include issues related to underlying identification and ownership. Similarly, the book continues with market perceptions and expectations of Ṣukūk, which affect investors, issuers, rating agencies, and Sharī'ah advisors as key parties in Ṣukūk operations. The chapter continues with the global expectations, future potentials and opportunities of Ṣukūk in the international market.

Finally, the book provides a brief overview of sustainable and responsible Ṣukūk. This is a cursory look at the need for natural resource enhancement, socio-economic development, and environmental impacts, such as renewable energy efficiency and waqf development. As such, the book highlights key areas such as green Ṣukūk, diaspora or ummah Ṣukūk, longevity Ṣukūk, halal industry, crowdfunding, and the need to expand innovation in Ṣukūk assets using intangible assets such as services, intellectual properties, software, etc.

Observations

That said, the book has all it takes to lead the industry's thirst for knowledge in the global practice of Ṣukūk. However, in line with this, and with emerging issues resulting from the broad practice, market expansion, and the proliferation of Ṣukūk programs, more innovation is needed to go hand in hand with industry development. The following major points can be considered when revising the book for the next edition, namely:

1. Sharī'ah Compliance: The expansion of Ṣukūk market leads to more complex Ṣukūk structures and raises issues that eventually drive the need for Sharī'ah positions, fatwa, pronouncements, new guidelines, and prudential standards. In addition, COVID-19 has also opened new frontiers for expansion into all facets of life. In Islamic finance, sustainability Ṣukūk, retail Ṣukūk, and ESG Ṣukūk have emerged as catalysts to mitigate the damage caused by the pandemic in order to respond, restore, and reboot (3-Rs), as initiated by the Islamic Development Bank. Ṣukūk related to cash-waqf, the application of AI in Ṣukūk, digital Ṣukūk, green Ṣukūk, blue and marine Ṣukūk are witnessing greater recognition during this period which needs to be improved in the next edition. Also, in accordance with the current development, trends in the global landscape with unprecedented events pose uncertainty in the industry. The future studies of Islamic finance vis a-vis fintech, AI and digitalization of the economy might be relevant if the following study considers the application of postnormal theory. Sardar et al. (2019) outline postnormal time (PNT) theories in three tomorrows using chaos, complexities, and contradictions (3Cs) as key indicators on one side; speed, scope, scale and simultaneity (4Ss) of events on the other side, are the other factors. Risk, volatility, and innovations should explore Ṣukūk potentials and viability of Islamic finance instead of the challenges and obstacles, to use Maqasid approach to protect lives, wealth and properties. This will help maintain their applicability, flexibility and compliance with Sharī'ah.

2. Green Ṣukūk Taxonomy: This is an important contribution to make to Green Ṣukūk, the Green Ṣukūk taxonomy should incorporate Maqāṣid's parameters as essential metrics for the Green Ṣukūk standard. This will help to clearly distinguish between Green Ṣukūk and green bonds with their rating, review and reporting. Instead of only taking ESG as a benchmark to qualify eligible green projects, Maqasid will be more holistic in this regard. The five necessities will have more impact than simply imitating the Western form. Maqasid will give more color to green projects by measuring the number of lives they could save, improve, or enhance, as well as intellect, progeny, and wealth. And also, religion in the jurisdictions of Muslims. In addition, Maqasid will identify the prioritization hierarchy of Dharūrīyyāt, Hājīyyāt, and Tahsīnīyyāt aspects of green projects in relation to the needs and priorities of the jurisdiction, going beyond the S&P Global Ratings (2020) ESG benchmark and other rating agencies. The ends (Maqasid) will be specifically identified from the means (Wasā'il) and their respective roles in the Maqasid-based green Ṣukūk standard, as suggested by Yahuza et al, (2022). Indeed, Green Sukūk are a more innovative product with high potential to tap more financial resources from all jurisdictions including Southeast Asia, GCC, Europe, and the African sub-region (Alam et al., 2016).
3. New Ṣukūk structures: Sharī'ah-compliant contracts such as muzāra'ah, mughārasah and musāqah should be given due consideration by creating respective structures for them and to leverage their excellent contribution to agricultural development, environment and climate change. The World Bank report (2020) points out that agriculture was neglected in the development of projects for green Ṣukūk issuance. It has huge potential to improve Islamic finance's grip on climate-smart agriculture (CSA) financing and sustainable food security, food systems, and agricultural value chain financing. Through this, Islamic finance will gain innovation and diversification of products and services for more investment options. With this in mind, the classification of Ṣukūk should be revised in the next edition to include these structures and to more clearly define the typology of Ṣukūk classifications. Regarding the technical classification of Ṣukūk, instead of the Asset-Based, Covered, and Asset-Backed classification as provided in Chapter 11 of the book (ISRA, 2017, pp. 476 - 519). Asset-Backed Sukūk, from the point of view of Sharī'ah compliance, reflects a real application of the contract, the existence of an underlying asset and real ownership rights should be the basis (*'Aṣl*) of this classification and synthesis as first. Then, Asset-Based Sukūk as second should follow and finally Covered Sukūk combining the two should come third in the sequence. Being a technical and the most challenging aspect of Ṣukūk classification, the essential pillars of each type should also be added as a new heading to replace the "importance and practical issues" headings with advantages and disadvantages to highlight their areas of strength and weakness as in Al-Ali (2019). This should go beyond the AAOIFI's (2017) definition of the Sharī'ah standard of Muzāra'ah, Mughārasah and Musāqah Ṣukūk. Also, beyond the few practical explanations given by Ariff et, al, (2014). Nevertheless, in his paper, Yahuza (2020) suggests a Muzāra'ah Ṣukūk model in agricultural finance, other two structures are needed. Therefore, the next edition should develop from there, with well-fitted Ṣukūk models and provides the practical implication for these structures on the underlying projects.
4. As mentioned earlier, the pandemic caused global disruption, but also brought more opportunities. As such, it will be a great contribution for the next edition of the book to look at pandemic, disaster and emergency management Ṣukūk, a type of Ṣukūk that will be strictly used to raise funds to apply on projects during pandemic, disaster, insurgency, flood, drought, famine and other calamities natural or artificial. It should also include procurement and provision of stimulus packages, basic needs, microfinance, settlement of flood-ravaged communities, displaced persons, conflict resolution and peace-building processes, security monitoring

and intelligence, the establishment of new health and quarantine centers for affected people, etc. This is an important area that makes the practice of Ṣukūk more widespread and in-depth in quality and quantity. Sardar et, al, (2019) in another work, expose some unthought future scenarios affecting Muslims and the Islamic world in the global arena, which includes cyber security, big data, food crises, health and education systems, post-capitalism and the issue of alternative economic paradigm, all of which should be taken in the praxis of applying Ṣukūk as a panacea to the future challenges of Islamic finance and economy. The waqf-based Ṣukūk, Qardh Hasan Ṣukūk, and Subsidy Ṣukūk models would be relevant for such a development.

5. Ṣukūk long-term issuance: This is another important and emerging area for Ṣukūk development in the global market. Casey (2012) suggests that the lack of long-term Ṣukūk issuance is a global challenge. Moreover, the global bond market has recently witnessed the issuance of 100-year bonds in Belgium, Mexico, Argentina, Austria, etc. In fact, Consols a perpetual bond can go up to 270 years as used by Britain and the United States (Osbon 2019). The Longevity Ṣukūk suggested in the book (ISRA, 2017, pp. 652-654) for individual investors may be relevant for the sustainability of financial institutions, corporate entities, and public sectors. This will also pave the way for the establishment of global Islamic financial institutions to further meet such sustainable development of the Islamic finance industry in the development of its products and services.

In conclusion, this book is an interesting read for all, which promises to open a new dawn in the knowledge and practice of Ṣukūk and even in the development of Islamic economics and finance in general. There is no doubt that the team of researchers who contributed to this book deserves commendation. One can be sure that the contributors will be ready to make frequent revisions and updates at strategic intervals, incorporating readers' suggestions and updating it with new developments in the global Ṣukūk market in order to keep it relevant to the global readership.

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الصكوك: المبادئ والتطبيقات

بيبي سلمى سيرلّي، مرجان عبد الله

الأكاديمية العالمية للبحوث الشرعية في المالية الإسلامية، كوالالمبور، ٢٠١٨ م، ص 696

مراجعة: بيلّو ثاني يهوذا

طالب دكتوراه، قسم الفقه وأصول الفقه، الجامعة الإسلامية العالمية، ماليزيا

الملخّص: تُمثل الصكوك بوصفها أداة مهمة في تطوير الصناعة المالية الإسلامية أهمية خاصة، حيث تمنح الفُرص الجيدة لتطبيق مبادئ وأحكام الشريعة في ثوب جديد. فالصكوك بطبيعتها متنوعة ومتعددة المراحل، بداية من مرحلة الاكتتاب وانتهاءً بمرحلة الإطفاء، لذلك فهي بحاجة إلى معالجات سريعة، وعناية خاصة، وإفرادها بمؤلف خاص يعد إضافة نوعية تساهم في إثراء أدبيات التمويل الإسلامي. يمثل الكتاب: "الصكوك: المبادئ وتطبيقات" الذي بين أيدينا إصداراً فريدًا من نوعه، وله أهمية خاصة كونه يتعرض لأداة تمويلية لها نسبة مقدرة في صناعة التمويل الإسلامي داخل الدول الإسلامية وخارجها. هناك كثير من الكتابات حول الصكوك مبثوثة في أوعية النشر المختلفة، فتجدها تارة فصل في كتاب، أو مقالة منشورة في مجلة، أو فصل في كتاب تدريسي أو في غير تلك الأنماط، كما يتم تناولها ضمن موضوعات مختلفة، فتارة تطرح ضمن موضوعات الاقتصاد الإسلامي، وأخرى تكون ضمن موضوعات التمويل الإسلامي، وثالثة تطرح ضمن موضوعات الأسواق المالية.. الخ. لذلك ما يميز هذا الكتاب جمعها في مكان واحد، وتناولها من مختلف الزوايا، ودقته في طرحها وتلخيصه لميزاتها، وتعرضه لهيكليتها، وتأصيلها من الناحية الشرعية. ومن ميزاته أيضًا تتبّعه لنشأة الصكوك والتطورات التي مرت بها عبر التاريخ، وعمل المقارنات بين تطبيقاتها قديمًا وحديثًا في مختلف دول العالم. وإفراده حيزًا حول تأصيلها الشرعي، باستعراضه للفتاوى والقرارات المجمعية، علاوة على ذلك تناول الأطر القانونية والأنظمة الضريبية لها، وفي الختام تعرض الكتاب للقضايا المستجدة حول الصكوك والآفاق المستقبلية لها. ومع تقرير ما سبق فإن الكتاب كغيره من الجهد البشري يحتاج إلى مراجعة وتقييم للوقوف على نقاط قوته ونقاط ضعفه بغرض التجويد والتحسين في الطبعات القادمة، وهذا ما سعت إليه هذه المراجعة.

الكلمات الدالة: الصكوك، المبادئ والتطبيقات، التمويل الإسلامي، إطفاء الصكوك، الأكاديمية العالمية للبحوث الشرعية في المالية الإسلامية.

تصنيف JEL: P430, P40

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المحتويات

(العدد باللغة الإنجليزية)

أخلاقيات مجلة جامعة الملك عبدالعزيز: الاقتصاد الإسلامي

تلتزم مجلة جامعة الملك عبدالعزيز: الاقتصاد الإسلامي بأعلى المعايير الأخلاقية في النشر العلمي والمراجعة والتحكيم، ومن ثَمَّ فإن جميع من له صلة بعمل المجلة بأي وجه كان؛ مؤلفًا، أو مراجعًا، أو محررًا عليه أن يلتزم بمعايير المجلة المهنية والأخلاقية. ومن المعايير المهمة في هذا الشأن خضوع جميع الأعمال العلمية التي تُقدم للمجلة للتحكيم العلمي الذي تراعى فيه السرية التامة؛ من حذفٍ لأسماء المؤلفين والمراجعين في آن واحد. كما تخضع تلك الأعمال للمراجعة الدقيقة من هيئة التحرير قبل نشرها إلكترونيًا وورقيًا.

يؤكد كل باحث و/أو الباحثون صراحة أن تقديم أي عمل علمي للمجلة يُلبي أَعْلى المعايير الأخلاقية بما في ذلك البيانات الإحصائية المناسبة والمراجعة الأخلاقية الشاملة من الجهة لمالكة لتلك البيانات. كما يُطلب من الباحثين (المؤلفين) التأكد من أنهم قدموا أعمالاً علمية أصيلة ورصينة، وأنهم يشيرون في حالة الاقتباس للمواضع المقتبسة وبالطريقة العلمية المناسبة التي تنسب الأفكار والكلمات لأصحابها. علاوة على التأكيد بأن يضمن المقدمون للأعمال العلمية للمجلة خُلوها من أي مُكون يمكن تفسيره على أن فيه تشهيرًا أو انتهاكًا - بأي شكل من الأشكال- لحقوق الطبع والنشر لطرف آخر. إضافة إلى ذلك يُطلب من المؤلفين التعهد بأن الأعمال التي تم تقديمها للمجلة لم تُنشر من قبل و/أو تَمَّ تقديمها للنشر في مكان آخر وبأي شكل من الأشكال؛ إلكترونيًا كان أم ورقيًا.

تضمن المجلة من خلال عملية التحرير أن تحتوي الأعمال العلمية المقدمة للنشر على تفاصيل ومراجع كافية تمكن الآخرين من التحقق من العمل إذا كان مطلوبًا. وفي المقابل تلتزم هيئة تحرير المجلة بالمعايير الأخلاقية من خلال الامتثال لسياستها التحريرية؛ ومن ذلك الصرامة الشديدة حيال مسألة الانتحال والسرقات العلمية بأي شكل من الأشكال. وفي هذا الصدد تؤكد الهيئة بأن المجلة تتبع سياسة عدم التسامح المطلق مع أي عمل علمي يُكتشف فيه عمليات الانتحال والسرقات العلمية. ومن السياسات الإجرائية المتبعة في هذا الإطار إخطار المؤلفين عبر تحذير مكتوب للذين يلجؤون إلى مثل هذه الممارسات إما بخطاب شديد اللهجة و/أو يتم إدراج أسمائهم في "القائمة السوداء". إن اللجأ لهذا الإجراء أو ذاك أو لكليهما يتوقف على درجة سوء السلوك المُرتكب، والذي يَرجع التقدير النهائي فيه لهيئة تحرير المجلة.

كما وتضمن هيئة التحرير وبأقصى ما تملك من إمكانات أن تتسم المراجعة العلمية والتحرير للأعمال العلمية المُقَدَّمة للنشر بالعدل والسرية والشفافية غير المتحيزة للعرق أو الجنس، أو الجهة أو الدِّين. من أجل ذلك يُطلب من جميع المحررين والمراجعين للأعمال التي تُسند إليهم مسألة ضمان عدم وجود تضارب في المصالح ناتج عن علاقات و/أو اتصالات تنافسية أو ارتباطات بأي شكل كان مع أي من المؤلفين أو الشركات أو المؤسسات المرتبطة بالأوراق العلمية التي أُرسلت إليهم. كما ويبذل محررو المجلة قُصارى جهدهم للتأكد من أن جميع المواد المنشورة دقيقة وكاملة وخالية من جميع الأخطاء في وذلك في حدود الإمكانات المتاحة لهم، وفي حدود الجهد البشري المتسم بالقصور بطبيعة الحال. ومع ذلك، فإن هيئة التحرير ستقوم بالتصحيح، والتصويب لأي عمل تم نشره، وظهرت فيه أخطاء فادحة تحتاج إلى التعديل. ولدى الهيئة سياسات وإجراءات واضحة في هذا الصدد. وكما أُشير سابقًا فإن الهيئة تتبع سياسات صارمة غير متسامحة مع حالات سوء السلوك المكتشفة؛ سواء تعلق الأمر بالمؤلفين أو المراجعين أو المحررين.

ومن أجل دعم وتعزيز النزاهة والشفافية للنشر العلمي بالمجلة فإن هيئة تحرير المجلة تتبنى وبشكل كامل مضمون ومحتوى بيان الموقف للمحررين والمؤلفين الذي تم تطويره في المؤتمر العالمي الثاني حول نزاهة البحث المُنعقد في سنغافورة في ٢٢ سبتمبر ٢٠١٠م، والمتاح على الرابط التالي: https://wcrif.org/statement.

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تفخر "**مجلة جامعة الملك عبدالعزيز: الاقتصاد الإسلامي**" بأنها أول مجلة علمية محكمة متخصصة في الاقتصاد الإسلامي، حيث صدر عددها الأول في عام ١٤٠٣هـ (١٩٨٣م) بمسمى "**مجلة أبحاث الاقتصاد الإسلامي**"، الذي تغير في عام ١٤٠٩هـ (١٩٨٩م)، إلى "**مجلة جامعة الملك عبدالعزيز: الاقتصاد الإسلامي**" وفق تنظيم جديد للمجلات العلمية التي تصدرها الجامعة. وهي تصدر بانتظام مرتين في العام؛ باللغتين العربية والإنجليزية. وتقديرًا لتميزها أُدرِجت المجلة في عام ١٤٣٠هـ (٢٠٠٩م) في تصنيف "سكُوبَس – Scopus"؛ الذي يعد واحدًا من التصنيفات العالمية المرموقة في فهرسة المجلات العلمية المتميزة. وفي عام ١٤٣٥هـ (٢٠١٤م)، رأت هيئة تحرير المجلة أن تنشر ثلاثة أعداد في السنة؛ عددين باللغة الإنجليزية، وعددًا واحدًا باللغة العربية. تتناول المجلة موضوعات متعددة ومتنوعة في الاقتصاد والتمويل الإسلامي من الناحية النظرية والتطبيقية، وتولي عناية خاصة لدراسة المستجدات الاقتصادية؛ عبر حوارات يشارك فيها خبراء ومتخصصون – مسلمون وغيرهم-، مما يجعلها واحدةً من القنوات المهمة للنشر العلمي في الاقتصاد الإسلامي والموضوعات ذات الصلة.

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لمعهد الاقتصاد الإسلامي تاريخ حافل بالعطاء منذ أن ظهر للوجود في عام ١٤٣٢هـ (٢٠١١م) كامتداد لأقدم مؤسسة علمية متخصصة في الاقتصاد الإسلامي؛ ألا وهي **مركز أبحاث الاقتصاد الإسلامي**، الذي أُنشئ عام ١٣٩٧هـ (١٩٧٧م). فوفّر إنشاؤه بنية أساسية متينة للبحوث النظرية والتطبيقية في الاقتصاد والتمويل الإسلامي. وفتح هذا التحول المجال للتدريس والتدريب، إلى جانب البحث العلمي الذي يشكل النشاط الأصلي للمؤسسة. ويحاول المعهد تهيئة بيئة ملائمة يستطيع من خلالها أجيال العلماء والخبراء المتعاقبين من خدمة الجوانب المختلفة للاقتصاد والتمويل الإسلامي. تحقيقًا لهذه الغاية النبيلة، يتعاون المعهد مع العديد من المؤسسات الأكاديمية في مختلف أنحاء العالم، ويُسَخِّرُ موارده المختلفة لهذه الغاية. وقد اتخذت أشكال هذا التعاون صورًا متعددة منها اتفاقيات تعاون مع كيانات عالمية مرموقة، كما هو الحال مع جامعة "IE" الإسبانية بمدريد، وجامعة باريس١ بانتيون السوربون.

بسم الله الرحمن الرحيم