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Editor-in-Chief

Professor Dr Hanudin Amin, SPDM, COFSA, CIB



PREFACE

PREFACE

Volume 19 Number 1 (2025)

It is with great pleasure that we present Volume 19 Number 1 (2025) of the *Labuan E-Journal of Muamalat and Society (LJMS)*. This volume comprises a rich selection of scholarly contributions that reflect the dynamic and interdisciplinary nature of *muamalat* and its interface with contemporary societal and economic issues.

The eleven articles featured in this issue explore a wide spectrum of themes relevant to Islamic finance, socio-economic development, policy analysis, and *waqf* management. These contributions are drawn from diverse geographical contexts, including Afghanistan, Nigeria, Uganda, Malaysia, and Palestine, underscoring the global reach and relevance of research in this field.

We begin with an empirical investigation into the influence of service quality on customer satisfaction in Afghanistan's telecommunications sector. This is followed by a historical and legal review of *waqf* management in Nigeria, highlighting beneficiary rights and colonial legacies. Another article systematically analyses *muamalat* features for sustainable development in Uganda, reflecting the growing importance of Islamic finance in Africa.

Two key papers address liquidity issues in *waqf* institutions and the adoption of digital payments among *Ar-Rahnu* customers in Malaysia, both offering practical models and insights. Meanwhile, the impact of political conflict on stock markets, explored through a wavelet-based approach, adds a novel dimension to the journal's interdisciplinary character.

This volume also presents bibliometric trends in Islamic banking and finance research, revealing shifts in scholarly focus over two decades. The role of welfare and government effectiveness in economic growth, the operationalisation of *sadaqa* houses, and determinants of zakat payment intentions among Muslims are explored in detail, providing policy-relevant insights.

We conclude with an in-depth analysis of fiscal policy behaviour in Malaysia, offering both empirical findings and theoretical reflections.

We extend our sincere gratitude to all authors, reviewers, and editorial board members whose contributions and dedication have made this issue possible. It is our hope that the articles in this volume will stimulate further academic inquiry, inform policy-making, and contribute meaningfully to the advancement of Islamic economic thought and practice.

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AN IN-DEPTH ANALYSIS OF THE INFLUENCE OF SERVICE QUALITY DIMENSIONS ON CUSTOMER SATISFACTION IN THE TELECOMMUNICATION INDUSTRY: EMPIRICAL EVIDENCE FROM SOUTHWESTERN AFGHANISTAN

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ABSTRACT

The goal of this research is to examine the complex relationship between customer satisfaction and service quality parameters in the telecommunications industry in the southwest region of Afghanistan. We examined the impact of service quality dimensions, such as those specified by the SERVQUAL model, in addition to essential factor network quality, on customer satisfaction utilising a methodological approach based on primary data collection employing a convenience sampling technique. This study looks for underlying trends and relationships between the dependent variable, customer satisfaction, and all six independent service quality aspects. Cochran's formula was used to collect data from 271 respondents using questionnaires. The relationship between many factors of service quality and their impact on customer satisfaction is demonstrated by our research. Responsiveness, network quality, and dependability are essential when assessing client satisfaction. Nevertheless, results manifested that assurance and tangibility are insignificant in determining customer satisfaction. Our research accentuates how exponentially quickly these businesses should address and improve these aspects of service quality to satisfy changing consumer expectations and promote long-term success in the southwestern zone of Afghanistan.

KEYWORDS: SERVQUAL MODEL, SERVICE QUALITY, SATISFACTION, TELECOMMUNICATION, AFGHANISTAN

ABSTRAK

Kajian ini bertujuan untuk mengenal pasti hubungan rumit antara kepuasan pelanggan dan dimensi kualiti perkhidmatan dalam sektor telekomunikasi di zon barat daya Afghanistan. Menggunakan pendekatan metodologi berdasarkan pengumpulan data primer melalui teknik persampelan kemudahan, kami menguji pengaruh dimensi kualiti perkhidmatan, termasuk elemen penting kualiti rangkaian, terhadap kepuasan pelanggan. Sebanyak 271 soal selidik diedarkan kepada responden menggunakan formula Cochran. Hasil kajian menunjukkan hubungan yang jelas antara pelbagai aspek kualiti perkhidmatan dan kesannya terhadap kepuasan pelanggan. Analisis regresi daripada model persamaan struktur menunjukkan bahawa

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empati adalah faktor utama, diikuti oleh kebolehppercayaan, kualiti rangkaian, dan responsif dalam menentukan kepuasan pelanggan. Walau bagaimanapun, keputusan menunjukkan bahawa jaminan dan kebendaan tidak signifikan dalam menentukan kepuasan pelanggan. Kajian kami menekankan keperluan mendesak bagi perniagaan untuk meningkatkan aspek kualiti perkhidmatan ini demi memenuhi harapan pengguna yang sentiasa berubah dan menyokong kejayaan jangka panjang di zon barat daya Afghanistan.

KATA KUNCI: MODEL SERVQUAL, KUALITI PERKHIDMATAN, KEPUASAN, TELEKOMUNIKASI, AFGHANISTAN

1. INTRODUCTION

Telecommunication has transformed the way we communicate, connect and share information throughout the cosmos, advancing the standard of life and economies in a standard manner. According to Albarq (2024) Technological Advancement in the phenomena like the internet, mobile communication and multimedia has greatly reduced time and distance across the world. Afghanistan has experienced decades of war, which has destroyed the fundamentals of the telecommunication sector (Azizi, 2022). However, after decades of war, the telecom sector was rejuvenated during the tenure of President Karzai, who implemented a regulatory structure for the sector in July 2002 (Khan & Meel, 2019) and delivered the first contract to a private telecommunication corporation in the same year (Azizi, 2022). Today, it is estimated that about 200,000 individuals have been indirectly engaged in work in the telecommunication and information technology sector (MCIT, 2020), therefore providing huge employment opportunities in the country. According to Sharif (2018), the telecommunication sector has a significant positive relationship with the economic growth of Afghanistan and this sector helps in diminishing the economic gap between developed countries and Afghanistan.

Afghanistan's telecommunication sector contains four private operator companies (AWCC, Roshan, MTN, Etisalat) and one public operator company (Salam). According to the report of the Afghanistan telecom regulatory authority; in the last quartile of 2023 MTN had 6.2 million active subscribers, AWCC 4.9 million, Roshan 4.6 million, Etisalat 4.6 million and Salam had 2.2 million active subscribers (ATRA, 2023). In such a competitive market customers have many options and can easily switch on from one company to another one. Therefore, according to Al-Hashedi and Akbar (2017) in such a market, operators should work to identify factors which enhance the magnetism and holding of customers. According to (Shrestha & Bahadur Ale, 2020) customer satisfaction is accepted as a key tool for the survival of telecommunication operators in the market and these operators should concentrate on those aspects of their activities which cover the expectations of customers. According to Abd-Elrahman *et al.* (2020), service quality is considered a key factor for enhancing customer satisfaction and therefore attracts researchers' attention.

Despite the increasing importance of telecom services in southwestern zone of Afghanistan, there is a lack of comprehensive understanding of the factors affecting the quality of services in this sector. This gap has become a major obstacle for the improvement of the telecom sector and infrastructure and plays a role of a barrier for providing reliable telecommunication services, socio-economic development and connectivity.

In this context, we would like to examine the factors that affect the quality of services in the telecommunications sector in the southwestern zone of Afghanistan. With the analysis of these influencing factors such as network quality, empathy, assurance, reliability, responsiveness and tangibility, this study aims to give sector stakeholders useful information to improve service quality, support digital distribution, and foster socioeconomic growth in the area.

2. LITERATURE REVIEW

Service Quality

Contingent on the particular situation and the standard taken into evaluation, there are different explanations of service quality (Lekobane & Selelo, 2017). Usually, the disparity between what customers perceive and expect from a service is referred to as service quality (Vu *et al.*, 2021). Thus, the level to which a service satisfies the requirements or expectations of customers is referred to as service quality. There are many models accessible for evaluating service quality, two of the most well-known, SERVPERF and SERVQUAL, are used in marketing literature (Shi and Shang, 2020). Initially introduced in 1985, the SERVQUAL model was formulated by Leonard Berry, Valarie Zeithaml, and A. Parasuraman (Parasuraman *et al.*, 1985) while the SERVPERF model initially introduced in 1992 was formulated by J. Joseph Cronin Jr. and Steven A. Taylor (Cronin & Taylor, 1992). According to Wang *et al.* (2015), the SERVQUAL model is based on the difference between expectations and customer perception. However, the SERVPERF model is based on merely customer perception and this model does not take customers' satisfaction into account.

Dimensions and Measurement of Service Quality

The literature has suggested several factors for evaluating the quality of services. Numerous models for assessing service quality have been identified by earlier scholars worldwide. However, the following dimensions make up the Parasuraman SERVQUAL instrument:

- Tangibility
- Reliability
- Responsiveness
- Assurance
- Empathy

Tangibility

This dimension is used to measure the external characteristics and physical appearance of employees. Buildings, supplies, equipment, company personnel and communication materials all have a physical look. The physical surroundings provide tangible evidence of the service provider's attention to detail and concern (Fitzsimmons & Fitzsimmons, 2001). According to Sevilla and Ellaga (2020), tangibility is concrete evidence of the service. The appearance and external characteristics of employees are assessed. Tangibility includes the appearance of company people, buildings, goods, equipment, and correspondence. People view the physical surroundings as concrete proof of the service provider's concern and attention to detail (Fitzsimmons & Fitzsimmons, 2001).

Reliability

It evaluates a worker's capacity to provide accurate and consistent services. The significance of dependability and consistency are found in the efficiency of persons, goods, and service facilities. This includes the ability to meet client commitments and provide services on time. According to Fitzsimmons and Fitzsimmons (2001), reliability is the ability to provide the promised service reliably and correctly with no errors. According to another researcher Customers may lose faith in the service's dependability and choose to use alternative service providers if it is not consistently dependable (Shrestha & Bahadur Ale, 2020). Furthermore, according to another researcher, reliability in telecom services is based on three main factors: accessibility (availability of service whenever needed), continuity (consistent availability), and performance, with accessibility being the most crucial for ensuring customers can use services like calling and signal access whenever desired (Arslan *et al.*, 2014). Finally, a researcher explains that dependability is the capacity to provide the promised service in a consistent and precise manner (Surin *et al.*, 2024).

Responsiveness

This dimension assesses how eager employees are to help customers and how quickly they can do so. This figure assesses how enthusiastic and prompt staff members are to assist clients. According to Johnston (1997), the promptness and timeliness of service delivery is known as responsiveness. This includes the service provider's throughput speed and responsiveness to customer support inquiries, resulting in the least amount of waiting and queue time. When a consumer is kept waiting for no obvious reason, it can be annoying. Fitzsimmons and Fitzsimmons (2001), believe it generates needless unfavorable impressions of quality. In contrast, the bank's ability to swiftly rebound and demonstrate professionalism when service fails can generate extremely favourable views. Additionally, a researcher holds that responsiveness is the willingness of a firm's staff to actively assist customers and deliver services swiftly, ensuring customer needs are met in a timely and efficient manner (Parasuraman *et al.*, 1988). Finally, another researcher suggests that responsiveness is a firm's readiness to support its customers by offering quick and effective assistance whenever needed (Ozoh, 2023).

Assurance

It measures an employee's knowledge, competence, trustworthiness, and politeness. Competence in providing The assurance dimension includes aspects such as service, courtesy, respect for the client, good communication, and a general mindset that the server is looking out for the client's best interests (Fitzsimmons & Fitzsimmons, 2001). Assurance is the expertise, professionalism, and courteous demeanour of employees that foster a sense of trust and confidence in customers (Drew & Karwan, 1994). According to Rahhal (2015) assurance includes several key characteristics necessary for excellent service quality in telephone companies. These include the ability to inspire customer confidence, timely follow-up on service requests, and a courteous, friendly manner. Additionally, employees are knowledgeable and capable of addressing customer queries, making customers feel safe in their interactions and transactions with top-tier telephone companies. Furthermore, another researcher states that assurance encompasses employees' expertise and courteousness, along with their ability to inspire trust and confidence through competence, credibility, and a sense of security (Surin *et al.*, 2024).

Empathy

This dimension assesses how attentive workers are to their clients on a one-on-one basis (Johnston, 1997). Similarly, empathy is the capacity to make a client feel welcome, especially by contact personnel. Empathy, as described by (Rahhal, 2015), encompasses several key characteristics essential for excellent service in telephone companies. These include providing each customer with individualised attention, in which staff members engage with them and make sure they all feel appreciated. Furthermore, empathy entails putting the needs of clients first and being aware of their unique requirements. By giving clients a sense of genuine support and understanding, this customer-centred approach increases satisfaction and fosters trust. According to a different study, empathy is the capacity of a service provider to provide focused, compassionate, and tailored support to each customer (Drew & Karwan, 1994). Furthermore, another researcher goes on to say that providing thoughtful, tailored support and care to meet each customer's unique needs is known as empathy.

Customer Satisfaction

In the current competitive environment, a business must both attract new customers and satisfy existing ones to preserve and even increase market share. However, the concept must be understood before exploring the essence of customer satisfaction. According to Gegeckaite (2011), if a service meets the customers' expectations, the customer will be pleased; if the service surpasses expectations, the customer will be delighted. However, the customer will be dissatisfied and will probably abandon the business if the service does not live up to their expectations. Every customer has varied expectations for the services they receive, thus the business should look at many different aspects of service quality to satisfy as many customers as possible. Dutta *et al.* (2017) describe customer satisfaction as the process of evaluating the discrepancy between performance and expectations. Positive client feedback is a sign of customer

satisfaction (Wibowo, 2015). Customer satisfaction has recently been shown to be a leading indicator of a company's performance; as a result, businesses have been attempting to comprehend consumers' wants to provide services that meet their needs and increase corporate profitability.

Besides, academics have examined the connection between consumer happiness and the quality of banking services in several publications. According to Gegeckaite (2011), the factors of consumer satisfaction can differ by sectors because each industry has unique characteristics and customer expectations.

Customer Satisfaction with Service Quality

Distinguished studies have found a relationship between customer satisfaction and the quality of banking industry services. According to Kheng *et al.* (1999), if the quality of banking services is enhanced, customers will be satisfied. Furthermore, Lukman *et al.* (2021), verified the previously stated connection and noted that it changes depending on location, concluding that the relationship is strongly positively associated in New Zealand." Alongside the banking sector, the relationship between service quality and customer satisfaction has been searched by various researchers in different sectors of various countries and regions. Service quality has had a major contribution to customers' satisfaction in the mobile phone industry of UAE (Masoud, 2020). Another researcher states that it is found that customer satisfaction in fast food restaurants of Jabodetabek has been affected by the service quality of the restaurants and thus the better customers receive the quality of service, the higher the level of customer satisfaction will be (Kristiawan & Suharjo, 2021). Finally, a researcher states that there is a clear relationship between service quality dimensions and customer satisfaction in the CJCUC library, indicating that improvements in service quality could enhance user satisfaction (Wang & Shieh, 2006).

The most widely used models (SERVQUAL or SERVPERF) for assessing service quality in the telecom sector are presented in Table 1.

TABLE 1: TELECOMMUNICATION INDUSTRY SERVICE QUALITY MODEL

No.	Author and year	Model used	Key findings
1	(Thapa & Yogi, 2024)	They measured the effect of service quality on customer satisfaction in Nepal's cellular phone business using the SERVPERF model.	According to the empirical findings, customer happiness and all five aspects of service quality were positively and significantly correlated.
2	(Shava, 2021)	Used SERVQUAL model to measure service quality in South Africa's mobile network telecommunication industry	The researcher states considering his results that the model is significantly better at predicting customer satisfaction.
3	(Hashem <i>et al.</i> , 2017)	employed the SERVPERF model to measure the impact of service quality on customer satisfaction in the Jordanian telecommunication industry.	Customers have positive attitudes towards the service quality level of companies as measured by the five dimensions of the SERVPERF scale.
4	(Surin <i>et al.</i> , 2024)	They have used SERVQUAL model to manifest nature of the relationship between service quality and customer satisfaction among mobile users of Malaysia.	Customer satisfaction has significant relationships with reliability and responsiveness, while it is not significantly related to tangibility, assurance and empathy.

5	(Shrestha, 2021)	They have utilised the SERVQUAL model to assess the impact of service quality dimensions on customer satisfaction and loyalty of NTC customers (Nepal).	According to the result of the research service quality dimensions explain nearly 75 per cent of customer satisfaction.
6	(Kumar, 2020)	They have make use of SERVQUAL model for measuring service quality to assess its impact on customer loyalty and evaluating the mediating rule of customer satisfaction in this relationship in Indian telecom industry.	Reliability and empathy has positive relationship with customer satisfaction. However, assurance, responsiveness and tangibility are insignificant in determining customer satisfaction.

Source: Table by Authors

This study used the SERVQUAL model because it has a Resilient and Well-Articulated Framework and has been cherished by researchers (Carman, 1990; Jonkisz *et al.*, 2021; Sibai *et al.*, 2021) for the same reason. However, some researchers have incorporated additional facets of service quality that can influence customer satisfaction besides the conventional SERVQUAL/SERVPERF dimensions. Table 2 displays most additional dimensions which were used to measure service quality as well in mobile telecommunication industry. According to (Al-Hashedi & Abkar, 2017) Network quality has been a widely used dimension in research papers. Therefore, we used network quality as a technical dimension and its influence on customer satisfaction was examined.

TABLE 2: DIMENSIONS OF SERVICE QUALITY

Author and year	Dimensions	Frequency
(Santouridis & Trivellas, 2010; Rahhal, 2015; Mfonte Colette, 2018; Masoud, 2020)	Network Quality	4
(Kim <i>et al.</i> , 2004; Rahhal, 2015)	Convenience	2
(Kim <i>et al.</i> , 2004; Santouridis & Trivellas, 2010)	Pricing structure	2
(Lu <i>et al.</i> , 2009; Zhao <i>et al.</i> , 2012)	Environment quality	2

Source: Table by Authors

This leads to the following hypotheses (based on the SERVQUAL model):

H₁: Customer satisfaction and service responsiveness in the telecom sector are significantly positively correlated;

H₂: Customer satisfaction and service dependability have a strong positive correlation in the telecom sector;

H₃: Customer happiness and service assurance are significantly positively correlated in the telecom sector;

H₄: Customer satisfaction in the telecom sector is significantly positively correlated with service tangibility;

H₅: Customer satisfaction and service empathy are significantly positively correlated in the telecom sector; and

H₆: In the telecommunications sector, network quality and customer happiness have a strong positive correlation.

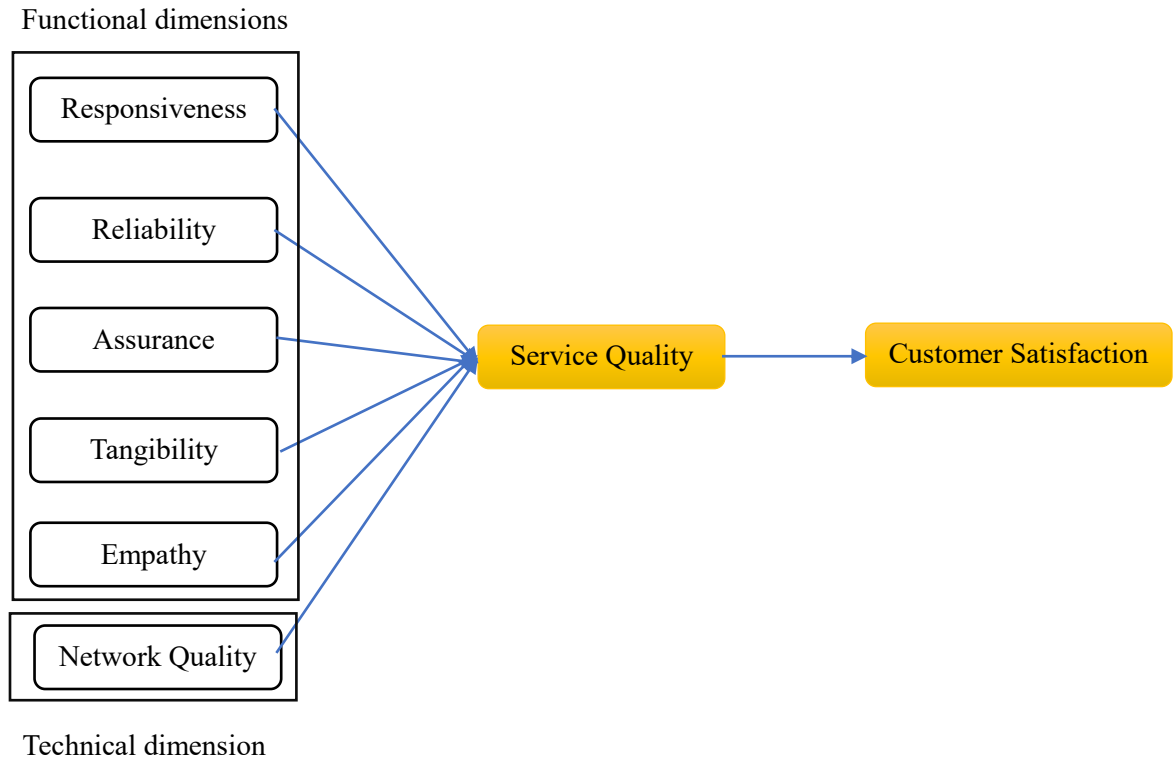


FIGURE 1: CONCEPTUAL FRAMEWORK

Source: Figure by Authors

3. RESEARCH METHODOLOGY

As service quality theory is examined in the telecommunication sector of the southwestern zone of Afghanistan, the study utilizes a deductive approach. According to Pandey (2019), the deductive approach includes beginning with a general theory or hypothesis and then performing research on a specific region to test a particular forecast originating from that theory. This study is based on quantitative research and the nature of this study is exploratory. According to Harrison and Reilly (2011), exploratory research design is a preliminary investigation method used to explore and understand a topic or phenomenon with unclear variables or relationships. The study concentrated on the residents who live inside the boundaries of the southwestern zone of Afghanistan containing six provinces such as Kandahar; Helmand; Uruzgan; Farah; Nemroz and Zabul. Owing to the lack of a comprehensive population frame of this zone and due to the unavailability of information on the number of active subscribers for each telecommunication company for this zone, the authors of this study utilized the convenience sampling technique as the best tool for collecting data from the sample as representative of the entire population. The convenience sampling technique is best known because it is expeditiously quick, economically beneficial, and easily obtainable, facilitating researchers to gather participants who are readily present (Sekaran & Bougie, 2016).

Based on Cochran's (1963) formula, 271 questionnaires were distributed to respondents through online and field surveys. 270 questionnaires were returned from respondents while one questionnaire was not returned.

$$n_0 = \frac{Z^2 pq}{e^2} = \frac{(1,645)^2 (0,5)(0,5)}{0,05^2} = \frac{(2,706)(0,25)}{0,0025} = 271$$

The 5-scale Likert scale was used for all categories, with 1 denoting strongly disagree and 5 denoting strongly agree. The questionnaire was taken from (Parasuraman *et al.*, 1988; Negi, 2009; Rahhal, 2015; Surin *et al.*, 2024).

4. RESEARCH FINDINGS

Respondents Demographic Profile

In the descriptive analysis, male respondents comprised 84.4% while females made up 18.6%. The age groups were 80.7% (18-25), 12.2% (26-35), 4.1% (36-45) and 3.0% respondents were above 45 years. In this survey 43.3% of respondents held high school graduation certificates, 51.1% had bachelor's degrees, 4.1% had master's degrees, and 1.5% were PhD holders. Among the respondents 28.5% were associated with AWCC Telecommunication company, 19.3% respondents were attached with SALAM, 16.3% respondents were allied with ROSHAN, 13.0% respondents were associated with ETISALAT and 23.0% respondents were connected with MTN Telecommunication company. The respondents' demographic data is displayed in Table 3.

TABLE 3: DATA ON DEMOGRAPHY

Description	Frequency	Percentage (%)
Age group		
18 – 25	218	80.7
26 – 35	33	12.2
36 – 45	11	4.1
46 – upper	8	3.0
Gender		
Male	228	84.4
Female	42	15.6
Education level		
High school graduated	117	43.3
Bachelor	138	51.1
Master	11	4.1
PhD	4	1.5
Maternal status		
Single	202	74.8
Married	68	25.2
Service provider		
AWCC	77	28.5
SALAM	52	19.3
ROSHAN	44	16.3
ETISALAT	35	13.0
MTN	62	23.0

Source: Table by Authors

Reliability Test

According to (Kennedy, 2022) reliability manifests the extent to which the same results are acquired when measurement is again and again repeated under consistent circumstances. The scale's internal consistency is assessed using the Cronbach's alpha test. Every variable in this study's data has Cronbach's alpha values that are higher than the generally accepted value suggested by (Nunnally, 1978). Those reliability values for all variables are shown in Table 4 in which tangibility is (0.818), empathy (0.703), Network Quality (0.765), Reliability (0.758), Responsiveness (0.755), assurance (0.731), and customer satisfaction (0.955). Therefore, all variables are internally consistent and are valid for further analysis.

TABLE 4: RELIABILITY TEST

Variables	No. of items	Cronbach's Alpha
Tangibility	3	0.818
Network Quality	6	0.765
Reliability	3	0.758
Responsiveness	4	0.755
Assurance	3	0.731
Empathy	3	0.703
Customer Satisfaction	3	0.955

Source: Table by Authors

Normality Test

To test the normality of the data skewness and kurtosis will be used. According to Hatem *et al.* (2022), skewness and kurtosis are widely used techniques for measuring the normality of the data. For a normal distribution, According to Hair *et al.* (2015), the skewness value must fall within ± 3.00 and ± 5.00 standard errors of skewness and kurtosis, respectively. The kurtosis was (-0.264), and the skewness for assurance was (-0.860). Empathy's kurtosis was (-1) and its skewness was (0.321). Tangibility's skewness statistics were (-0.228), and its kurtosis was (-1.315). According to reliability statistics, kurtosis was (-1.265) and skewness was (-0.211). Skewedness and kurtosis values for network quality were - 0.133 and - 1.071, respectively. The kurtosis was (- 0.990) and the skewness for responsiveness was (- 0.392). Lastly, the figures for kurtosis and skewness for customer satisfaction were -1.865 and 0.158, respectively. Thus, data is regularly distributed and suitable for additional analysis based on the information presented here. Kurtosis and skewness are shown in Table 5.

TABLE 5: NORMALITY TEST (SKEWNESS AND KURTOSIS)

Variables	Skewness		Kurtosis	
	Statistics	Standard error	Statistics	Standard error
Assurance	-.860	.148	-.264	.295
Empathy	.321	.148	-1	.295
Tangibility	-.228	.148	-1.315	.295
Reliability	-.211	.148	-1.265	.295
Network Quality	-.133	.148	-1.071	.295
Responsiveness	-.392	.148	-.990	.295
Customer Satisfaction	.158	.148	-1.865	.295

Source: Table by Authors

According to Gan *et al.* (2011), factor analysis is a "multivariate statistical technique whose main aim is to identify a structure within a collection of observed variables." This technique addresses all variables due to their interconnection (William *et al.*, 2010). Additionally, Stewart (1981) states that factor analysis has three functions:

1. To reduce the number of variables while increasing the amount of variable information;
2. When the sample size is big, differentiate between qualitative and quantitative data; and
3. Differentiating elements should be used to evaluate the hypothesis.

The various forms of factor analysis employed in the study are covered in the parts that follow, including factor rotation, reliability standards and factor analysis interpretation.

Types of Factor Analysis

Exploratory factor analysis and confirmatory factor analysis are two methods for extracting components from data (Stewart, 1981). The researcher, however, uses exploratory factor analysis in this study (EFA). There are numerous factor analysis methods, and the best model to choose depends on the study's goals and the amount of variation in the variables. The study employs EFA because the research method is deductive, with the researcher moving from theory to empirical investigation. EFA may be used to investigate factor structure from an observed variable, according to William *et al.* (2010), and EFA is split into two methods: component analysis and standard factor analysis. When a study's variables include some latent variables, standard factor analysis (CFA) is used to uncover a hidden connection, while principal components analysis (PCA) is utilised for both observable and latent variables; thus, it is widely used and accepted (William *et al.*, 2010). The variances or correlations of variables were also accounted for using the same PCA method in this research.

Varimax Rotation

This method is the most popular and often-used rotation criterion was developed by Kaiser in 1958 (William *et al.*, 2010). It maximizes the variance of the squared loadings of a factor (column) on all the variables (rows) in a factor matrix and allows differentiation of the original variables by an extracted factor. The result is typically not up to par as a result. Only a few variables are reflected in each component, and one or a small number of them are connected to the original variable (Gan *et al.*, 2011).

Assessing Factor Analysis Significance

According to Gan *et al.* (2011), factor loading represents the correlation coefficient between factors and variables, while William *et al.* (2010) stated that factor loading is crucial for the interpretation of factor analysis. However, sample size may influence the significance of factor loadings (see Table 6 below).

TABLE 6: FACTOR LOADING AND SAMPLE SIZE

Factor loading	Required sample size for significance
0.30	350
0.35	250
0.40	200
0.45	150
0.50	120
0.55	100
0.60	85
0.65	70
0.70	60
0.75	50

Source: William *et al.* (2010)

EFA (Exploratory Factor Analysis):

The primary goal of EFA is to simplify the data to a concise set of factors based on their robust correlations (Hair *et al.*, 2015). This study used the principle components analysis (PCA) method in the exploratory factor analysis to extract the number of underlying factors or dimensions. In this study, the minimum Kaiser-Meyer-Olkin (KMO) value was 0.862 for the factor of relative advantage and the significance value of Bartlett's Test of Sphericity was 0.000, indicating that the present data is suitable for principal component analysis Table 7. When the results of both (KMO) and (Bartlett's test of Sphericity) are significant, data is considered appropriate for factor analysis regarding sample adequacy (Hair *et al.*, 2015). Factor loading with a value above 0.5 is considered significant (Al-Hashedi & Abkar, 2017). Based on the EFA, all factors had factor loading above (0.5), which meets the requirement. The overall results of EFA indicate that 6 factors comprising 25 items are restricted and will be used for further analysis. The rotated component matrix statistics are shown in Table 8.

TABLE 7: BARTLETT'S AND KMO'S TEST

KMO and Bartlett's Test		
Kaiser Meyer Olkin Measure of Sampling Adequacy		.846
Bartlett Test of Sphericity	Approx. Chi-Square	1943.252
	df	231
	Sig.	.000

Source: Table by Authors

TABLE 8: ROTATED COMPONENT MATRIX

	Component					
	1	2	3	4	5	6
N1	.736					
N2	.662					
N3	.645					
N4	.651					
N5	.661					
N6	.518					
T1		.843				
T2		.837				
T3		.798				
Res1			.541			
Res2			.693			
Res3			.748			
Res4			.756			
A1				.742		
A2				.826		
A3				.715		
E1					.745	
E2					.776	
E3					.735	
Rel1						.779
Rel2						.670
Rel3						.600

Source: Table by Authors

CFA (Confirmatory factor analysis):

CFA evaluates a measurement model's suitability and, in the process, verifies that the model fits the data by looking at four fit indices: chi-square statistic, normed chi-square, root mean square approximation (RMSEA) and comparative fit index (CFI). The reason behind CFA is to evaluate the validity of the suggested factor structure and how well the data fit the model are the two main objectives of CFA (Marsh *et al.*, 2020). For model fit adequacy, general guidelines indicate cut-off values for such indices: Normed Chi-Square and RMSEA should be less than 5 and 0.088 respectively, while CFI values should exceed 0.9 (Byrne, 2010). Figure 2 shows the CFAs results for six constructs (independent variables), namely; assurance, tangibility, network quality, empathy, reliability and responsiveness which are undertaken in this study. In addition, none of the factors had a factor loading less than 0.53 to be able to be excluded from the data. Therefore, the measurement of the structural model exhibited strong satisfactory goodness-of-fit with relative chi-square value CMIN/df of 1.523, CFI 0.943, NFI 0.853, and RMSEA of 0.044, as shown in Table 9. The full structural model summary indicated the existence of absolute fit.

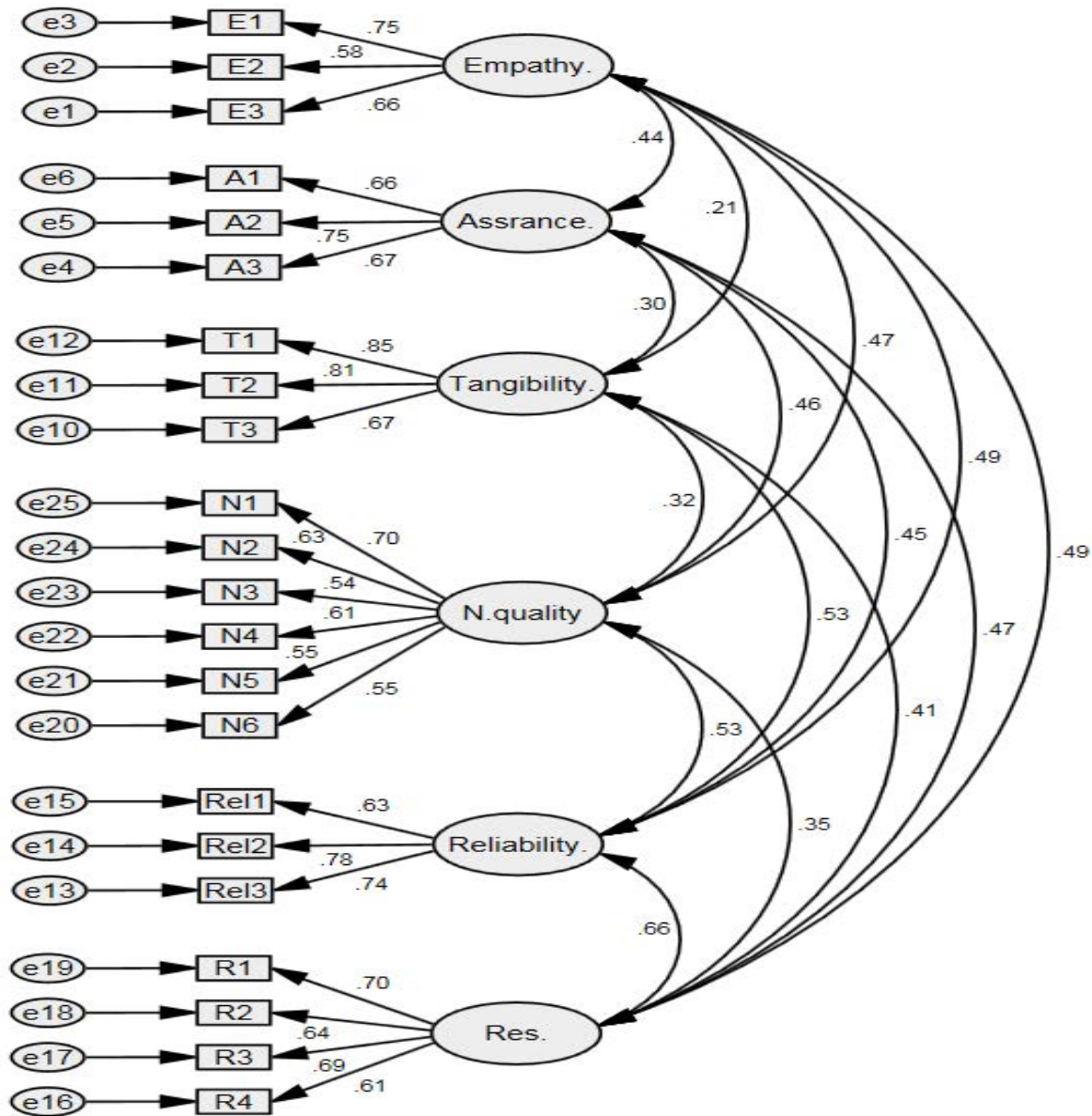


FIGURE 2: MEASUREMENT MODEL ANALYSIS

Source: Figure by Authors

TABLE 9: GOODNESS OF FITNESS OF THE MODEL

Types of measures	Fit index	Acceptable value	Observed value
Absolute fit index	Normed Chi-Squared (CMIN/df)	≤ 3	1.523
To Examine the level of effectiveness of the Model Reproduce Data	RMSEA	≤ 0.08	0.044
Incremental Fit Index	Normed Fit Index (NFI)	≥ 0.9	0.853
Modal Fit to relative Baseline Modal	Modal Comparative Fit Index (CFI)	≥ 0.9	0.943

Source: Table by Authors

The primary feature of tangibility, according to the results of confirmatory factor analysis using structural equation modelling, is being well-groomed and tidy (0.852), whereas the primary dimension of dependability is that services are delivered on time (0.779). Additionally, the primary component of assurance is the amiable conduct of service providers (0.754), and the primary dimension of responsiveness is the ease of access to information about services (0.698). Furthermore, the speed at which data is downloaded from the internet is the primary indicator of network quality (0.701). Lastly, giving each consumer special attention is the primary aspect of empathy (0.753). Table 10 shows that all relevant dimensions have an alpha of 1% on each variable.

TABLE 10: RESULTS OF REGRESSION WEIGHTS

Path	Unstandardized estimates	Standardized estimates	S.E.	C.R.	P
Emp_q3 <--- Empathy	1.000	.655	CP		***
Emp_q2 <--- Empathy	.841	.584	.115	7.292	***
Emp_q1 <--- Empathy	1.161	.753	.144	8.065	***
Ass_a3 <--- Assurance	1.000	.670	CP		***
Ass_q2 <--- Assurance	1.138	.754	.132	8.620	***
Ass_q1 <--- Assurance	.925	.659	.113	8.223	***
Tan_q3 <--- Tangibility	1.000	.670	CP		***
Tan_q2 <--- Tangibility	1.132	.808	.106	10.727	***
Tan_q1 <--- Tangibility	1.280	.852	.118	10.834	***
Rel_q3 <--- Reliability	1.000	.745	CP		***
Rel_q2 <--- Reliability	1.023	.779	.094	10.899	***
Rel_q1 <--- Reliability	.862	.630	.094	9.212	***
Res_q4 <--- Responsiveness	1.000	.605	CP		***
Res_q3 <--- Responsiveness	1.155	.687	.141	8.194	***
Res_q2 <--- Responsiveness	.991	.644	.126	7.870	***
Res_q1 <--- Responsiveness	1.265	.698	.153	8.266	***
N.Q_q6 <--- Network quality	1.000	.548	CP		***
N.Q_q5 <--- Network quality	.834	.546	.126	6.603	***
N.Q_q4 <--- Network quality	.948	.606	.134	7.057	***
N.Q_q3 <--- Network quality	.921	.544	.140	6.586	***
N.Q_q2 <--- Network quality	1.061	.634	.146	7.253	***
N.Q_q1 <--- Network quality	1.202	.701	.157	7.653	***

*** Significant at alpha 1%, S.E.: Standard Error, C.R.: Critical Ratio, CP: Constant Parameter.

Source: Table by Authors

Figure 3 below illustrates how each hidden variable—customer satisfaction and service quality—relates to the others. Overall indices show that this sample fits the model well; its CMIN/DF value is 1.478, its CFI value is 0.957, its RMSEA is 0.042, and its NFI value is 0.879. Confirmatory factor analysis was used in the study to gauge the degree and directness of a linear relationship between two variables. Table 11's correlation analysis shows that the dependent and independent variables have a positive relationship, with empathy and dependability showing the strongest link. All of the independent variable's dimensions also show positive correlations with one another. According to the results of this research, the lowest correlation is usually with reliability, as shown in Table 11.

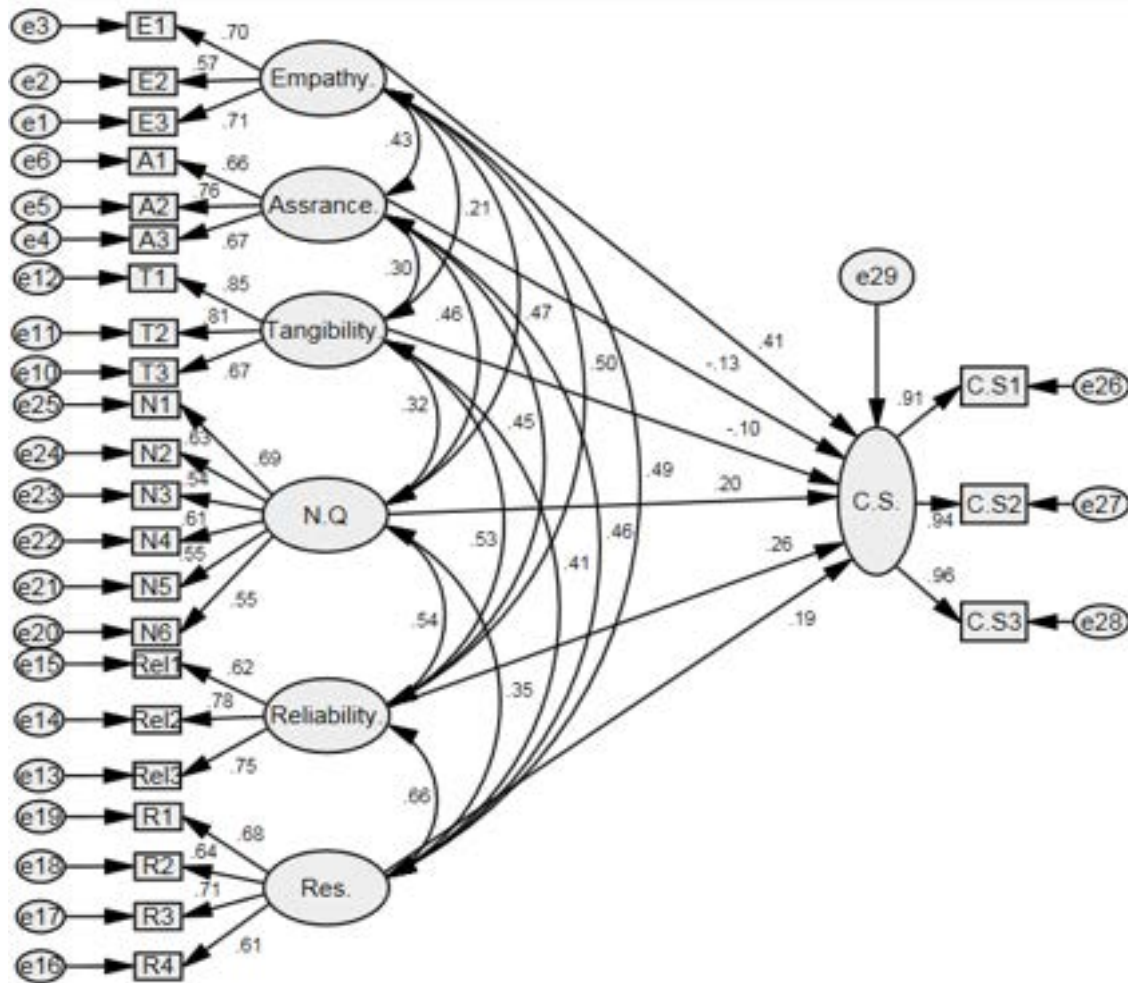


FIGURE 3: FULL BASELINE MODEL ANALYSIS

Source: Figure by Authors

TABLE 11: CORRELATIONS

Variables	C.Satisfaction	N.Quality	Responsiveness	Reliability	Tangibility	Assurance	Empathy
C. Satisfaction	1						
N.Quality	.503	1					
Responsiveness	.527	.353	1				
Reliability	.578	.535	.659	1			
Tangibility	.221	.321	.410	.527	1		
Assurance	.314	.459	.463	.453	.299	1	

Empathy	.646	.471	.491	.496	.210	.433	1
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Source: Table by Authors

TABLE 12: REGRESSION WEIGHTS

Path	Unstandardized estimate	Standardized estimate	S.E.	C.R.	p-value
C.Satisfaction <--- Responsiveness	.321	.189	.159	2.015	0.044
C.Satisfaction <--- Reliability	.346	.257	.143	2.420	0.016
C.Satisfaction <--- Network quality	.333	.198	.135	2.461	0.014
C.Satisfaction <--- Empathy	.532	.409	.113	4.698	***
C.Satisfaction <--- Tangibility	-.152	-.103	.099	-1.538	0.124
C.Satisfaction <--- Assurance	-.203	-.127	.120	-1.689	0.091

Source: Table by Authors

TABLE 13: COMPARING CUSTOMER SATISFACTION FROM COMPANIES (MEAN AND STANDARD DEVIATION)

Service provider	N	Mean	Std. deviation	Minimum	Maximum
AWCC	77	2.5065	1.37714	1.00	5.00
SALAM	52	3.0385	1.49604	1.00	5.00
ETISALAT	35	2.9714	1.48933	1.33	4.67
ROSHAN	44	3.4318	1.35749	1.33	4.67
MTN	62	2.58060n	1.38813	1.00	4.67
Total	270	2.8370	1.44448	1.00	5.00

Source: Table by Authors

The study uses confirmatory factor analysis (CFA) to assess the impact of service quality dimensions on customer satisfaction in the telecommunication industry of the southwestern zone of Afghanistan. Therefore, according to the results shown in Table xi, the following four continuous variables out of the six independent variables significantly contribute to the dependent variable: Empathy ($\beta=0.409$, $p < 0.05$), Reliability ($\beta=0.257$, $p < 0.05$), Network quality ($\beta=0.198$, $p < 0.05$) and Responsiveness ($\beta=0.189$, $p < 0.05$). However, assurance ($\beta= - 0.127$, $p > 0.05$) and tangibility ($\beta=0.103$, $p > 0.05$) do not significant positive influence on customer satisfaction in this industry. Hence, H_1 , H_2 , H_5 and H_6 were accepted while H_3 and H_4 were rejected, shown in Table 12. Mean and standard deviation statistical methods were used for comparing telecommunicating service-providing companies taking into account customer satisfaction in the context of the telecommunication industry of the southwestern zone of Afghanistan. According to the results, the aggregate variance is very small and all means are in moderate values which means that the customers are not satisfied with the service provided by these companies. The lowest level of customer satisfaction is from AWCC with a mean value of 2.5065 and a standard deviation of 1.37714 and customers are relatively highly satisfied with the service provided by ROSHAN with having mean value of 3.4318 and a standard deviation of 1.35749, shown in Table 13.

5. DISCUSSION

In the telecommunications sector in the southwestern region of Afghanistan, this study highlights the complex relationship between customer satisfaction and elements of service quality. Important elements like responsiveness, empathy, network quality, and reliability were found to have a significant impact on customer satisfaction; empathy and network quality were found to be especially significant. According to these findings, customers in this region place a high priority on personalized service and reliable network performance, which is indicative of specific regional goals. The inclusion of network quality as a new dimension emphasizes the SERVQUAL model's flexibility and relevance to the telecom industry. It's

noteworthy that assurance and tangibility have minimal effects on customer satisfaction, indicating that resources would be better spent on the things that matter most to consumers. This study provides managers and policymakers with useful insights into how targeted improvements in service quality can increase customer satisfaction and foster long-term loyalty.

6. RESEARCH IMPLICATIONS

Practical Implication

This study offers novel insights into the topic of customer satisfaction and service quality in the telecommunications industry in southwest Afghanistan, which has received less attention than in other regions. This study addresses a significant vacuum in the literature by looking at particular aspects of service quality, including network quality, responsiveness, assurance, reliability, empathy, and tangibility. The study's findings have important ramifications for both academic researchers and industry stakeholders since this study expands on our knowledge of how various aspects of service quality affect consumer satisfaction in developing countries. Additionally, the methodological approach utilized in this study can be copied and modified for use in other regions or industries. The study's narrow emphasis on a particular business and regional context also makes it possible to acquire detailed information that can guide focused tactics for raising customer happiness and improving services in the telecom sector.

Theoretical Implication

The study demonstrated the significance of aspects of service quality and how they affect client happiness. In light of the aspects of service quality, the study's researchers have made the following suggestions for these companies' management authorities. According to the findings, the biggest factor influencing customer satisfaction is empathy. Telecommunications firms should make sure that their staff members give consumers individualized attention, pay close attention to their requests and grievances, and understand their specific needs to increase empathy. This personalized method will noticeably refine customer satisfaction. Secondly, to enhance reliability, telecommunication companies must focus on regularly providing dependable services, upholding accurate records and meeting commitments made to customers promptly. These endeavours will improve customer satisfaction. Third, in the context of network quality, companies in this sector should concentrate on improving downloading speed from the internet, while also covering all parts of the city including suburbs with their services. Keeping going with excellent voice quality and reducing disturbances will significantly improve user experience. Fortifying network signals in metropolitan areas, especially inside buildings and basements, is critical for steady service quality. Additionally, endeavours should be made to ensure calls connect on the first attempt and SMS services are fast and reliable. Finally, in the part of responsiveness, telecommunication companies should ensure customer service staff are knowledgeable, the service provider communicates when services will be performed and employees respond promptly to customer requests despite their workload. These improvements will significantly boost customer satisfaction.

Methodological Implication

By using a well-organized quantitative technique to evaluate the effects of different service quality parameters on customer satisfaction in the telecommunications industry of Southwestern Afghanistan, this study makes important methodological advances. Through the use of convenience sampling as a key data collection strategy, we were able to gather distinctive local insights that help us comprehend how consumers perceive products in developing nations. By adding technical elements pertinent to the telecom industry, the SERVQUAL model's application, in conjunction with an extra network quality component, enhances conventional service quality frameworks. The reliability and validity of the constructs were thoroughly examined by using the strong analytical technique, which combines exploratory factor analysis (EFA) and confirmatory factor analysis (CFA) inside a structural equation modelling (SEM) framework. Furthermore, the study's application of Cochran's sampling formula guarantees a statistically suitable sample size, improving the findings' generalisability. For future research in comparable emerging

market situations, the methodology used in this study can be replicated, especially in industries where customer satisfaction and retention are directly correlated with service quality.

7. CONCLUSION AND FUTURE STUDIES

The study's primary goal was to determine how aspects of service quality affected customer satisfaction in the southwest region of Afghanistan's telecom sector. The SERVQUAL model's five dimensions were used to measure the sector's service quality, together with network quality as a technical dimension. The researchers modified the questionnaire and disseminated it via online and in-person surveys. A total of 270 respondents provided the information. Additionally, statistical techniques were used to analyze the data. Furthermore, the study demonstrated how each aspect of service quality contributes to the prediction of overall customer happiness. The results of the data demonstrated that empathy, responsiveness, reliability, and network quality have significant effects on customer satisfaction in this sector. Nonetheless, the study made clear that tangibility and assurance had no appreciable beneficial effects on this industry's consumer happiness. Accordingly, this study concluded that the SERVQUAL model can be used to gauge service quality in the southwestern region of Afghanistan's telecommunications industry. By identifying the main factors influencing customer happiness, the study's findings provide helpful guidance for telecom providers operating in Afghanistan's southwest region. The study's findings showed that empathy was the most significant factor, meaning that consumers were more sensitive to behavioural problems with perceived service than to any other factor.

This study has several limitations that may impact its generalisability and depth. First, the use of convenience sampling, while practical, may limit the extent to which findings apply to a broader population. Additionally, the study focuses specifically on the telecommunication sector within Southwestern Afghanistan, which may reduce the applicability of results to other regions or industries with different economic and cultural characteristics. The reliance solely on quantitative analysis also presents a limitation, as it may not capture the full complexity of customer perceptions that qualitative methods could reveal. Lastly, the use of cross-sectional data provides a snapshot at a single point in time, which may not account for changes in customer satisfaction as the telecommunications sector and customer expectations evolve.

To address these limitations, future research could enhance generalisability by using random sampling methods or drawing from larger, more diverse samples. Expanding the framework to include other regions or sectors would also allow for comparative studies, offering broader insights into service quality dimensions. Integrating qualitative methods, such as interviews or focus groups, could provide richer, more nuanced data, complementing quantitative findings and deepening understanding of customer expectations. Finally, longitudinal studies could be employed to observe changes in customer satisfaction over time, particularly as the telecommunication sector adapts to technological advancements and shifting regulatory landscapes.

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further enhance Kandahar's standing in academia, supporting the educational progress essential for the development of both our city and our country.

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NAVIGATING *WAQF* MANAGEMENT IN NIGERIA: A REVIEW OF COLONIAL LEGACIES, LEGAL REFORMS, AND BENEFICIARY RIGHTS

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ABSTRACT

This article examines the complexities of *waqf* management in Nigeria, focusing on colonial legacies, legal reforms, and the rights of beneficiaries. *Waqf*, a religious endowment under Islamic Law, has a rich history in Nigeria dating back to pre-colonial times. Findings show that colonialism has significantly hindered the growth and efficiency of *waqf* institutions, leaving many in disarray by the time of Nigeria's independence. Despite efforts to revive these institutions post-colonization, issues such as lack of transparency, accountability, and formal structures persist. This trend has contributed to the marginalization of *waqf* beneficiaries and affected *waqf* administration in Nigeria, particularly in Western Nigeria, where government support is minimal. This study adopts a qualitative methodology, relying on secondary sources such as historical documents, legal texts, and scholarly articles to explore the legal and administrative system in the Nigerian *waqf* sector. This article highlights the necessity for a robust legal framework and the establishment of formal *waqf* bodies to enhance *waqf* sustainability and beneficiary rights. It advocates for a rights-based approach to *waqf* governance, emphasising the need for beneficiaries to participate actively in decision-making processes to protect their interests.

KEYWORDS: *WAQF MANAGEMENT, LEGAL FRAMEWORK, DOWNWARD ACCOUNTABILITY, NORTHERN NIGERIA, WESTERN NIGERIA.*

ABSTRAK

Artikel ini mengkaji kerumitan pengurusan wakaf di Nigeria, dengan fokus pada warisan kolonial, pembaharuan undang-undang, dan hak-hak penerima manfaat. Wakaf, sebagai sumbangan agama dalam undang-undang Islam, mempunyai sejarah panjang di Nigeria sejak zaman pra-kolonial. Penemuan menunjukkan bahawa kolonialisme telah menghalang pertumbuhan dan keberkesanan institusi wakaf, meninggalkan banyak dalam keadaan terabai menjelang kemerdekaan Nigeria. Walaupun usaha pemulihan selepas penjajahan, masalah seperti kekurangan ketelusan, akauntabiliti, dan struktur formal masih wujud, terutama di Nigeria Barat di mana sokongan kerajaan adalah minimum. Kajian ini menggunakan metodologi kualitatif, berdasarkan sumber sekunder seperti dokumen sejarah, teks undang-undang, dan artikel ilmiah untuk meneroka sistem undang-undang dan pentadbiran wakaf di Nigeria. Artikel ini menekankan keperluan rangka kerja undang-undang yang kukuh dan penubuhan badan wakaf rasmi untuk meningkatkan kelestarian dan hak penerima manfaat. Ia menyokong pendekatan berasaskan hak dalam tadbir urus wakaf, dengan menekankan keperluan

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bagi penerima manfaat untuk turut serta secara aktif dalam proses membuat keputusan bagi melindungi kepentingan mereka.

KATA KUNCI: *PENGURUSAN WAKAF, RANGKA KERJA UNDANG-UNDANG, AKUNTABILITI MENURUN, NIGERIA UTARA, NIGERIA BARAT*

1. INTRODUCTION

The management of *waqf* institutions in Nigeria is a subject of growing importance and complexity, rooted in historical legacies, legal frameworks, and the essential rights of beneficiaries. *Waqf*, a religious endowment in Islamic Law established by donors for charitable and social purposes, is pivotal in addressing community socio-economic challenges (Abdullahi, 2019; Haruna, & Abdulrazaq, 2021). However, the potential of *waqf* in Nigeria has been severely undermined by many challenges, including colonial legacies, inadequate legal reforms, and poor management practices (Awuah-Werekoh, 2015; Osman & Agyemang, 2020). Consequently, *waqf* institutions operate in a quasi-legal space, often lacking clear regulatory oversight, which exposes them to mismanagement and reduces their ability to serve beneficiaries effectively.

Waqf is an Arabic word derived from *waqafa*, meaning to stop, contain, or preserve. In *shari'ah* and Islamic economics, *waqf* is a voluntary, permanent, irrevocable dedication of one's wealth to Allah. Once a *waqf* is created, it remains intact and can be used for any *Shari'ah*-compliant purpose. In other words, it is the detention of a specific thing or instructing all profits to be awarded to charity foundations for the poor (Abubakar, 2021; Alawiye & Keerio, 2023). *Waqf* is a charitable trust a Muslim individual or institution creates to benefit society. It has funded various projects, such as education, healthcare, and poverty alleviation, and has been instrumental in solving many present-day economic challenges and promoting economic growth and sustainable development (Abdullahi 2019 and Haruna & Abdulrazaq 2021). Historically, the foundations of *waqf* in Nigeria date back to pre-colonial times when influential Islamic rulers established these institutions as vital components of governance and community welfare. However, the advent of colonialism from 1903 to 1960 stifled the growth of *waqf*, leading to a significant decline in its operations and the disintegration of much of the Islamic infrastructure that supported these charitable entities. The lingering effects of colonial rule have contributed to the fragmented state of *waqf* institutions, particularly in Western Nigeria, where informal operations dominate due to the lack of structured frameworks and government support (Abdul Rauph & Adebayo, 2022).

The post-colonial period has witnessed a renewed effort to revive *waqf* institutions, particularly in Northern Nigeria, where several Muslim organizations and state governments have established *waqf* commissions to promote socio-economic development. Nevertheless, despite these initiatives, challenges still need to be addressed, particularly regarding transparency, accountability, and the formal recognition of beneficiary rights. With effective governance and oversight, *waqf* institutions are protected from corruption and mismanagement, which detracts from their intended purpose of serving community needs (Abdul Rauph & Adebayo, 2022).

It is significant to examine the affairs of *Mawqūf'alaih* (*waqf* beneficiaries) in establishing a well-functioning *waqf*. This is undeniable due to its relevance to the essence and purpose of *waqf*. *Mawqūf'alaih* are individuals entitled to benefit from the returns of *waqf*. They are "those eligible to receive any benefit, interest, or profit from the property given as *waqf*" (Zati Ilham *et al.*, 2021; Khademolhoseini, 2011).

The concerned beneficiaries would likely feel the negative impact of any poor situation in the *waqf* sector. Moreover, the undeniable exposure of the beneficiaries to issues that affect *waqf* efficiency in the *waqf* sector indicates their critical role in *waqf* development. Consequently, a growing body of literature recognizes beneficiaries as significant contributors to the accountability and sustainability of charitable institutions. However, *mutawallis* must pay more attention to the needs of beneficiaries'

roles due to their weakness and their inability to enforce actions on them (Awuah-Werekoh, 2015; Osman & Agyemang, 2020).

The well-functioning of *waqf* emanates from proper management by the *waqf* trustees (*mutawallis*), who generally operate in modern tradition as institutions in the interest of the beneficiaries. For *waqf* institutions to properly function, the state must enact enabling laws and establish regulatory agencies to ensure *waqf* fulfils its duties for public benefit. While *waqf* institutions are self-regulating, state intervention is necessary to enforce legal sanctions and compliance requirements. The government may establish a public agency to ensure effective management and transparency in *waqf* activities.

This research examines how colonial legacies, socio-cultural dynamics, and fragmented legal frameworks continue to impact *waqf* administration in Nigeria, hindering its potential for social and economic development. While previous studies have noted colonial disruptions to Islamic institutions, this study uniquely explores how these factors still shape *waqf* management today. The research proposes reforms that enhance transparency and accountability by analysing regional differences in *waqf* practices and advocating for a standardized legal framework rooted in a beneficiaries' rights-based approach. This approach aims to improve beneficiary welfare and strengthen *waqf*'s role in Nigeria's socio-economic progress.

This article aims to navigate the intricate landscape of *waqf* management in Nigeria. This study adopts a qualitative methodology, relying on secondary sources such as historical documents, legal texts, and scholarly articles to explore the historical, legal, and administrative dimensions that shape its current state, including addressing the critical issues surrounding colonial legacies in the Nigerian *waqf* sector. Towards the need for legal reforms and the significance of recognizing beneficiary rights in the *waqf* sector, this article highlights how Nigeria can unlock the full potential of *waqf* as a vehicle for social and economic development.

2. LITERATURE REVIEW

This study addresses the dilemma of *waqf* administration in Nigeria and navigates some contributing factors. Consequently, this section will analyse colonial legacies, legal reforms, and the need for a rights-based approach in the Nigerian *waqf* sector.

Issues on Waqf Management in Nigeria

A *waqf* is a trust established by a founder or donor under the stewardship of a *mutawalli*. The founder/donor specifies the terms and conditions for operating the *waqf* in a *waqfiyyah* (*waqf* deed). A copy of the *waqfiyyah* is deposited with a *Shari'ah* Court Judge (*Qadi*) for record and oversight purposes. Islamic Law provides general provisions for setting and managing *awqāf* in Muslim institutions (Muhammad, 2012). As Obaidullah (2016) observed, the *Shariah*-legal framework for Islamic *waqf* is based on preserving endowed assets, including physical preservation and benefits for intended beneficiaries. Stipulations regulate the preservation of assets, while benefit preservation requires prudent management and efficiency in development and investment. Further, Abdul Rauph and Adebayo (2022) observed that the development of *Waqf* in Nigeria has faced challenges due to colonial invasion and poor management. *Waqf* has the potential to benefit various aspects of life, including religion, education, health, and infrastructure. Establishing a centralized body for *waqf* administration and public awareness are suggested solutions to improve *waqf* practice in Nigeria.

The researchers further claim that the development of *waqf* operations in Nigeria can be traced to the pre-colonial era. According to Abdul Rauph and Adebayo (2022), Islam has been deeply rooted in Nigeria since before the country's independence in 1960. Islamic rulers, notably the Hausas and Kanuris, established *waqf* institutions as early as 1084 AD to fulfil religious and spiritual obligations while providing socio-economic benefits. Some scholars believe *waqf* was well established in the Sokoto caliphate before colonization. (Abdul Rauph & Adebayo, 2022). The *jihad* of Usman Dan Fodiyo in the Hausa Kingdom, which later became the Sokoto caliphate, revived basic religious and economic principles. However, the colonization of the Sokoto caliphate between 1903 and 1960

negatively impacted the growth and development of Islam and the Islamic heritage, including *waqf* institutions. By 1960, most Islamic elements in the Hausa/Fulani system had either been uprooted or adulterated, leaving Muslims with unofficial Islam practised in their private lives. States' discontinuation of *waqf* operation led to a moribund state of *awqāf* properties (Abdul Rauph & Adebayo, 2022).

Unlike Abdul Rauph and Adebayo (2022), Muhammad (2018) argued that there was no *waqf* institution and documentation during the Sokoto Caliphate. Even though he acknowledges the presence of religious *waqfs* in the form of mosques, which continued to exist from the reign of Habe Muslim rulers like Muhammad Korau, Ali Yaji, and Bakwa Turunku, he sees them as inadequate to constitute what he meant by the word "*waqf* institutions" (Muhammad, 2018). Similarly, his research claims that documentation of charitable giving patterns in the caliphate is scarce. He concludes that the lack of *waqf* institutions and documentation bequeathed an institutional vacuum for *waqf* activities, which Muslims in Nigeria should continue filling and building (Muhammad, 2018).

Hausa culture is relevant in the development of *waqf* operations in Nigeria. According to Muhammad (2018), the Sokoto caliphate - which covered 1,500 kilometres from Dori in modern Burkina Faso to Southern Adamawa in Cameroon and included Nupe land, Ilorin in Northern Yorubaland, and much of the Benue River valley – is generally founded in Hausa city-states under the Habe dynasty. After about 800 years, the Habe states were eventually overrun and replaced by the Sokoto caliphate, though much of Hausa culture was preserved in this state (Muhammad, 2018). Therefore, some aspects of Hausa culture might have undermined the establishment of a *waqf* institution, including their misinterpretation of *sadaqah jāriyah*, restrictive private land rights, and self-centeredness. By tradition, a wealthy Hausa prefers to give out charity personally, earning social recognition through the values of wealth exhibition and being surrounded by dependents. Modern terms describe the Hausa as supporting charity, giving to alleviate hunger and disease, but not encouraging philanthropy, giving to bring about change by addressing the root causes of social and economic problems (Muhammad, 2018).

The colonial movement affected the progress of *waqf* in Nigeria. However, *waqf* subsequently experienced some improvements due to the efforts of various bodies after Nigerian independence. Abdul Rauph and Adebayo (2022) observed that post-colonial efforts by Muslim organizations had revived *waqf* institutions, setting up non-profit schools, hospitals, and other establishments that performed previously established functions. The return of democratic governance in 1999 has reinvigorated efforts to revive Islamic heritage, particularly in promoting and regulating public *awqāf* for socio-economic development. Over four states, including Sokoto, Kano, Bauchi, Yobe, and Zamfara, have made laws covering the administration and regulation of *awqāf*. The reintroduction of *waqf* commissions by northern governors has yielded positive results, such as Zamfara State *Zakat* and Endowment Foundation, Sokoto State *Zakat* and Endowment Commission, and *Zakat* and *Hubs* Foundation, Kano. These organizations have collaborated with national and international donors to provide relief and scholarships and cultivate date palm plantations to provide jobs and protect the state from adverse impacts of climate change.

The best practice of *waqf* requires more than just the existence of *waqf* institutions. It also requires introducing some measures to save *waqf* institutions from mismanagement. According to Sulaiman and Muhammad (2023), establishing the *waqf* institution in the 21st century requires a review of its organization and administrative system to maximize its potential. The management of *waqf* property should be reformed, with Mutawalli (Nazir or Qayyim) being pious and trustworthy in administering the property. Specific guidelines for the Mutawallis of *awqāf* should be established regarding the investment of *waqf* revenues. An authority should oversee proper supervision of *waqf* property to prevent illegal occupation and misappropriation. In Muslim-majority states, there is a need to create a Ministry of *Awqāf* to oversee the management of *waqf* donations. This will help address pressing social security and cohesion issues (Sulaiman & Muhammad, 2023).

Similarly, the Nigeria Stability and Reconciliation Programme (NSRP, 2016) believes that *zakat* and *waqf* institutions need constant monitoring to ensure their distribution processes and management meet acceptable standards. Those institutions should maintain websites to share data on *zakat* and *waqf* institutions and processes, making knowledge sharing more accessible and providing the public with vital information. Trust is crucial for reducing *zakat* and *waqf*'s collection volumes. Honesty is brutal to measure, but transparency and accountability are required. Vigorous institutional checks and penalties for breaches are necessary. The focus should be on institutionalizing measures and processes for transparency and accountability in *zakat* and *waqf* management. Building robust and transparent institutions will elicit trust and improve the collection, distribution, and effectiveness of *zakat* and *waqf*. This is not a moral crusade for honest individuals but rather the institutionalization of measures and processes for transparency and accountability in managing *zakat* and *waqf*.

It was further noted that the lack of trust negatively affects the collection volume for both *zakat* and *waqf*. Even though honesty, transparency, and accountability are difficult to measure, solid institutional checks that make it difficult to be dishonest and provide heavy penalties in case of any breach are needed. Building robust and transparent institutions will elicit trust and improve the collection, distribution, and effectiveness of *zakat* and *waqf* (NSRP, 2016).

In Nigeria, the status of *waqf* management needs serious improvement. Fa-Yusuf *et al.*'s (2021) investigation showed that *waqf* in Nigeria is facing challenges such as a lack of public awareness of *waqf*, corrupt practices, and a lack of transparency in the administration and management of *waqf* institutions. These practices include fund misappropriation and embezzlement with a lack of proper accountability. The respondents propose practical solutions, such as engaging the government to enact laws that empower the administration and recognition of *waqf* institutions to collect and effectively disburse *waqf* proceeds to beneficiaries (Fa-Yusuf *et al.*, 2021).

In a similar vein, Saad *et al.* (n.d., p.153-154) argued that *waqf* institutions in Nigeria are still struggling after two decades due to some factors, including improper management. To properly utilize the socio-economic benefits of *zakat* and *waqf* in Nigeria, governments should organize vibrant formal management of these institutions. This will ensure stability and generate predictable resources for poverty alleviation. The Ulama should create awareness for people to contribute and channel their mandatory *zakat* share and philanthropic donations to these institutions. Further, higher learning and research centres should encourage research in *zakat* and *waqf* to educate the populace. Governments of the various states that created formal management of *zakat* and *waqf* should create platforms for experts in Islamic Law, public finance, and social policy to cross-enrich ideas and upgrade the institutions.

According to NSRP's (2016) assessment, the nature of *waqf* administration differs in all states involved. Some adopt the emirate structure in collection and distribution, while others adopt the Local Government structure. The level of decentralization also deviates, with some being more decentralized than others. Activities also vary, with some states being active while others are not. The emirate institution has proven comparatively more effective for the local collection and distribution of *zakat* and *waqf* (NSRP, 2016).

The Local Government structure differs from the emirate structure of *waqf* assessment in northern Nigeria. Under the emirate structure, *zakat* and *waqf* assessment, collection, and distribution are coordinated by a committee under the Emir's (traditional ruler) leadership. In contrast, in the Local Government structure, the assessment, collection, and distribution of *zakat* and *waqf* are coordinated under the leadership of the most senior District Head or the Chief Executive Officer of the Local Government Council.

NSRP (2016) further noted that some states have elaborate records-keeping systems that provide general information on the collection and distribution of *zakat* and *waqf*. Other steps taken by *zakat* institutions include the publication of annual reports and regular periodicals on every significant

distribution. However, more trust still needs to be built, especially considering the number of eligible *zakat* and *waqf* donors who pay through the institution.

The status of *waqf* management in Western Nigeria is less favourable than that of Northern Nigeria. As Abdul Rauph and Adebayo (2022) argued, *waqf* development in Southern Nigeria, particularly among the Yoruba people, has been predominantly private and individualist, with some traditional rulers establishing mosques in Yorubaland. Many individuals have established *waqf* institutions in Yorubaland, such as Chief Moshood Kashimawo Olawale Abiola, who financed the printing of Yoruba-translated copies of the Qur'an and constructed mosques and madrasahs. Some Yoruba scholars have also constructed mosques and madrasahs, including Markaz at Agege, the *Zumuratul Adabiyyah*, Ilorin, *Mahadul Arabi* Elekuro, Ibadan, and *Mahadus Zumuratus Solihina*. Islamic organizations have also constructed *waqf*-related properties like schools, madrasahs, mosques, and hospitals in major towns and cities in Yorubaland.

Similarly, Adebayo and Ashafa (n.d. p.115-134) emphasised that the Nigerian *waqf* administration has been a significant issue in Western Nigeria, with little attention given to its administration. While *zakat* has agencies for its collection and disbursement, *waqf* has yet to be so. Some affluent Muslims in Western Nigeria are responsive to the needs of the downtrodden through donations of their volition by philanthropists. Notable among such Muslims were the late Chief Moshood Abiola, Alhaji Abdul-Azeez Arisekola, and other prominent Muslim philanthropists. Lawyer Yusuf Olaolu Ali, Senior Advocate of Nigeria (SAN) made enormous contributions to Yorubaland, supporting the establishment of the University of Ife Muslim Graduate Association (UNIFEMGA) Preparatory School, Ile-Ife, and donating a thirty-unit ICT Centre to the Faculty of Law at Obafemi Awolowo University Ile-Ife, his alma mater. The aspect where *waqf* is primarily felt in Western Nigeria is in the construction of mosques. Apart from donations from individual wealthy Muslims to mosque construction, many of them have their mosques built in memory of their parents or relatives. The maintenance of some of these mosques is in the hands of their donors or, in some cases, through voluntary donations of the mosque congregations. However, attention is needed to have an organized body to take charge of *waqf* in Western Nigeria. Moreover, dedication, transparency, and accountability should be prioritized for poverty alleviation.

Similarly, Bolatito (2022) further noted that many Muslim philanthropist-run colleges in Western Nigeria faced bankruptcy and impoverishment due to a lack of *waqf* institutions. The colleges were run on free token tuition charges, and no funding budget was established for their continued progress. Factors such as administrative costs, staff salaries, and affiliation dues contributed to the collapse and non-existence of these giant institutions.

Elesin (2017) also emphasised that the need to have *waqf* institutions in Western Nigeria must be addressed. He noted that many *Islāmiyyah* schools in Western Nigeria have faced extinction due to lack of funds, with founders relying on foreign donations, daily or weekly charity collections, and occasional donations from well-to-do individuals. Many *Islāmiyyah* schools have gone into extinction due to a lack of *waqf* institutions, and it is suggested that for these institutions to continue to enjoy maximum maintenance, they need to come under *waqf*. Muslim schools and mosques in Nigeria are built by individuals who also finance the maintenance of the mosques personally and directly. Examples include Alhaji Abdul Azīz Arisekola Amao, Muslims in Yorubaland, and the Abdul Azīz Islamic Foundation Mosque in the Egbeda area of Lagos. Moreover, Surulere Central Mosque and Lagos Central Mosque suffered a few setbacks in terms of maintenance following the death of their founders.

The government support received by *waqf* bodies in Western Nigeria is less than that of Northern Nigeria. According to Shuaib and Sohail (2022), faith-based organizations (FBOs) in the North receive government support, while Southwest-based organizations face challenges. Likewise, twelve state governments established Zakah institutions, but no institution exists in the Southern part of Nigeria. The authors evaluated thirteen case study documents and found that Islamic faith-based organizations (IFBOs) generate income from various investment outlets and receive funds from

Zakah and Sadaqah. He concludes that Islamic social finance (ISF) professionals and charitable institutions in Southwest Nigeria should sponsor private bills for a legal framework to define IFBO operations and improve their funding strategies and delivery of social services.

Waqf Legal Framework in Nigeria

The well-functioning of *waqf* institutions depends on the development of *waqf* legal framework. According to Fa-Yusuf et al. (p. 88), the lower performance of *waqf* globally is caused by several factors, including weak legal protection and inadequate financial and legal reforms. They suggest engaging the government to enact laws that empower *waqf* institutions, provide donors with tax exemptions, and increase the knowledge base of *waqf* institutions through education, research, and publications. The efficacy of *waqf* institutions in Nigeria depends on collaborative efforts between policymakers and institution operators.

Obaidullah (2016) also noted that the *Shariah*-legal framework for Islamic endowments focuses on preserving endowed assets, including physical preservation and benefits for intended beneficiaries. It requires prudent management and efficiency in development and investment. Islamic scholars determine the objective function of Islamic endowment laws, which may shift over time to benefit preservation for intended beneficiaries. This shift may occur as scholars discuss the exchange and replacement of *waqf* assets, necessitating modifications to ensure sustained enhancement of benefits. The Regulatory Efficiency Frontier (REF) combines preservation and development.

Saad *et al.* (2021) claimed that the practice of *waqf* and *zakat* Institutions in Nigeria dates back to Shehu Usman Dan Fodiyo's time but was abandoned due to colonialism. The Muslim North has been waiting for an opportunity to restructure its lost values since the dawn of the civilian government in 1999. This movement began with 13 Northern states adopting the *Shari'ah* Criminal System of Justice. However, these institutions have been falling apart for almost two decades due to some issues, including a lack of legal mechanisms.

It is well established from various studies that the legal bases of *waqf* in Nigeria can be deduced from the Constitution of the Federal Republic of Nigeria 1999. The 1999 Constitution of the Federal Republic of Nigeria (as amended) provides under Sections 262 sub-(2)(c) and 277 sub-(2) (c) that *Shari'ah* Courts of Appeal can entertain questions of Islamic personal Law regarding a *wakf* (meaning *waqf*), gift, will, or succession where the endower, donor, testator, or deceased person is a Muslim. (Saad *et al.*, n.d; Mohammad Jamiu *et al.*, 2021; Fa-Yusuf *et al.*, 2021; Ishola 2019).

NSRP (2016) established that the return of Nigeria to democratic governance in 1999 sparked a renewed push for the reintroduction and implementation of sharia in some of Nigeria's states. Twelve states have adopted the Sharia legal system and established key institutions, such as the *Shari'ah* commission, *da'wah* committee, *hisbah* group, and *zakat* and endowment bodies. Fifteen years after declaring sharia in Zamfara, there is still a need to address some arising questions regarding the legal framework for *zakat* and endowment administration, the functioning of institutions responsible for these functions, and the processes for collecting, distributing, and managing these funds.

Ishola (2019) further established that the involvement of Islamic Law and the *Māliki* School's permissibility of *waqf* strengthen its legal basis in Nigeria. However, the legal basis for *waqf* in the Southern states might be confusing due to the absence of the Sharia Court of Appeal in that region and cases and matters involving non-Muslims. However, there are no legal constraints or challenges for those interested in practising Islamic endowment in Nigeria. Moreover, Gidado and Sani (2018) also argued that the Islamic Law of *awqāf* has faced several challenges in its implementation in Muslim communities. The Maliki School's ownership of *waqf*, which is revocable, has led to issues with *fiqh* and legal impediments in resolving disputes related to *waqf*. This is evident in cases where a person has given out a mosque or land as *waqf*, and their heir takes over the property as an inherited estate. The legal impediment in resolving disputes related to *waqf* is also a concern. There is a need for dedicated legislation on *waqf* in Nigeria. The Northern States of Nigeria introduced *Shari'ah* by introducing criminal aspects of Islamic law without clear legislation on *waqf*. Additionally, Muslim

leaders, particularly those with political power, have failed to initiate reforms in the system, indicating that *waqf* is not as crucial in the administration of the state.

Beneficiaries' Rights-Based Approach in Nigerian Waqf Institution

It is necessary here to clarify what the beneficiary means. According to Will (2021), the person or group for whom a trust is established is referred to as a beneficiary. A trustee is chosen by the trust's grantor or creator, who has a fiduciary duty to manage trust funds in the beneficiaries' best interests following the terms of the trust agreement. Will (2021) likewise, Khademolhoseini (2011) defined the *waqf* beneficiary as "Persons who are or areas which are the purpose of *waqf*." He further stated that beneficiaries are "those people of areas entitled to benefit from the return of *waqf*." Zati Ilham *et al.* (2021) also defined a beneficiary as "a person who is eligible to receive any benefit, interest, or profit from a "*mawqūf*," or property given by way of *waqf*."

According to Ibraheem (2017), *waqfs* can benefit community utility or individuals, with donors indicating who qualifies to benefit from their *waqf*, such as the founder's family, the whole community, or people experiencing poverty. Receivers can be numerous, with some keeping half for their family and the other half going to the underprivileged community. Legal receivers must meet certain conditions, including being classifiable, alive at the *waqf's* establishment, not fighting against Muslims, not using the *waqf* in contradiction with Islamic Law, and not being the donor.

The flexibility of Islamic Law allows for innovation in expanding the scope of *waqf* beneficiaries while adhering to fundamental principles, as seen in contemporary practices like *waqf al-manqūl* (moveable *waqf*) and temporal *waqf* assets. Islamic jurists, particularly the *Malikis*, support these practices, which have proven helpful in addressing issues such as medical shortages and providing immediate benefits through humanitarian services. The UAE has exemplified this flexibility by adopting progressive *waqf* models, enhancing institutional governance, and creating innovative endowment banks for sectors like health and education. This adaptability in Islamic jurisprudence ensures that the rights of *waqf* beneficiaries are protected while meeting the evolving needs of society (Arab *et al.*, 2023).

Beneficiary is significant in establishing the scope of obligations/duties and rights. According to Lyons (2017), the concept of right is perceived by Hart and Bentham in different ways. Even though both agree that rights imply duties or obligations, not all duties imply rights. However, Bentham held that duties or obligations without beneficiaries have no corresponding rights. At the same time, Hart argues that duties without claimants have no corresponding rights, as being a claimant does not necessitate being a beneficiary of another's duty and vice versa. In Civil Law, private individuals can enforce their rights, while in criminal Law, only complainants have the legal power and responsibility. Civil law obligations arise from special relations, while criminal law obligations are laid down. Hart, quoted by Lyons (2017), observed that there are no rights under morality or criminal Law because private claims do not uphold them. He agrees that most jurists prefer not to refer to "rights" in Criminal Law. However, he makes the case that a broader definition of "right" is acceptable as long as it maintains the central element of the rigid sense. He contends that rules granting rights and imposing obligations offer a uniquely distributive means for the person holding the right.

Corruption in public procurement undermines human rights, especially in African countries, by eroding accountability, violating international conventions, and diminishing public trust in government. A human rights-based approach is crucial to combat corruption, as it impacts and violates human rights. This approach empowers ordinary people to demand transparency and accountability from public officials. Existing legal frameworks, such as the United Nations Convention against Transnational Organised Crime, address corruption but may not directly cover public procurement. The Constitution requires fair and transparent procurement processes. Integrating human rights principles into anti-corruption strategies is essential for combating corruption in African public procurement (Mubangizi & Sewpersadh, 2017).

It is acknowledged that Nigeria is among the highly rated risky environments for financial transactions. The environment is challenging due to several factors, such as an unpredictable legal system, weak institutional framework, and scarcity of reliable corporate financial information. According to Owolabi (2018), statistics showed Nigeria has consistently been rated high among the most corrupt countries. Even in 2004, Nigeria was ranked third among 146 surveyed covered most corrupt countries. In that regard, the fact that corruption is a trending trait in Nigeria has become common knowledge that no right-thinking person can deny (Owolabi, 2018). Nigeria's 2022 National Risk Assessment also shows pervasive corruption in all areas of the Nigerian economy, including the public and private sectors. Corruption occurs at the highest levels of government or the lowest level, and it is perpetrated by public officials, the courts, the private sector, and security agencies with the cooperation of third parties. Incidents of bribery, misuse of office, contract fraud, misappropriation, revenue losses, and mismanagement of funds remain essential concerns in the Nigerian economy.

Furthermore, beneficiaries are a crucial component of *waqf*, as their inclusion defines its purpose and humanitarian identity. *Waqf* benefits its designated recipients, forming the basis for categorizing charitable, family, or joint *waqf*. Some scholars even assert that *waqf* exists primarily for the beneficiaries' advantage. The concept of ownership in *waqf* separates legal and beneficial titles, where beneficiaries have the right to the *waqf*'s usufruct. At the same time, the nazir is responsible for managing the *waqf* property and distributing its income according to the *waqf*'s stipulations. The management of *waqf* is charged with duties to ensure beneficiaries' protection. Obaidullah (2016) argued that Islamic Law mandates the investment of *waqf* assets, with the mutawalli responsible for prudent and efficient management. The state and judiciary ensure compliance. The returns from endowed assets are intended to benefit the beneficiaries. He further observes that the Urban *Waqf* Properties Development Scheme and the National *Waqf* Development Corporation (NAWADCO) in India are initiatives to improve the benefits for endowment beneficiaries. The scheme loans 137 projects, with 84 completed and yielding income. The National *Waqf* Development Corporation has an authorized capital of INR 500 crores (USD 80 million), less than 0.35 per cent of the asset value. A private capital contribution for limited periods is suggested to fulfil capital needs efficiently, but this would require a relaxation of leasing rules to allow subleasing for sukuk issues. Singapore's Majlis Ugama Islam Singapura (MUIS) has successfully used this approach (Obaidullah, 2016).

There is a need for a rights-based approach in Nigerian *waqf* institutions to preserve the interest of the beneficiaries. An-Na'im and Halim (2006) have adopted this perspective and argue that every charitable Islamic institution should implement the rights-based approach to charitable giving. They agree that it is the moral and social right of beneficiaries to receive assistance and support with due respect for their human dignity. The authors propose that this approach would support philanthropic and non-governmental organizations more widely as modern institutions better suited than traditional models of religious endowments (*awqāf*) or state agencies. They believe that a rights-based approach is crucial for securing the entitlement of the most deserving beneficiaries, promoting the efficiency and sustainability of philanthropic and other types of organizations, and better mobilizing and distributing internal material resources for economic and social development.

The researchers further argued that the proposed rights-based approach would sustain the engagement of the giver and beneficiary as mediated by an appropriate philanthropic organization or institution. However, tensions will remain in every aspect of the proposal, including its Islamic rationale, civil society framework, and institutional resources. Further research is needed to study various ideological, theological, sociological, and institutional aspects of civil society development to match the needs and expectations of present Islamic societies in their relationship to the state (An-Na'im & Halim, 2006).

Further, the needed accountability in *waqf* institutions is achievable through a rights-based approach because the concept of accountability includes a commitment to humanitarian standards and rights. Asgary and Ronald (2017) explained accountability is the responsible use of power by various stakeholders, focusing on those affected by its exercise. It involves holding agencies accountable by reporting their actions and allowing them to redress them. Accountability requires agencies to fulfil

their original responsibility, including standard-setting, performance measuring, and sanction powers. Measuring aid outcomes is a critical component of accountability. Principles of accountability include a commitment to humanitarian standards and rights, setting standards, building capacity, communicating with stakeholders, involving beneficiaries in programs, monitoring compliance, addressing complaints, and implementing independent partners.

The researchers also claim that the charitable industry needs to reform to involve beneficiaries in resource allocation, programming, and financial decision-making. A rights-based approach to accountability could reconcile conflicting views. Empowering aid recipients to exercise their rights to protection, assistance, and health is crucial for social justice, ethics, and capacity-building. Shifting the focus to accountability could improve aid operations and effectiveness, although it may be more expensive (Asgary & Ronald, p. 346).

Pastore (2024) argued that the inherent vulnerability of human beings indicates the need to design and operate social, political, and legal institutions to mitigate harm and ensure justice. Acknowledging our universal fragility compels institutions to prioritize human rights protections and collective security, recognizing that vulnerability shapes our relationships and responsibilities towards one another. This perspective shifts the focus from viewing individuals as abstract subjects to understanding them within their diverse, concrete life situations, emphasizing the need for mutual recognition and justice. Legal and political institutions are morally obligated to address vulnerable individuals' rights, preventing harm and countering structural oppression. The trust relationship in the *waqf* contract makes the beneficiaries vulnerable to *waqf* management. According to McKillop (2001), trust inherently involves risk and vulnerability, as it rests on the expectation of predictability and cooperation. Beneficiaries rely on trustees to manage resources in a manner that prioritizes their interests, and any breach of this trust can be perceived as a moral violation, leading to feelings of betrayal and a desire for retribution. Given the asymmetrical nature of some trust relationships, where trustees often hold greater power and knowledge, implementing a rights-based framework is essential to ensure accountability and transparency. This framework would empower beneficiaries, safeguard their rights, and reinforce trust, ultimately enhancing social cohesion and the effectiveness of trust.

Several authors have affirmed the role of the beneficiary's participation in the accountability and preservation of charitable institutions. However, trustees always pay attention to their role in most cases. According to Awuah-Werekoh (2015), charitable institutions must be accountable to both funders and beneficiaries for optimal resource usage, known as upward and downward accountability, respectively. Upward or functional accountability is critical for developing charitable institutions because most funding originates from external sources, including the private, public, and government. Upward accountability ensures effective resource allocation based on prior performance, giving donors confidence in the efficiency of their funding. However, because this method is short-term and top-down, evaluating the effectiveness of charitable institutions' activities takes time and effort.

According to Osman and Agyemang (2020), downward accountability is the term used to describe accountability to weaker groups. The application of downward accountability may make it easier to establish overall accountability in the *waqf* sector. According to this study, the accountability relationship between *waqf* authorities and the beneficiaries will determine how far downward responsibility may be achieved. However, the *waqf* officer is responsible for bridging the awareness gap between himself and the beneficiaries to understand better and respond to their needs.

Mooketsane *et al.* (2018) also reiterated that accountability mechanisms seek to enhance the efficacy of assistance distribution by incorporating stakeholders in decision-making processes. Social auditing integrates all accountability systems, allowing many stakeholders' perspectives to impact charitable institutions' aims and values. Beneficiaries must be given a more central role and the ability to participate in decisions or processes affecting them according to the democratic governance approach. Such participation gives beneficiaries a sense of ownership and contributes to long-term sustainability, even after the project donor has stopped funding the project. However, imbalances in

power may prevent beneficiaries from participating actively. Decision-making authority should be shared between charitable institutions and beneficiaries to ensure effective downward accountability. Moreover, Beneficiaries should be allowed to bargain and negotiate decisions with charitable institutions or even have veto power over decisions.

Dewi *et al.* (2019) also emphasised the need for charitable institutions to effectively discharge accountability to their downward stakeholders, ensuring positive interactions between them and the beneficiaries. Due to distance or other issues, it may be challenging to bridge the gap between charitable institutions and their beneficiaries in some instances. To close the distance between funders, charitable institutions, and the frequently remote beneficiaries, they established the crucial role of volunteers in downward accountability. Dewi *et al.* (2019) further contended that shared norms among volunteers and charitable institutions should be sustained to enable subsequent cooperation between them as better beneficiary accountability remains feasible through such cooperation. Further, sustaining casual interactions between volunteers and beneficiaries is also critical. They conclude by inciting subsequent authors to work on downward accountability in other approaches or study areas to give beneficiaries more meaningful voices in this process.

3. METHODOLOGY

This study adopts a qualitative methodology, relying on secondary sources to investigate the complexities of *waqf* management in Nigeria. These sources include historical documents, legal texts, scholarly articles, and reports that provide insights into the evolution of *waqf* practices from the pre-colonial period to the present day. By analysing these materials, the study uncovers the influence of colonial legacies, the impact of legal reforms, and the current challenges in *waqf* administration, particularly regarding governance and beneficiary rights.

4. FINDINGS

The findings of this study highlight the following:

Weak Legal Framework

The legal framework for *waqf* in Nigeria needs to be revised, with significant regional disparities, particularly between Northern and Southern Nigeria. The absence of dedicated legislation and a unified system for *waqf* management has led to inconsistent legal protection and ineffective governance.

Historical Decline and Colonial Impact

Colonialism contributed to the decline of *waqf* practices, particularly in Northern Nigeria, and subsequent legal developments have not fully restored the strength of *waqf* institutions. Despite the reintroduction of Shariah law in Northern Nigeria, the legal mechanisms for *waqf* still need to be developed.

Challenges of Islamic Jurisprudence

Variations in the interpretation of *waqf* under different Islamic law schools, particularly the Maliki School, complicate the legal status of *waqf* assets, leading to frequent disputes. The revocability of *waqf* under Maliki jurisprudence creates legal ambiguities and challenges in dispute resolution.

Beneficiaries' Rights and Accountability

A rights-based approach to *waqf* management can enhance transparency, protect beneficiaries, and foster social justice. Empowering beneficiaries and involving them in decision-making processes is essential for ensuring that *waqf* assets are managed responsibly and sustainably.

Need for Dedicated Legislation

Dedicated *waqf* legislation is necessary to address the gaps in the current legal framework. Legal reforms should focus on providing *waqf* institutions with the tools and protections they need to

function effectively, including tax exemptions, government support, and transparent management guidelines.

Regional Disparities

The lack of *Shariah* Courts of Appeal in Southern Nigeria creates legal challenges for *waqf* administration, particularly for mixed religious communities. Legal reforms should address these regional disparities to ensure equitable access to justice for *waqf* matters nationwide.

Corruption and Governance

Corruption in public institutions and mismanagement of *waqf* assets undermine the effectiveness of *waqf* institutions and negatively impact beneficiaries. Strengthening governance frameworks and enhancing downward accountability, particularly to beneficiaries, is crucial for improving *waqf* sustainability in Nigeria. Consequently, addressing the legal and governance challenges facing *waqf* in Nigeria requires a comprehensive approach, including legal reforms, government support, and the adoption of a rights-based framework to protect beneficiaries.

5. DISCUSSION

The research emphasises that enhancing *waqf* management in Nigeria requires targeted legal reforms to establish a beneficiary rights-based approach, particularly to address current deficiencies in the legal framework. Nigeria's existing *waqf* laws lack structure, cohesion, and dedicated legislation, creating significant operational and legal challenges that hinder the practical preservation and management of *waqf* assets. These structural deficiencies—compounded by limited legal protection and insufficient government support—significantly weaken *waqf* institutions and compromise beneficiaries' rights. Scholars have pointed to the need for specific legal reforms that protect beneficiaries and strengthen *waqf* management to address these challenges. Fa-Yusuf et al. suggest implementing tax exemptions to financially support *waqf* institutions alongside robust legal frameworks to empower an effective disbursement of the *waqf* proceeds to beneficiaries and ensure *waqf* sustainability. Obaidullah (2016) further highlights that *waqf* governance should adhere to *Shariah* law principles, focusing on efficient management practices that protect *waqf* assets for the beneficiaries and uphold the integrity of *waqf* assets. Based on this view, a right-based approach of *waqf* governance, grounded in *Shariah* and legal principles, is needed to empower beneficiaries, making them central to *waqf* management and helping ensure transparent, accountable governance.

Historically, *waqf* practices in Nigeria were robust during Shehu Usman Dan Fodiyo's era, reflecting a commitment to beneficiaries' welfare. However, colonial legal shifts and subsequent legal changes led to a weakening of these practices. The reintroduction of *Shariah* law in Northern Nigeria in 1999 created some pathways for addressing *waqf* matters within a legal framework, yet the impact still needs to be improved. In the South, where *Shariah* Courts of Appeal do not exist, *waqf* matters need clear legal recourse, creating confusion and inconsistency in legal protections for beneficiaries. Additionally, the differences among Islamic legal schools, particularly the Maliki school's stance on *waqf* revocability will perpetuate, introduce further complexities, affecting uniformity in *waqf* administration and dispute resolution across Nigeria.

The research highlights a pressing need for legislative reforms to address these issues. Scholars propose a unified national framework for *waqf* governance that balances *Shariah* compliance with enhanced legal protections, without which more excellent uniformity across regions. Collaborating with government bodies, Islamic scholars, and community stakeholders can help build a robust, rights-based system that prioritizes beneficiaries' interests, ensures accountability, and facilitates efficient *waqf* management. This approach would empower *waqf* beneficiaries, support institutional sustainability, and promote a governance structure that aligns with Islamic principles and the modern legal landscape.

In all, the research implies that implementing targeted legal reforms to establish a unified, rights-based *waqf* framework could strengthen *waqf* management in Nigeria. This approach would address

historical and legal inconsistencies and improve accountability, transparency, and governance, ultimately enhancing waqf's social and economic impact in Nigeria.

7. CONCLUSION

The management of *waqf* institutions in Nigeria faces challenges from historical legacies, inadequate legal frameworks, and a lack of focus on beneficiaries' rights, hindering their effectiveness and growth. While Northern Nigeria has revitalized *waqf* through structured institutions, the Western region needs more fragmented operations and government support. The Constitution of the Federal Republic of Nigeria provides a foundation for Islamic personal law, including *waqf*, but the lack of dedicated legislation and regulatory mechanisms undermines governance and accountability. Additionally, beneficiaries' rights need to be adequately addressed, emphasizing the need for a rights-based approach that empowers them in *waqf* management. Future research should focus on developing robust legal frameworks for formal *waqf* institutions and exploring how beneficiaries' rights-based approach can be integrated into the *waqf* management system. By tackling these issues, Nigeria can harness *waqf*'s potential for social and economic development, benefiting communities. Achieving this vision requires collaboration among policymakers, Islamic scholars, and community stakeholders to create a transparent and effective *waqf* system that meets beneficiaries' needs and supports broader socio-economic goals, making decisive action essential for justice and progress.

8. LIMITATIONS AND FUTURE RESEARCH

This study on *waqf* management in Nigeria is limited by a lack of primary data and field research, which could provide firsthand insights into governance practices and beneficiaries' experiences. While relying primarily on historical and secondary sources, the study needs to fully address the current socio-political factors influencing waqf administration across regions. Future research should include empirical studies involving beneficiaries and administrators to identify practical challenges and local perspectives while exploring the legal complexities of *waqf* revocability and asset management under the Maliki School. Comparative studies with countries that have implemented rights-based *waqf* management frameworks could offer valuable models to enhance transparency, protect beneficiaries' rights, and strengthen the socio-economic impact of *waqf* in Nigeria. Likewise, examining the adequacy of beneficiaries' protection in *waqf* legal frameworks of different countries through doctrinal analysis is also essential for future researchers' considerations.

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ANALYSING *MUAMALAT* FEATURES FOR A SUSTAINABLE DEVELOPMENT OF ISLAMIC FINANCE IN UGANDA: A SYSTEMATIC LITERATURE REVIEW

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ABSTRACT

Islamic banking and finance have gained wide acceptance in different parts of the world with more than 76 jurisdictions already embracing the industry, with industry reaching USD3 trillion in 2022. Besides, lately, Islamic banking has been introduced in Uganda, and in 2023, the first fully-fledged bank was licensed by the Bank of Uganda. However, society needs to be exposed to the underlying principles guiding Islamic finance. This study uses a systematic literature review to analyse different *muamalat* principles that guide Islamic banking. This study identified the enhancement of financial and social inclusion in society, the collection and distribution of *zakat* and *sadaqah*, the establishment of *qard hasan*, the conservation of societal values and averting of harm, and the promotion of ethical values and exhibition of quality customer service as *Muamalat* principles that can aid in informing Ugandans about novel concepts that can clarify the operationalisation of Islamic banking.

KEYWORDS: ISLAMIC FINANCE, SOCIAL, MUAMALAT, SUSTAINABLE DEVELOPMENT, UGANDA

ABSTRAK

Perbankan dan kewangan Islam telah mendapat penerimaan meluas di bahagian yang berbeza di dunia dengan lebih daripada 76 bidang kuasa telah merangkumi industri, dengan industri mencecah USD3 trilion pada tahun 2022. Selain itu, sejak kebelakangan ini, perbankan Islam telah diperkenalkan di Uganda, dan pada tahun 2023, bank sepenuhnya pertama telah dilesenkan oleh Bank of Uganda. Walau bagaimanapun, masyarakat perlu didedahkan kepada prinsip asas yang membimbing kewangan Islam. Kajian ini menggunakan tinjauan literatur yang sistematik untuk menganalisis prinsip muamalat berbeza yang menjadi panduan perbankan Islam. Kajian ini mengenal pasti peningkatan rangkuman kewangan dan sosial dalam masyarakat, kutipan dan pengagihan zakat dan sadaqah, penubuhan qard hasan, pemuliharaan nilai masyarakat dan mengelakkan bahaya, dan promosi nilai etika dan pameran perkhidmatan pelanggan yang berkualiti sebagai prinsip muamalat yang boleh membantu dalam memaklumkan orang Uganda tentang konsep baru operasi perbankan Islam yang dapat menjelaskan operasi perbankan Islam.

KATA KUNCI: KEWANGAN ISLAM, SOSIAL, MUAMALAT, PEMBANGUNAN LESTARI, UGANDA

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1. INTRODUCTION

In Islamic finance, *fiqh muamalat* has been used as the regulatory source to guide and direct principles of transactions and interactions between individuals and institutions based on ethical guidelines related to *maqasid al-Shariah*. It is sometimes referred to as *fiqh muamalat maliah* – referring to Islamic rules on financial, business, and economic activities (Ishak & Asni, 2020). *Muamalat* is essentially the Islamic framework for conducting business and financial activities directing Islamic finance users towards fair, responsible, and socially conscious economic dealings. Indeed, the *fiqh muamalat* principles are the foundational pillars aimed at promoting a just and equitable financial system while adhering to the core values of Islam.

However, in Uganda, Islam as a religion was introduced in Buganda as early as 1844 during the reign of Kabaka Suuna II the then-king of Buganda introduced by the Arab traders from the Arabian Peninsula but had established permanent trade bases on the East African Coast (Kasule, 2016). It quickly influenced the people, something attributed to the receptive nature of the Buganda culture. However, the major aim of the Arab traders was to do business and not the missionary work of spreading Islam (Sengendo, 2016). Besides, the king of Buganda embraced the faith and asked his subjects to do the same, Islam remained confined in Buganda and wasn't effectively dispersed in other parts of the country (Soi, 2011).

Moreover, with the inception of Christianity later in 1877, it was easy to subdue Islam leading to Christianity gaining prominence at the expense of the former. Indeed, Muslims were defeated in the Buganda wars fought against the Christians aimed at those who captured the favours of the King of Buganda (Sengendo, 2016). This defeat analytically defined the state of Muslim status to the extent of being under the description of the minority groups in the country. There are currently approximately 3,500,000 million Muslims in Uganda, making up 16 per cent of the population. Indeed, they are mainly Sunni, but there are some Muslim followers of the Aga Khan in the Asian community, and approximately 70,000 people are members of the *Tablighi/Salaf* Sects. The trend of events has affected Muslims, especially as regards access to education rendering them to being unable to participate in political and economic fields favourably and effectively, not until the late 1990s (Musisi & Kiggundu, 2018). However, despite the given description of the Muslim community in Uganda that reflects a marginalised and disadvantaged group (Kasumba, 2015), that would depend on the one seeking to find out why and probably when – as how Imam Kasozi a prominent Muslim cleric in Uganda puts it (Baker, 2001). Indeed, the Muslims' social, political, and commercial life has a lot to reflect on from the 1840s to date.

Besides, with such an Islamic background in a secular country where Muslims are the minority, Islamic banking was legalised in 2016 after 23 years of pursuing the cause by prominent Muslims in the country (Lujja et al, 2016). However, the statutory instruments released later in 2018 had a clause that deemed the Central Bank to have a *Shariah* Advisory Council before issuing operational licenses to commercial banks. Indeed, this clause inhibited the Central Bank from issuing licenses as it could not compose such a committee due to a lack of competent *Sharia* scholars in the country qualifying the requirements. Moreover, the 2016 Financial Institutions Act was amended in 2023, repealing the clause and thus the licensing of the first-ever fully-fledged Islamic bank in 2023. Therefore, with such an early industrial status, there's a need for more literature guiding Islamic banking and finance. Indeed, the literature should reflect varied frameworks in line with the sources of *Shariah* guiding principles as a way of aiding the masses to get a user-friendly relationship with the industry. Therefore, the objective of this paper is to identify such *Shariah* features that might suit the Ugandan commercial setup.

2. AN OVERVIEW OF BANKING SYSTEM IN UGANDA

Uganda's financial system is structured of banking institutions, SACCOs, retirement benefit schemes, capital markets, and insurance. Indeed, as of June 2021, the total financial sector assets stood at UGX66.3 trillion of which banking institutions supervised by the Bank of Uganda – Commercial

banks, Micro-deposit-taking institutions (MDIs), and Credit Institutions accounted for 63%. Besides, there is financial institutions segmentation in Uganda based on the Tiered approach purposely to broaden and encourage financial inclusion for different groups of people in the financial sector (Bank of Uganda index, 2023). These Tiers in the Ugandan financial sector, describing different financial institutions can be summarised in the table below for better understating and having a clear distinction between them based on the respective financial supervisor.

TABLE 1: UGANDA'S FINANCIAL SECTOR IN TIERS

Tier	Type of Institution	Applicable Law	Regulator	Number
Tier 1	Commercial banks	Financial Institutions Act, 2004	Bank of Uganda	26
Tier 2	Credit institutions	Financial Institutions Act, 2004	Bank of Uganda	4
Tier 3	Micro-deposit-taking institutions (MDIs)	MDI Act, 2003	Bank of Uganda	5
Tier 4	Other MFIs and SACCOs	Tier 4 Microfinance Institutions and Money Lenders Act, 2016	Uganda Microfinance Regulatory Authority (UMRA)	Over 2000

Source: Table by Authors

The Ugandan banking sector, like others in dynamic economic contexts, is characterised by innovation and a multiplicity of key players, continually presenting regulatory challenges to the Bank of Uganda (BoU). According to Iwumbwe (2015), the regulatory framework has often lagged behind the pace of innovation, affecting its adaptability to new financial products and services. A clear example is the legalisation of Islamic banking in 2016, which highlighted the regulatory hurdles faced by the Central Bank. Despite the issuance of statutory instruments in 2018, the licensing of Islamic commercial banking was only formalised in 2023, illustrating the rigidity in accommodating fully-fledged Islamic banks. Additionally, the banking sector in Uganda continues to grapple with low levels of financial inclusion. For instance, 62% of the population lacks access to mainstream financial services (Eton *et al.*, 2019). Of the 12 million individuals considered bankable, only 4 million (33%) hold bank accounts, and the savings-to-GDP ratio remains modest at 16%.

Nevertheless, Uganda's financial sector benefits from an enabling legal framework that ensures the autonomy of regulatory bodies, fostering a safe and sound banking environment. Under the Bank of Uganda Act (2000), the BoU is authorised to license, regulate, and supervise Tier 1, 2, and 3 financial institutions, while the Uganda Microfinance Regulatory Authority (UMRA) oversees Tier 4 Microfinance Institutions (MFIs) and SACCOs under the Tier 4 Microfinance Institutions and Money Lenders Act (2016). Further bolstering the sector, the BoU launched a nationwide financial literacy strategy in 2013, aimed at enhancing financial literacy across various demographic groups. This initiative emphasised financial education in schools, rural outreach programs, workplace training, youth-focused interventions, and partnerships with clubs and associations, alongside leveraging media platforms (Mutebile, 2014). These efforts underscore the Central Bank's commitment to addressing financial inclusion and literacy challenges within Uganda's evolving banking landscape.

2. LITERATURE REVIEW

The Development of Islam in Uganda

Besides, Islam had reached the East African coast for a thousand years, and yet it only penetrated the interior of East Africa in the 19th century. Buganda turned out to be one of the strongest footholds of Islam in the interior. Moreover, this was achieved during the reign of Kabaka Suuna and became so grounded in the reign of Kabaka Muteesa I who initially declared it a state religion of the Buganda

kingdom. Indeed, Islam was introduced by the Arab and Swahili traders who arrived in the Kingdom of Karagwe in the second quarter of the nineteenth century via the southern, i.e., Bagamoyo - Tabora - Karagwe - Buganda route (Vilhanova, 2004). Besides, the Arab traders as early as the 1840s, used the commercial contact with the local chiefs as an opportunity for Islamisation alongside expanding their commercial influence in the interior. So, this marked the beginning of the Muslims' involvement and systematic evolution of their culture as defined and associated with commerce and trade. Indeed, it should be also noted that Islam was spread by just mere traders as a secondary activity and not as missionaries. Therefore, this partly explains why Islam became highly challenged by the introduction of Christianity later in 1875.

Besides the spiritual and commercial recipes introduced by Islam, the religion came along with its civilisation, evidenced in a range of aspects – all of which boosted the redirection of the Muslim culture in Uganda specifically in Buganda. This ranged from grandeur to aspects like the adoption of gowns and garments replacing bark cloth, cultivation of some vegetables and fruits, introduction of square houses to the introduction of new skills and crafts, and more especially the skill of reading and writing. Moreover, that's why the concept of writing became so important with the Muslims in Uganda in business transactions and using the aspect of literacy in trying to understand and get informed about their religion. However, it's worth noting that Muslims still lagged in Uganda. This was result of the effects of issues like tribalism, colonialism and its systematic Islamic marginalisation, and the devastating effects of the 1880s political-religious wars. Moreover, these wars resulted in eventual defeat and exiling of Muslims from Buganda and scattering randomly allover Uganda (Aisha, 2020). Besides, there has been a great impact of Islam on the cultures of societies in Uganda that were introduced to Islam quite early, and this is so typical with Buganda in central Uganda, where Islam was first introduced as early as the 1840s. Indeed, Islam influenced marriage in Buganda, funeral rites, and prayers among others (Kasule, 2016). Moreover, religious beliefs are key in shaping entrepreneurial behaviours in different parts of Uganda as entrepreneurs rely on religion to define and cope with challenging contexts in their businesses (Namatovu *et al.*, 2018).

However, in several studies, religion's role in the context of influencing entrepreneurial investment decisions is highlighted among Ugandans (Namatovu *et al.*, 2018). Moreover, these are not specific to Muslim commercial culture in line with *muamalat* principles guiding Islamic banking and finance. Besides, the 2014 population census showed that Muslims are a minority (16%) compared with Christians (84%), as the rest subscribe to traditional religions. Therefore, given their population representation, its worth analysing the development and salient features of their commercial culture. As a result, identify the sustainable *muamalat* features that aid the sustainability of their commercial culture. Moreover, this would help in systematically aligning the recently introduced Islamic financing in Uganda and as well contribute to tracing the impact of the culture on the general development of the country's economy.

However, the *muamalat* sustainable principles about the Muslim commercial culture may also lead to the inculcation of established Islamic golden principles of unity, vicegerency (Surah Al-Baqarah: 30), trusteeship, rights and responsibilities, justice and equilibrium, and the value of righteousness (taqwa) in the society. Indeed, all this would reflect Islamic finance thriving in line with *Shariah* principles that uphold the honour of Man. Besides, the information available on Islamic finance in Uganda is still limited and simply related to scanty insights about the Muslim culture. Indeed, the lack of highlight on such *muamalat* guiding principles informing Islamic finance would limit the Muslims' substantive recognition of their role in the economic development by the government and thus undermine their immense contribution towards a better Uganda. Moreover, with the Islamic influence on the commercial culture within the Ugandan population, new phenomena such as *halal* and *haram*, *okusoma* (reading), *minzani* (weighing scale), and *maali* (wealth), among other aspects of life and commerce emerged.

Moreover, understanding the *halal* and *haram* concepts, it is required that Muslims follow an approach that accentuates the comprehensive nature of the Islamic law in balancing individuals'

needs with societal well-being in line with the strict *Shariah* guidelines (Al-Qaradawi, 2013). Besides, all things in principle are inherently permissible unless explicitly prohibited by *Shariah* as prohibitions are only aimed at preventing harm, promoting fairness, or ensuring justice. Indeed, the burden of proof lies in proving something is *haram* rather than *haram*.

However, the aspect of *halal* became so central to Islam and Muslims as it later came to define them as the only befitting candidates to slaughter animals and later carry on the responsibility of drivers (Wahab & Bolatito, 2023). Indeed, all this was attributed to Muslims never indulging in the haram of drinking alcohol and eating pork in the society and so they were deemed to be purer than their Christian counterparts. Most importantly, Muslims were more hygienic due to their aspect getting absolution every time, yet all this was observed without a clear-cut Islamic framework to follow but rather based on a few verses memorised from the *Quran*. Indeed, Islam portrayed a greater potential to serve as a commercial directing instrument in the country (Arima, 2018).

Moreover, through a correct understanding of the Islamic religion, there seemed to be the public promotion of human and Islamic dignity, politics centred on promoting the common good, business centred on advancing moral values, and Education centred on promoting socio-human and moral values because Islam was a complete civilisation. However, Uganda has been a member of the Organisation of Islamic Conference (OIC) since 1970, a status secured by the former Muslim president Idi Amin (Kasumba, 2015). During his reign, tens of thousands of Ugandans converted to Islam and enjoyed certain privileges such as maintaining their high offices in the military and government and benefiting from his aggressive economic policy against Asians (Lodhi, 1994). This was featured by Indians and other Asians' expulsion from the economy of Uganda, replacing them with indigenous Ugandans mainly Muslims. Moreover, this greatly led to the introduction of Muslims into formal commerce even though they were not well educated. Besides, even up to this end, the Muslim commercial culture was not based on or guided by any framework but simply based on political trends and episodes of the day.

Sustainability in the Islamic Context

The recent global catastrophes in energy crisis, recession, and adverse climate change resulted in the growth of the aspect of sustainability, starting with environmental discipline and cutting across different disciplines. Indeed, today, sustainability is so central in the commercial/business arena as reflected in the aspects of Corporate Social Responsibility among others. However, Islam had already in different *Quranic* verses cautioned man on the sustainability aspect especially as man plays the role of vicegerency on earth. Consequently, in this paper, we are evaluating *muamalat's* sustainable features that can inform Muslim commercial culture in Uganda based on *Shariah* principles. Since it's an evolving concept, sustainability is difficult to define although in general terms it means to endure. Besides, Sustainability can be technically understood as the ability of man to sustain long-term well-being that's dependent on the maintenance of the natural environment. In the context of a sustainable commercial culture, we are to analyse sustainability through the lens of society and commerce (Bromley, 2008). Therefore a sustainable society is where its needs are satisfied without diminishing the prospects of the future generation. However, from the commercial perspective, emphasis is placed on utilising resources in a form that you leave them better than how you found them. This reflects taking not more than what you need and not harming the environment (Young & Dhanda, 2013). Sustainability especially environmental is an aspect that's given a lot of attention in Islam. This is cited in many *Quranic* verses (Q.54:29, Q.25:2, Q.87:1-3 among others) and Sunnah. Sustainability is also one of the greatest concerns of Maqasid al-Sharia. Indeed, the realistic outlook of the *Quranic* paradigm on utilising the natural environment is based on the prohibition of aggression and misuse of productive and general environmental resources (Muhamad *et al*, 2020). For example, in Q.15:19 Allah points out that He created the earth and made everything to grow therein. This implies that Man can utilise the Earth's resources for his survival and regeneration. Besides, in Q.6:95, Allah shows that He is responsible for the germination of all that's sowed on the earth. This implies that man's role is to find means to plant or to invest within the earth and the responsibility of whatever investment concerning the degree of its survival is entirely dependent on Allah. However, Allah cautions man to

observe the measure in his efforts to utilise the earth's resources. This implies sustainability while utilising resources for purposes of doing business or survival (Q.55:7-9).

Indeed, society is the basis of culture reflected in the individuals' interconnected actions which influence and shape their moral aspirations and values (Muslehuddin, 2008). However, Islam concerns itself with the morality of individuals and focuses on the individuals' belief in Allah, and thus Islamic society and culture are based upon righteousness and mutual help (Q.5.2). However, with the present conditions in society being highly influenced by modernisation, the Islamic culture reflected in political, social, and economic perspectives has faced a lot of challenges.

Moreover, such challenges have ignited responses from Muslim societies all over the globe and propelled them to react especially in the economic aspect. For example, in response to the economic structure today that's based on credit reflecting interest, Islamic banking has emerged and developed mostly to provide solutions to the aspect of Ribah (Q.2:282). Indeed, sustainable growth in different commercial sectors like insurance/Takaful of Muslims in Uganda and the country at large can be realised through undertaking a systematic Islamic reflection on *muamalat* principles that guide Islamic banking and finance (Muhammedi *et al*, 2023).

Muamalat in the Context of Islamic Finance

The concept of *muamalat* has been identified as being applied by Muslim scholars in trying to fix complex issues in Islamic finance like that of profit in trade. Profit is allowed in Islam (Q 4.29) and taking of profit is mutually agreed upon by Islamic scholars (Sulong & Asni, 2018). However, it should be done fairly and justly and to this end, *muamalat* comes in to direct on this. For example, extreme profits highly surpassing the market price are not allowed according to Imam Abu Hanifah, and thus profit-taking must be aligned with fairness and equity implying that it must be in line with the risk and profit faced by the trader reflecting the concept of *wasatiyyah* – understood as moderate and affordable. Indeed, profit in Islam is a manifestation of the productivity of capital that has been invested by an entrepreneur, or reward for his hard workmanship, or for undertaking responsibility (Ishak & Asni, 2020).

Besides, the basic principle of *muamalat* is that “the origin of *muamalat* is permitted unless there is evidence of the prohibition”. Indeed, this implies that any forms of transactions and financial contracts are allowed in Islamic finance without the need for permission from any Islamic sources, as long they don't exhibit prohibited elements such as *riba* (interest), *gharar* (uncertainty), *maysir* (gambling), and non-Islamic activities (Baej & Worthington, 2014). Moreover, *fiqh muamalat* does not only deal with prohibition in Islamic finance but also has led to the development of different financial instruments that can be used to handle and execute different financial dealings reflecting the principles of Shariah. For example, there are instruments like exchange-based contracts, charity-based contracts, and security-based contracts developed under *fiqh muamalat* (Ishak & Asni, 2020). Indeed, the objective of Islamic finance is to ensure the achievement of wellbeing for all in the society and Muslim scholars have used *fiqh muamalat* to achieve this objective.

Moreover, they have undertaken to achieve this by using *maqasid al-Shariah* to bridge the practical applicability of banking with *muamalat* to foster just, ethical, social, and financial well-being for all in society (Islam *et al*, 2023). Therefore, it becomes important to identify and analyse key *muamalat* aspects that can help direct Islamic finance in Uganda where Islamic finance has just been introduced, to foster financial awareness and compliance with the principles and benefits of Islamic banking and finance.

3. METHODOLOGY

The study used a systematic literature review to identify, understand, and analyse the literature related to the objective of the study (Islam *et al.*, 2023). Besides, to be able to collate the available evidence to achieve a given objective, systematic reviews and meta-analyses are highly used. Indeed, they provide an opportunity to critically evaluate the available information to achieve high statistical

power (Shohrabi *et al.*, 2021). However, their transparency and consistency can be enhanced using the PRISMA guidelines. Moreover, this systematic literature review was executed following the PRISMA protocol to collect and analyse the items that were used (Kaweesa *et al.*, 2024a). Besides, the PRISMA method follows a checklist of items that are systematically considered by authors to ensure transparency and thus it was an appropriate method to achieve the objective of our study. This was done by first identifying publications from the Scopus database that were relevant to the study using the search protocol of "Observance of *Shariah* objectives" OR "Sustainability in Islamic banking and finance" OR "Prevention of harm in Islamic finance" OR "Benevolent loans" OR "Promotion of financial and social inclusion in Islam" OR "Islam in Uganda." Scopus database was used because it contains peer-reviewed journals that capture articles that have been exhaustively studied and empirically analysed. Thus, 17 articles were identified, and all were considered relevant for the study because their content related to the study was identified in the search fields of "Article titles", "Abstracts", and "Keywords" that were used to search for results for the search protocols. There were 13 articles and 4 book chapters all in the English language, covering the subject areas of Economics, Econometrics & Finance, Business Management & Accounting, Social sciences, Arts & Humanities, and Decision sciences. All were downloaded and examined for better extraction and understanding of the content related to the objective of the study.

4. FINDINGS AND DISCUSSION

Underlying Muamalat Sustainable Principles for Islamic Finance in Uganda

The general objective of the conventional financial system and culture is the maximisation of profits at all costs, paying minimal attention to the well-being of man and the environment (Baej & Worthington, 2014). Indeed, this has always given rise to unjust business dealings, regulations, and policies rendering society hostage to activities like fraud, scam, loss of assets, and unethical competition among others. However, the Islamic commercial culture entails much more than that, typically aiming at contributing to the fulfilment of Islam's social-economic objectives and the creation of a just society (Dusuki, 2011). Thus, this makes it a unique commercial culture that not only refrains from charging interest but also a culture where just, fair, and economic balance in society is envisioned to cater to all stakeholders in the commercial sector.

In the same way, the culture is underpinned by the principle of brotherhood and cooperation, aspects that foster equity-sharing, risk-sharing, and stake-taking. Moreover, there has been a promotion of cooperation mainly between providers and takers of funds in the Islamic commercial system (Azisah *et al.*, 2023).

Moreover, the Islamic commercial system is also underpinned by the ethical and moral values of *Shariah* featuring ethical norms and social commitments. This is mainly identified in the moral filters based on halal and haram that are key in the Islamic Economic system. Indeed, these filters direct the thinking of entrepreneurs and firms, enhance a positive social climate for investment in society, and provide a realistic legal framework. Besides, in the Islamic commercial culture, there's an emphasis on productivity and physical expansion of economic production and services. Thus, it is being community-oriented and entrepreneur-friendly.

Besides, in the Islamic commercial culture, there's also denouncing speculation which could destabilise business and become detrimental to the value of money. This is evidenced when the monetary flow through Islamic financial modes is tied directly to the flow of goods and services. Moreover, the above principles are underpinned in *Shariah*, and thus to understand the Islamic commercial or financial culture, it requires a thorough comprehension of its objectives and philosophy.

Enhancement of Financial and Social Inclusion in Society

Besides, the biggest percentage of Uganda's population is made up of the youth and it's the country with the youngest population in the whole world who are also highly unemployed (Rietveld *et al.*, 2020). Moreover, studies show that the high unemployment among the youth has remained persistent

and translated into general redundancy leading to increased crime rates within varied societies in different parts of the country (Cieslik *et al.*, 2022). Indeed, this has robbed such societies of peace and gotten a big chunk of the taxpayers' money channeled to combatting crime. However, *muamalat* directs unique features of justice, brotherhood, social equity, and equitable distribution of resources in Islamic finance, for all individuals in society. Moreover, such features can help to check on the increased unemployment levels of the youths in Uganda and foster their financial and social inclusion (Islam *et al.*, 2023). Therefore, through *muamalat* products like profit and loss sharing (PLS) mechanisms, finance institutions can mobilise rural savings and be able to extend affordable credit to even the folks in the most remote areas, getting them engaged in productive economic activities in their respective localities and social segmentations. Indeed, the PLS instruments can also be instrumental in promoting small and medium-sized enterprises (SMEs), a concept so widely spread across different parts of Uganda from conventional arrangements (Thaidi *et al.*, 2023).

Besides, the difference here is that Islamic SMEs would be Collateral-free as the financial engagement would be based on partnership. This would accommodate groups of people who cannot access collateral in the realm of getting financial assistance (Ozdemir *et al.*, 2023). Besides, viable projects in different parts of the country would be improved, specifically reaching out to those who are economically viable but without realistic collateral financial muscle.

The Concept of Collection and Distribution of Zakat and Sadaqah

Zakat giving is the fourth pillar of Islam obligatory to those who have more than the stipulated *Nisab* (bare minimum) in society, extending to those categories of individuals without or with financial difficulties as prescribed in the *Quran* (Islam *et al.*, 2023). Besides *zakat*, *muamalat* unfolds another great social financial instrument to Islamic finance called *sadaqah* – so much encouraged for all Muslims if they are to get and attain worldly and the hereafter well-being.

Indeed, the two instruments are so distinctive for poverty alleviation and inequality reduction in society-instrumental Islamic social finance tools that can yield greater social well-being if utilised (Migdad, 2019). Indeed, they can minimise hatred that can be emitted to the rich from the poor and thus can foster brotherhood, and social cohesion in society and aid mutual sustainability of societal interests (Azisah *et al.*, 2023). However, in Uganda, several *zakat* collection centres are in places with high Muslim population like Kampala with headquarters and the Kibuli mosque *zakat* collection and distribution office, among others depending on the locality of respective Muslim societies across Uganda (Hamzah, 2018). Indeed, *zakat* institutions and *halal* branding impact positively and significantly on Muslim interest in consuming *halal* products (Azisah *et al.*, 2023).

However, the more pronounced and organised of all these is the House of *Zakat* and *Waqf* Uganda an organisation dedicated to the collection and distribution of *zakat* across the challenged Muslim communities in different parts of Uganda. Indeed, it is more transparent in its operations than the rest of the *zakat* collection offices. Besides, the House of *Zakat* and *Waqf* Uganda has engaged in getting financial assistance for Muslims in the forms of helping them access Education and distribution of food and shelter relief items to the economically hard-hit Muslim communities in different parts of Uganda. However, *zakat* and *sadaqah* funds can be leveraged more as a tool to effectively alleviate poverty through undertaking the objective of turning the *asnaf* into *zakat* and *sadaqah* givers (Hamzah & Muhammed, 2021).

Establishment of Qard Hasan (Benevolent Loans)

Among the most highly rated challenges limiting financial inclusion in Uganda is the inability to access financial assistance by many Ugandans due to aspects like lack of collateral and most importantly the high interest rate on the premiums charged by different financial institutions (Onzia, 2021). Moreover, those who try to bypass the lengthy procedure to access loans from financial institutions end up trapped by loan sharks who extend predatory loans to them and eventually end up losing their valuable collateral assets. However, *muamalat* provides a unique financial feature in Islamic finance to offset such loan challenges, which can aid financial and socially sustainable well-being for all members of society. Indeed, this is realised in *qard hasan*, a financial instrument in

which the borrower is required to pay only the original amount of the loan (Baej & Worthington, 2014). Moreover, in Uganda, *qard hasan* is extended mainly on *zakat* and *waqf*-based financing arrangements mainly by the House of *Zakat* and *Waqf* Uganda organisation (HZWU). Moreover, the arrangement is mainly through extending capitalisation for small business startups mainly for financially challenged women (Kaweesa *et al.*, 2024b). Indeed, such are women who have been rendered vulnerable because of divorce or the loss of their spouses. Besides, the requirement is to have a business idea that is viably fit to operate in the respective areas of their residence – and they are expected to return the actual amount originally extended to them by the organisation. It's an instrument that can help enhance financial and social inclusion in society as it's a loan of benevolence, extended to needy people for a fixed period without requiring the payment of interest or profit (Azisah *et al.*, 2023). Besides, *zakat* and *qard hasan* were identified as possible financing methods to financially uplift poor individuals and SMEs from the adverse effects of coronavirus. The *Quran* in several verses encourages Muslims to extend *qard hasan* by assuring reward in this world and the hereafter (Q:2:245, 5:12, 57:11, 64:17, 73:20).

Besides, Islamic financial institutions in Uganda can use *qard hasan* as a form of social contribution, especially to their clients with cash-flow challenges (Al-Suwailem, 2022). Moreover, in Nigeria, Islamic social finance products such as *sadaqah*, *zakat*, and benevolent loans have been suggested to foster more financial inclusion and reduce income inequality within the society (Abdullahi *et al.*, 2021). Although some studies indicate the unpractical applicability of *qard hasan* arrangement in tailoring products like the Islamic credit card in Jordan due to the *Shariah* issue of possession, *qard hasan* can be a great financial comprehensive model to be used in providing start-up capital to socially committed business ventures (Alhusban *et al.*, 2021).

Conservation of Societal Values and Averting of Harm

Despite Ugandan Muslims coming from different cultural setups of varied tribes, they are keen on the preservation of such values and heritage as exhibited in their social norms like ceremonies, naming, and societal economic activities among others (Kasumba, 2015). For example, economic activities like agriculture, trade, and cattlekeeping are so central to many societies in Uganda and have been keenly preserved for subsequent generations. However, *Muamalat* has an ingredient embedded in Islamic finance that would not only foster the preservation of such values but also protect them from getting annihilated because of the desire for profit maximisation by Islamic financial institutions (Khan, 2013). Moreover, this is laid down in the concept of *maslahah*, an instrument so instrumental in helping to keep societal values intact and continuous. *maslahah* is key to seeking benefit and avoiding harm as directed by the lawgiver.

Promotion of Ethical Values and Exhibition of Quality Customer Service

One of the limitations of conventional finance is the lack of clearly detailed guidelines on the promotion of financial ethical values for all stakeholders in the financial system. As a result, there have been occurrences of financial catastrophes as that of 2008 linked to unethical financial issues like “false financial statement disclosures” leading to customers getting misguided in their investment decisions. However, *muamalat* aids Islamic banking and finance with clearly outlined financial ethical, and moral principles as laid down by *Shariah*, which are highly fitted for all places, times, and societies. Indeed, the most paramount of these principles is that all stakeholders engaging in business must be God-conscious in ways that whatever they are doing, they are watched by God. However, this is instilled among Islamic banking subscribers in all capacities and will reflect fairness and a just financial platform for all even for those who are less financially included (Abdullahi *et al.*, 2021). Indeed, this can further be executed when Islamic banking institutions in Uganda make efforts to provide Islamic ethical conduct about *muamalat* transactions for different stakeholders that are utilising services and consuming products of such institutions.

5. IMPLICATIONS

Indeed, it becomes vital to inform what would be the appropriate practices in a financial system like that of Uganda as a way of making such systems Islamically/ethically operational. Thus, in this

paper, we suggested what would be the best ingredients for shaping an ideal Muslim commercial culture in Uganda to be the basis of making it better and fully guided by Sharia guidelines as evidenced in the *Quran* and *Hadith*. Besides, Islamic finance in Uganda should be based on the principle of achieving ethical and social responsibility reflected in financial well-being among Ugandans (Khan, 2013).

Moreover, training of Islamic financial institutional staff in Islamic ethical values should be given priority by proprietors to exhibit and maintain high-quality service delivery to their customers to satisfy customers' needs (Khan, 2013). This is key as customers are newly experiencing Islamic banking products and services, and thus Islamic finance institution staff should engage clients as per the Islamic guidelines provided in the *muamalat* in the form of observing patience and understanding towards the clients. Besides, Islamic financial institutions in Uganda ought to engage in business regarding the protection of economic and social values in society as they seek to earn economic benefit. Moreover, social evils like corruption and misuse of societies' natural resources can be minimised.

However, the House of *Zakat* and *Waqf* Uganda (HZWU) has not yet so much engaged in the social financing of communities – an arrangement so novel that has been used to foster the financial well-being of the poor in countries like Malaysia (Siwar, 1991). Moreover, this helps them start small businesses to sustain themselves besides being dependent on periodical economic reliefs more so fostering rural development. Moreover, the *sadaqah* collection and distribution in Uganda is not yet well centralised, and it is entirely within the control of respective Imams of the different mosques across the country. Besides, Muslim societies in general haven't benefitted from such *Sadaqah* collections, save the collectors and for their gains (Hamzah & Muhammed, 2021).

In general analysis, the *muamalat* features are so unique as they foster wealth redistribution, caring, and harmony among people expressing the principle of justice and equality in society as laid down by Islamic law (Azisah *et al.*, 2023). Besides, in countries like Malaysia, Islamic financial institutions play a big role in not only giving *zakat* and *sadaqah* but also providing proper channels for their collection pending their official final distribution (Migdad, 2019). Besides, the fees charged in late payments to clients by Islamic banks as a penalty are channelled to charity to help boost the social and inclusion capacity of disadvantaged groups in society.

6. CONCLUSION, LIMITATIONS AND FUTURE RESEARCH

Besides, *muamalat* guidelines make Islamic finance very comprehensive in both its objectives and philosophy. It's not only expected of individuals and institutions participating in the industry to observe technical requirements and refrain from charging interest but also to take a step further to enable observance of socio-economic aims and objectives of a just economic environment in the society. So Islamic finance is mainly hinged on *fiqh muamalat*, this study identified key exceptional features that can aid the development of Islamic banking in Uganda, much as its functions might appear the same as those executed by conventional banks. Indeed, the Islamic worldview observes that man is simply a vicegerent on earth who is supposed to refrain from all forms of economic corruption, misuse of natural resources, and catering for the conservation and continuity of life in all aspects of life.

This study required an empirical extension within the Ugandan context as we based only on the Systematic review methodology. Indeed, this would better help us understand the feasibility of *Muamalat* financial principles' applicability in the Ugandan context as the industry has a potential future in the country.

Indeed, the aspect of *maqasid al-Shariah*, which is a cornerstone in interpreting the *muamalat* principles related to Islamic finance, should always be given preference purposely to accommodate all that can enable Man to achieve well-being without distorting the ecosystem in different aspects. Therefore, future research on Islamic financing should consider engaging the relevance of *maqasid*

principles in shaping the Islamic finance industry in Uganda technically aligning with the sustainability and novel human values that are dedicated to the preservation of humanity.

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MODELLING REMEDIES TO *WAQF* LIQUIDITY CONSTRAINTS: THE CASE OF *WAQF* UNIT TRUST MODEL (WUTM)

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ABSTRACT

The history of *the waqf* institution is rich with impressive achievements that cover each phase of socio-economic life and human development. However, recent initiatives among local *waqf* institutions indicate that the liquidity limitation contributes as the core concern to cultivating further development undertakings. This research aims to offer a sustainable source of financing through the application of the *waqf* unit trust model (WUTM) for local *waqf* institutions in mitigating their liquidity constraint to cultivate *waqf* undertakings such as land rejuvenation, health sector improvement, educational sector enhancement and other critical necessities. Specifically, this study aims to discover the liquidity constraints needed in *waqf* institutions in Malaysia, to propose an alternate WUTM in fostering liquidity of *waqf* assets, and to explore the pertinent stakeholders' stance on the feasibility of the model proposed. This research employs in-depth interview methods for data collection with the *waqf* practitioners such as authorities from the State Islamic Religious Council (SIRC), financial consultants linked to capital market development, academicians engaged with *waqf*-related projects, and regulators of Islamic capital market stationed in Klang Valley (the State of Selangor and Federal Territory of Kuala Lumpur), Penang and Johor state of Malaysia. Findings propose the craft of the WUTM framework could potentially assist in liquidity pooling, cash flow solutions and generate continuous income and wealth. This study contributes to the body of knowledge by offering a potential remedy for the liquidity constraint faced by *waqf* institutions.

KEYWORDS: *WAQF, LIQUIDITY, WAQF UNIT TRUST MODEL (WUTM), ISLAMIC CAPITAL MARKET*

ABSTRAK

Sejarah institusi wakaf kaya dengan pencapaian yang mengagumkan yang merangkumi setiap fasa kehidupan sosio-ekonomi dan pembangunan manusia. Walau bagaimanapun, inisiatif terkini dalam

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kalangan institusi wakaf tempatan menunjukkan bahawa kekangan kecairan merupakan isu utama yang menghalang perkembangan selanjutnya. Penyelidikan ini bertujuan untuk menawarkan sumber pembiayaan yang mampan melalui aplikasi Model Wakaf Unit Amanah (WUTM) bagi institusi wakaf tempatan dalam mengatasi kekangan kecairan untuk melaksanakan projek wakaf seperti pemulihan tanah, penambahbaikan sektor kesihatan, peningkatan sektor pendidikan dan keperluan kritikal lain. Secara khusus, kajian ini bertujuan untuk mengenal pasti kekangan kecairan yang dihadapi oleh institusi wakaf di Malaysia, mencadangkan WUTM sebagai alternatif bagi meningkatkan kecairan aset wakaf, serta meneroka pandangan pihak berkepentingan terhadap kebolehlaksanaan model yang dicadangkan. Penyelidikan ini menggunakan kaedah temu bual mendalam untuk pengumpulan data dengan pengamal wakaf seperti pihak berkuasa Majlis Agama Islam Negeri (MAIN), perunding kewangan yang terlibat dalam pembangunan pasaran modal, ahli akademik yang menjalankan kajian berkaitan wakaf, serta pengawal selia pasaran modal Islam di Lembah Klang (Negeri Selangor dan Wilayah Persekutuan Kuala Lumpur), Pulau Pinang dan negeri Johor. Dapatan kajian mencadangkan bahawa rangka kerja WUTM berpotensi membantu dalam pengumpulan kecairan, penyelesaian aliran tunai serta menjana pendapatan dan kekayaan secara berterusan. Kajian ini menyumbang kepada perkembangan ilmu dengan menawarkan penyelesaian berpotensi bagi mengatasi isu kekangan kecairan yang dihadapi oleh institusi wakaf.

KATA KUNCI: WAKAF, KECAIRAN, MODEL WAKAF UNIT AMANAH (WUTM), PASARAN MODAL ISLAM

1. BACKGROUND

The history of *waqf* (Islamic endowment) institutions is indeed filled with remarkable achievements that have contributed significantly to socio-economic development and human well-being across centuries (Thaker, 2023). From the early days of Islamic civilisation, *Wa waqf qf* has served as a robust social welfare system, financing essential services such as education, healthcare, infrastructure, and community development. Its scope has extended across many phases of human development, adapting to the socio-economic needs of societies, with notable examples illustrating its impact on different areas of life. *Waqf* in the education sector has as an instrumental role in the development of educational institutions throughout Islamic history. One of the most notable examples is the founding of Al-Qarawiyyin University in Fez, Morocco, in 859 A.D. (Hoque & Abdullah, 2021), which is recognised by UNESCO and the Guinness World Records as the oldest continuously operating degree-granting institution in the world. This university was funded through *Waqf* endowments, providing free education to students and sustaining itself through the revenue generated from endowed properties.

Similarly, the Al-Azhar University in Cairo, established in the 10th century, was funded and sustained by *waqf* (Hasan *et al.*, 2019). The institution became a global centre of Islamic learning, with its scholars making significant contributions to various fields, from theology to science. The funding from *waqf* ensured that students, including those from economically disadvantaged backgrounds, could access education. The income from *waqf* properties allowed these institutions to offer scholarships, maintain facilities, and attract scholars from around the world. Modern example in Malaysia, *waqf* has been used to establish Islamic schools (madrasahs) and assist educational development in universities such as the International Islamic University Malaysia (IIUM), which has been supported by *waqf* funds (e.g.: IIUM Endowment Fund) (IIUM Endowment Fund, 2024). This reflects the ongoing relevance of *waqf* in financing education and ensuring accessibility for future generations.

Uniformly, in the lens of healthcare, *waqf* also has a long history of contributing to the healthcare sector. During the medieval Islamic period, hospitals, known as *bimaristans* (Islamic hospitals), were often established through *waqf* endowments (Sulistyowati *et al.*, 2022). One of the earliest and most famous examples is the Al-Nuri Hospital in Damascus, founded in the 12th century by Sultan Nur al-Din Zangi, and claimed to be the first of its kind to give relevant education to doctors and record patient details. The

bimaristans provided free medical services to the public, irrespective of religion or social status, and were funded entirely by *waqf*. Physicians, nurses, and medical supplies were all sustained by the income generated from *waqf* properties (Sulistyowati *et. al.*, 2022; Al Ansari, 2013). The Mansuri Hospital in Cairo, established in 1284 by Sultan Qalawun, was another notable *waqf*-funded institution. This hospital was one of the largest in the medieval world and treated thousands of patients annually. *Waqf* not only covered the operating costs of the hospital but also ensured that it could offer free medical care to all patients. In contemporary times, the *waqf* model continues to contribute to healthcare. For instance, in Malaysia, the *Waqf* An-Nur Corporation, a subsidiary of Johor Corporation, has established *waqf* around 24 clinics, dialysis centres and hospitals offering affordable healthcare services to the underprivileged. The revenue generated from *waqf* properties helps subsidise medical treatments for low-income patients, making healthcare accessible and reducing the burden on government resources.

At the same time, *waqf* institutions have historically played a pivotal role in building and maintaining public infrastructure, including mosques, roads, bridges, and water supply systems. These infrastructural developments not only facilitated religious and social life but also contributed to the overall economic development of communities. An example is the development of public fountains and wells throughout the Ottoman Empire, funded by *waqf*. In arid regions, access to clean water was critical, and *waqf*-funded water systems ensured that the public had free access to drinking water. In many cities, entire neighbourhoods, including homes, markets, and public baths, were financed by *waqf* endowments, benefiting all sections of society (Çelik, 2015). In Malaysia, the *waqf* land development scheme has been used to build affordable housing projects and commercial developments. These projects provide housing for low-income families and generate income for the *waqf* institution. In Penang, for example, a joint venture between SIRC of Pulau Pinang and UDA Holdings as a developer has developed about 76 units of double-storey terrace houses and 21 units of commercial units at Seberang Jaya. In addition, many developed mixed-use properties, such as Project Seetee Aisah, include residential units, shops, and community centres. This not only helps meet the housing needs of the community but also generates sustainable income for the *waqf* institution, which can be reinvested in other social welfare projects.

Moreover, one of the primary goals of *waqf* is to support the poor and needy, and many *waqf* initiatives have been aimed at poverty alleviation. In medieval times, *waqf* institutions would establish soup kitchens and orphanages to provide food, shelter, and education for the underprivileged. These services were often provided free of charge, sustained by the income from *waqf* properties, ensuring the social and economic well-being of the most vulnerable segments of society (Teller, 2022). Modern-day examples can be seen in Türkiye, where the Turkish *Waqf* Foundation continues this tradition by managing large-scale social welfare programs that provide food, clothing, and educational support to the poor. The foundation uses the revenue generated from its *waqf* properties to fund programs that aim to alleviate poverty and support marginalised communities. With the Law on Foundations No. 5737, the General Directorate is given the duty to open and operate soup kitchens where necessary. Food aid services are carried out in the form of delivery of dry food packages consisting of 15 kinds of food products delivered to the address throughout the country. Dry food packages are distributed every month in Türkiye as well as in Kosovo, Bosnia Herzegovina, Macedonia, Turkish Republic of Northern Cyprus, and every year during Ramadan month (Directorate General of Foundations, Republic of Turkey, 2024).

Cisakca (1998) affirmed that the *waqf* institutions were shown to fulfil the community's needs without reliance on the government. The *waqf* endeavours in Malaysia have been the main source of contribution for the societal welfare inclusive for education, health care, national security, transportation facilities and basic infrastructure (Asuhaimi *et al.*, 2015). Moreover, the *waqf* institutions also contributed towards the preservation of the environment, religion and cultural heritage (Mohsin *et al.*, 2016).

Hence it verified that the *waqf* institution has demonstrated its remarkable versatility in addressing the socio-economic needs of communities across different historical periods. Whether through the financing

of education, healthcare, infrastructure, social welfare, or religious institutions, *waqf* has been an essential tool for promoting human development and ensuring the well-being of society. At present, *waqf* continues to play a vital role in modern Islamic economies, with innovative applications such as *waqf*-based microfinance, real estate development, and healthcare services, demonstrating its ongoing relevance. These examples reflect the *waqf* institution's rich legacy and its profound impact on various phases of human development throughout history.

This research aims to propose remedies to financial liquidity constraints faced by *waqf* institutions in Malaysia. The research further makes evident the feasibility of *waqf* unit trust model (WUTM) in mitigating the liquidity limitations. Specifically, this study targets to achieve the outline objectives as to discover the liquidity constraints need in *waqf* institutions in Malaysia, to propose an alternate WUTM in fostering liquidity of *waqf* assets and to explore the pertinent stakeholders' stance on the feasibility of the model proposed.

2. WAQF LIQUIDITY CONSTRAINTS

Despite the significant achievements of *waqf* institutions, their efforts have been fraught with numerous challenges. The stagnation of *waqf* assets can be attributed to several factors. Among these are the inconsistencies in laws and enactments governing *waqf* assets across different states (Kader, 2016), the non-strategic location of *waqf* lands (Othman, 2015), and a low level of public awareness regarding *waqf* (Adeyemi *et al.*, 2016). Additionally, the deteriorating physical condition of *waqf* assets, poor record-keeping practices (Ihsan & Hameed, 2011), unauthorised encroachments by individuals seeking personal gain, inadequate database management, and a lack of both human capital and financial resources (Pitchay & Jalil, 2016) remain persistent challenges. These factors have been identified as key reasons for the underdevelopment of *waqf* assets (Yusof, 1999; Hamid, 1999; Sabit *et al.*, 2005; Amuda & Embi, 2013; Siraj & Karbhari, 2014; Pitchay & Jalil, 2016), leading to the mismanagement and unproductive utilisation of *waqf* assets in many countries (Harun *et al.*, 2012).

The **SULTAN OF PERAK, HRH SULTAN NAZRIN MUIZZUDDIN SHAH**, who envisioned the country becoming a global leader in the Islamic finance industry, has moved the Malaysian *waqf* institutions toward a global orientation (Sultan Nazrin Muizzuddin Shah, 2018). HRH further asserts the crucial need for *waqf* institutions to gain the trust for social-economic expansion and sustainability and act as an exemplary to other countries to emulate and pave the means for internationally essential development. The *waqf* endeavours in Malaysia were mainly sourced by the federal government funding through the RMK9-10 to each SIRC. Bernama reported that under RMK-9 RM256.89 million was allocated for the development of 16 projects and RM72.76 million in RMK-10 for 10 selected projects (BERNAMA, 2012). Nevertheless, recent statistics depict that only 12% of 31,000 hectares of *waqf* land has been developed (Aziz, 2019). Further, Amarudin (2017) reported that millions of ringgits worth of *waqf* land are still idle as the SIRC has no adequate funding and liquid funds and expertise available to develop it.

Even though throughout the year some of the issues have been gradually rectified, the inadequate capital reserves especially in the form of mobilising liquid *waqf* funds under each State Islamic Religious Council (SIRC) remain an issue that has to be rectified now for better *waqf* institution locus in the future. Addressing these constraints requires innovative strategies, such as crowdfunding cash *waqf* models, which not only alleviate monetary limitations but also enhance transparency, wealth circulation, and financial inclusion (Al-Daihani *et al.*, 2024). Furthermore, *waqf* capacity to support sustainable development goals highlights its critical role in achieving social welfare and economic sustainability (Hashmi, 2022). Thus, efficient cash *waqf* structures and supportive legal frameworks are imperative for maximising *waqf* impact on socio-economic progress. Thus, the sustainability of effort is essential for the *waqf* institutions to maintain adequate liquidity used to support the development and flourishing the socio-economic well-being and stability of ummah at large.

Liquidity assessment is vital to cultivate robust economic operations. While the pool of *waqf* assets endowed is important, at the same time, the liquidity criteria of the endowed *waqf* assets are equally essential to further escalate the capacity of *waqf* assets distribution to its beneficiaries and further development of *waqf* institutions. Table 1 illustrates the comparison with other *waqf* models in terms of liquidity, investment mechanisms, sustainability and governance;

TABLE 1: COMPARISON WITH OTHER WAQF MODELS

Model	Liquidity	Investment Mechanism	Sustainability	Governance
Traditional Fixed-Asset <i>Waqf</i>	Low	Primarily real estate and endowments	Limited	Managed by SIRC's or <i>waqf</i> trustees
Cash <i>Waqf</i>	Moderate	Deposited in <i>waqf</i> banks or financial institutions	Dependent on donors' contributions	Requires financial institution involvement
<i>Waqf</i> Crowdfunding Model	Moderate to High	Digital fundraising platforms with micro-investments	Sustainable if donor engagement is maintained	Requires FinTech platforms for transparency
<i>Waqf</i> Unit Trust Model (WUTM)	High	Invested in <i>Shariah</i> -compliant unit trusts	Self-sustaining with reinvestment	Regulated by Islamic financial institutions and SIRC's

Source: Table by Authors

Liquidity and financial constraints are highly correlated with each other (Hovakimian & Titman, 2002). The investigation by Hovakimian and Titman (2006) asserts that financially constrained firms are likely to have higher liquidity risk than unconstrained firms, and illiquid firms are expected to have more financial constraints than liquid firms. This reflects the same need of SIRC's in managing *waqf* collection whereby the *waqf* asset in the form of liquid is an essential element to efficiently manage and develop the existing *waqf* assets (Thaker & Pitchay, 2018).

Hasan and Abdullah (2008) in discovering the investment of *waqf* land as an instrument of Muslim economics in Malaysia highlighted that the issue of financial resources is found as the major factor that limits the growth of *waqf* lands in Malaysia. On that note, Sabit (2009) asserted that the *waqf* institution needs to be independent and self-reliant to overcome liquidity problems. This is because the SIRC's in Malaysia commonly depend on government grant allocation. Studies have shown that special grants and resources amounting to RM 329.2 million were allocated to JAWHAR in the 9th Malaysian Plan (RMK-9) and 10th Malaysia Plan (RMK-10) to develop *waqf* projects including hotel development, dialysis centre, and shop houses (Mokhtar, 2014, 2014; Thaker & Pitchay, 2018). BERNAMA (2012) reported that in (RMK-10), unfortunately, the government has reduced the allocation of the budget to RM72.76 million because of unwanted economic reasons. Utilising the total allocation of budget in RMK-9 and RMK-10, it was known that only 0.16 per cent of total existing *waqf* land was managed to develop. This depicts that the major constraint to empowering and nurturing *waqf* assets in Malaysia lies in liquidity availability.

That, investigation by Yeh *et al.* (2022), Moghaddam and Mohammadi (2016) and Chang *et al.* (2007) found that financial constraints can significantly impact the liquidity and investment decisions of *waqf* institutions. These constraints often lead to higher liquidity risks and can affect the ability to raise capital. Chowdhury *et al.* (2012) distinguished that there are certain issues about the administration of *waqf* assets, specifically related to financial and liquidity constraints. Chowdhury *et al.* (2012) claimed there was an occasion where the *waqf* funds were found insufficient to even bear the operational cost of existing *waqf* properties. It is also found that several existing *waqf* properties are known as not capable of

self-generating income. Receiving the earning of compensation for the acquisition of *waqf* properties also experiences unbearable delays. Thus, these issues could further impede the liquidity resources within *waqf* institutions.

Several studies conducted to examine the present development of *waqf* in many countries. Most of the researchers focused on how to revive the role of *waqf* in the present environment which becomes ineffective because of capital or financial constraints, in particular. According to the earlier study until recent studies (Ahmad, 2007; Puad *et al.*, 2014; Jalil, 2020; Kamaruddin, 2024) on *waqf* challenges in Malaysia, it is commonly found that there was a lack of capital for developing existing *waqf* assets. It is further asserted that the income generated from *waqf* assets is too low due to a few factors such; as the rental of the *waqf* assets being lower than the market value; the rental payments for *waqf* assets being long overdue; and lack of manpower for collecting rentals.

As an implication, the disbursement of SIRC's exceeds the revenue generated. In a similar vein, Habshi and Othman (1998) noted that Muslim countries like Malaysia are struggling to use the existing *Waqf* lands because of internal constraints. According to their findings, financial constraints are among the main factors that hindered the growth of *waqf* assets in Malaysia. Their findings are relatively consistent with the recent study conducted by Pitchay *et al.* (2015) and Mahomed (2019) who found that the lack of capital faced by *waqf* institutions is among the main reasons why *waqf* lands and immovable *waqf* assets could not continuously benefit the society at large. Stressing the issue, Mahomed (2019) asserted that 13, 400 hectares of underdeveloped or idle *waqf* property in Malaysia will become a burden to future generations as significant portions are untouchable once designated as *waqf*.

Studies to date have inclined to emphasise merely on the financial constraints in developing *waqf* assets by SIRC's (Sabit *et al.*, 2005; Mohsin *et al.*, 2016; Osman *et al.*, 2016; Pitchay & Jalil, 2016; Thaker 2018; Jalil, 2020; Kamaruddin, 2024). Almost none of the earlier studies attempted to discuss or conceptualise a *waqf* institution's expansion through strengthening the liquidity requirement.

3. METHODOLOGY

Seidman (2006) highlights that interviews are a valuable data collection method, enabling researchers to directly engage with respondents' narratives, and facilitating a meaning-making process. This approach seeks to elicit reliable and meaningful insights based on participants' experiences and perspectives, particularly regarding strategies to advance *waqf* development. To ensure confidentiality, participants' identities are coded to safeguard sensitive information. This study employs in-depth interviews with *Waqf* practitioners, including representatives from State Islamic Religious Councils (SIRC), financial consultants, academicians involved in *Waqf*-related initiatives, and regulators based in Klang Valley (Selangor and Kuala Lumpur), Penang, and Johor, Malaysia. The number of interview participants is determined by data saturation, ensuring comprehensive coverage of relevant themes. A judgmental sampling method is utilised to select respondents with substantial knowledge, expertise, and exposure in the *Waqf* domain, ensuring the quality and relevance of the data collected. Overall details of the respondents in the interview are shown in Table 2 below;

TABLE 2: DESCRIPTION OF RESPONDENTS

No	Gender	Experience	Age range	Position	Institutions	Code
1	Male	5-10 years	30-35	Associate Financial Adviser	EZAZ Wealth Management & Consultancy	FC1
2	Male	15-20 years	35-40	Penolong Pengurus Kanan	Unit Pengurusan <i>Waqf</i> , Bahagian Pembangunan	S1

AHMAD KHALIQ, ASMY THAS THAKER, HASSANUDDIN THAS THAKER, ANWAR ALLAH
PITCHAY & MOHAMAD ISA

3	Female	10-15 years	40-45	Timbalan Pengurus	dan Pelaburan, MAIWP Unit Pengurusan <i>Waqf</i> , Bahagian Pembangunan dan Pelaburan, MAIWP	S2
4	Male	5-10 years	30-35	Penolong Pegawai Hal Ehwal Islam	Unit Pengurusan <i>Waqf</i> , Bahagian Pembangunan dan Pelaburan, MAIWP	S3
5	Male	25-30 years	45-50	Chief Executive Officer/ Director	I-VCAP Management Sdn Berhad	FC2
6	Male	25-30 years	45-50	Head, Business Development	I-VCAP Management Sdn Berhad	FC3
7	Male	30-35 years	50-55	Resident Expert (Business Advisory)	(IBFIM) & (JAWHAR) Islamic Banking & Finance Institute Malaysia & Jabatan Wakaf, Zakat and Haji	A1
8	Male	10-15 years	30-35	Senior Lecturer	School of Management, Universiti Sains Malaysia	A2
9	Male	25-30 years	40-45	Secretary	Department of Management, MAINPP	S4
10	Female	30-35 years	50-55	Senior Lecturer	International Centre for Education in Islamic Finance (INCEIF)	A3
11	Male	15-20 years	30-35	Halal Investment Advisor	PMB Investment Berhad	FC4
12	Female	10-15 years	30-35	Land Planner Executive	Bahagian Penyelidikan & Pelaburan, Perbadanan Wakaf Selangor	S5
13	Male	15-20 years	45-50	Director	IIUM Endowment Fund	WC1
14	Male	10-15 years	30-35	Manager	Finance Division, Perbadanan Wakaf Selangor	S6
15	Male	10-15 years	35-40	Assistant General Manager, Islamic Capital Market Development. Development & Islamic Market	Securities Commission Malaysia	R1
16	Male	30-35 years	45-50	Director	Centre for Management of <i>Waqf</i> , Zakat and Endowment (WAZAN), UPM	WC2

Source: Table by Authors

The demographic analyses of respondents listed in Table 2 above belong to participants in the Islamic finance and *waqf* management sectors. Demographics reveal a diverse range of experience, age, and institutional affiliations. The dataset comprises 16 individuals, predominantly male (12 males and 4 females), with varying years of experience ranging from 5 to over 30 years. The age distribution spans from 30 to 55 years, with a notable concentration in the 30-35 and 45-50 age brackets. Positions held by these professionals include roles such as Associate Financial Adviser, Penolong Pengurus Kanan, Timbalan Pengurus, and Chief Executive Officer, among others. Institutions represented in this dataset include EZAZ Wealth Management & Consultancy, Unit Pengurusan *Waqf* (MAIWP), I-VCAP Management Sdn Berhad, Islamic Banking & Finance Institute Malaysia (IBFIM), Universiti Sains Malaysia, and the International Centre for Education in Islamic Finance (INCEIF). The data highlights a significant presence of senior roles, such as directors and managers, indicating a high level of expertise and leadership within the field. Additionally, the inclusion of academic positions, such as senior lecturers, underscores the integration of educational and practical aspects in the professional landscape of Islamic finance and *waqf* management. This demographic profile provides a comprehensive overview of the key players in this sector, reflecting a blend of seasoned professionals and emerging leaders contributing to the development and management of Islamic financial and *waqf* institutions.

4. FINDINGS

Waqf, as a vital bridge between societal and economic needs, plays a significant role in promoting economic and social inclusion. With instruments such as cash *waqf*, its inherent liquidity and diverse fund mobilisation mechanisms. At the same time, cash *waqf* can be vital instruments, especially for investment and direct *waqf* allocations, resulting in significant contributions to economic and infrastructure development (Hamza, 2017), particularly in countries with high levels of financial exclusion and social deprivation (Nafar, 2019). Another impact of *waqf* liquidity constraints also that they hinder the effectiveness of *waqf* funds in addressing socio-economic difficulties and integrating Islamic redistributive institutions into inclusive development (Nafar, 2019).

This research aims to propose remedies to financial liquidity constraints faced by *waqf* institutions in Malaysia. The research further makes evident the feasibility of WUTM in mitigating the liquidity limitations. Specifically, this study aims to achieve the following outline objectives to discover the liquidity constraints needed in *waqf* institutions in Malaysia, to propose an alternate WUTM in fostering liquidity of *waqf* assets and to explore the pertinent stakeholders' stance on the feasibility of the model proposed. Based on the interview with respondents abovementioned in Table 1, several key findings align with the research objectives regarding liquidity constraints, the proposed WUTM, and stakeholders' perspectives.

4.1 Liquidity Constraints in *Waqf* Institutions

FC1 highlighted that managing *waqf* funds requires careful planning to avoid depreciation, especially given the volatility of fiat money. He emphasised the importance of diversifying investments to mitigate risks and ensure stable returns. Traditional investment platforms like fixed deposits and *sukuk* are preferred for their stability, but they often yield minimal returns, barely covering inflation rates. This underscores the need for more dynamic investment strategies to enhance liquidity while safeguarding the principal amount.

A2 highlighted that *waqf* institutions in Malaysia face significant challenges due to a shortage of human capital and financial resources. Many *waqf* assets, particularly land, remain idle because the State Islamic Religious Councils (SIRCs) lack the expertise to turn these assets into productive investments. The reliance on individuals with primarily religious backgrounds, rather than those with investment and financial expertise, exacerbates this issue. Additionally, the governance and bureaucratic hurdles within SIRCs further impede the efficient management and development of *waqf* assets.

A1 highlighted that *waqf* institutions in Malaysia face significant challenges in managing liquidity due to the traditional perception of *waqf* assets being limited to physical forms like buildings and land. There is a need to shift this perception to include financial instruments such as unit trusts, which can enhance liquidity. The expert emphasised that cash *waqf*, when invested in financial instruments like unit trusts, can be considered a *waqf* asset. This shift requires creating awareness among society and stakeholders about the broader definition of *waqf* assets.

The interview with WC1 highlighted several liquidity constraints faced by *waqf* institutions. One major challenge is maintaining the principal amount of cash *waqf* to prevent depreciation. The WC1 primarily invests in short-term, low-risk instruments like fixed deposits to ensure liquidity and security. However, the volatility of the market can impact the value of cash *waqf*, making it difficult to sustain the principal amount over time. Additionally, the lack of tax exemptions for *waqf* contributions compared to Zakat reduces the incentive for public donations, further constraining liquidity.

The interview with FC2 and FC3 highlighted that *waqf* institution in Malaysia face challenges related to the scattered expertise and varying levels of human resources across different states. While some states like Perak, Johor, Wilayah, and Selangor are more advanced in terms of literacy and resources, others lag behind. This disparity affects the overall efficiency and effectiveness of *waqf* management. Additionally, the need for a common platform and standardised guidelines at the national level was emphasised to streamline *waqf* activities and ensure consistent practices across all states.

S1, S2 and S3 highlighted significant challenges related to human and financial resources in *waqf* institutions. S1, S2 and S3 claim that not all *waqf* institutions are well equipped as some of them face a shortage of staff with comprehensive knowledge in *waqf* management, which affects the efficiency of *waqf* operations. The collection of *waqf* funds is relatively low, with most contributions coming from cash *waqf* through salary deductions, direct banking, and mosque collections. The lack of awareness and promotion of *waqf* also contributes to the limited financial resources. Additionally, the preference for low-risk investments, such as fixed deposits, to avoid depreciation of the principal amount further constrains liquidity.

FC4 highlighted that the main issue in *waqf* institutions is not the generation of *waqf* funds but the effective management and utilisation of these funds. There is a need for a business-oriented approach to managing *waqf* funds, focusing on financial strategies to grow the capital. The advisor emphasised that the current practice of collecting and immediately spending *waqf* funds without a growth strategy leads to a lack of sustainability. Additionally, the shortage of human capital with expertise in financial management is a significant constraint. The FC4 suggested that business professionals, rather than solely religious scholars, should be involved in managing *waqf* funds to ensure effective financial management and growth.

A3 highlighted significant challenges related to human capital and financial resources in *waqf* institutions. There is a shortage of skilled and knowledgeable personnel capable of managing *waqf* assets efficiently and finding innovative ways to enhance their productivity. Additionally, there is a lack of initiative in redeveloping idle *waqf* properties, which leads to unproductive assets. A3 emphasised the need for a comprehensive inventory of *waqf* properties and the identification of suitable redevelopment strategies based on their locations and potential uses.

S6 highlighted several liquidity constraints faced by *waqf* institutions. One significant issue is the impact of economic factors such as the implementation of GST and SST, which have reduced public contributions to *waqf* funds. Additionally, there is a preference for low-risk investments, such as fixed deposits, which limits the potential for higher returns. The strict criteria set by the fatwa committee also

restrict the diversification of investments into other financial instruments like unit trusts and equities. This conservative approach is driven by the concern of potential depreciation in the value of *waqf* funds, which hinders the growth and optimal utilisation of these funds.

S5 highlighted several challenges related to liquidity constraints in *waqf* institutions. One major issue is the difficulty in developing *waqf* lands, especially those that are small in size or located in rural and outback areas. These lands often become idle and unproductive due to their non-strategic locations and lack of accessibility. Additionally, the financial resources available for *waqf* projects are limited, making it challenging to cover operational costs and undertake new developments. The reliance on cash *waqf* contributions alone is insufficient to support large-scale projects, and obtaining financing from banks is also difficult.

R1 highlighted that one of the main challenges in *waqf* institutions is the lack of comprehensive data and statistics on *waqf* assets. This lack of information makes it difficult to manage and develop *waqf* properties effectively. Additionally, there is a need for a centralised or at least a well-organised database at the state level to track *waqf* assets and their utilisation. R1 also pointed out the difficulty in getting buy-in from State Islamic Religious Councils (SIRCs) for new financial products and investment strategies, which limits the potential for innovative approaches to managing *waqf* funds.

S4 highlighted several challenges related to liquidity constraints in *waqf* institutions. One significant issue is the conservative definition of cash *waqf* upheld by MAINPP, which requires converting cash into tangible assets before it is considered *waqf*. This traditional approach limits the flexibility and immediate utilisation of cash *waqf* for investment purposes. Additionally, there is a lack of expertise and innovative thinking within the SIRC to explore contemporary concepts and models for *waqf* management. To complicate the issue, if there's any bureaucratic structure and reliance on traditional scholars, it further hinders the adoption of new ideas and practices.

WC2 highlighted significant challenges related to liquidity constraints in *waqf* institutions. One major issue is the inherent risk and instability associated with using cash as a *waqf* instrument due to its nature as fiat money, which is subject to inflation and market manipulation. WC2 emphasised the preference for converting cash *waqf* into tangible assets to mitigate these risks. Additionally, there is a lack of comprehensive support and understanding of *waqf* within the political and regulatory framework, which hampers the optimal utilisation and management of *waqf* assets. The perception of *waqf* as an outdated or intangible concept further complicates efforts to market and expand *waqf* initiatives.

4.2 Proposed Waqf Unit Trust Model

The WUTM model, as discussed, appears feasible and beneficial for managing *waqf* assets. FC1 noted that the model's structure, which involves trustees holding the funds and professional fund managers handling investments, is similar to existing trust management practices in banks. This structure ensures that the funds are secure and managed professionally, potentially leading to better returns. FC1 also mentioned the importance of having a diversified portfolio, including a mix of low, medium, and high-risk investments, to optimise returns while managing risks effectively.

A2 expressed support for the WUTM model, noting its potential to provide a sustainable solution for managing *waqf* assets. A2 emphasised that the model's success would depend on professional management and collaboration between SIRCs and financial institutions. The WUTM model could leverage the expertise of unit trust managers to diversify investments and optimise returns, thereby enhancing the liquidity of *waqf* assets. A2 also suggested that the model should include a reinvestment strategy to compound growth over time, ensuring the perpetuity and sustainability of *waqf* funds.

A1 opined that the WUTM model is seen as a viable solution to foster liquidity of *waqf* assets. The expert explained that the model should involve the accumulation of cash *waqf*, which is then invested in unit trusts under the supervision of regulatory bodies like the Securities Commission Malaysia (SCM). This approach ensures the preservation of the principal amount while generating returns. The model's structure should include trustees for both the *waqf* fund and the investment fund to ensure proper administration and security of the assets. The expert also suggested that the model could incorporate various Islamic financial contracts, such as *Musharakah*, *Mudharabah*, *Tawarruq*, *Wakalah*, and *Ujrah*, to diversify investment strategies.

WC1 opines the WUTM model as a potential solution to enhance the liquidity of *waqf* assets. The WC1's experience with cash *Waqf* and endowment funds suggests that pooling funds and investing in diversified financial instruments can generate returns while preserving the principal. The WC1 follows a reinvestment strategy where 40% of the yield is reinvested to ensure sustainability. This approach aligns with the WUTM model's objective of fostering liquidity through strategic investments. The WC1's practice of combining funds with university investments and specifying portions for endowment purposes also supports the feasibility of the WUTM model.

FC2, FC3, S1, S2 and S3 opinions on the WUTM model are seen as a viable solution to enhance the liquidity of *waqf* assets. The interviewees suggested that the model should involve low-risk investments to secure the principal amount, with a mix of active and passive traded funds. Investments in stable companies, such as blue-chip stocks and *sukuk*, were recommended to ensure steady returns. The model could include different sets of *waqf* funds with varying investment horizons (e.g., 3, 5, 7 years) to cater to different needs and objectives. The importance of reinvesting a significant portion of the returns to sustain the fund was also highlighted.

The WUTM model is seen as a viable solution by FC4 as it has the potential to enhance the liquidity of *waqf* assets. The FC4 recommended long-term investments (5 years and above) in unit trusts to minimise risk and maximise returns. The model should involve a mix of equity investments and bonds, with a preference for bonds due to their capital protection and short-term return potential. The advisor also highlighted the importance of setting clear goals and strategies for the WUTM model, including the reinvestment of returns to sustain the fund. The use of professional fund managers and corporate trustees was suggested to ensure proper governance and management of the WUTM model.

The WUTM model is seen as a viable solution to enhance the liquidity of *waqf* assets. A3 suggested that the model should involve professional fund managers to ensure efficient management and growth of the *waqf* funds. The model should also provide flexibility for donors to choose between different types of *waqf* contributions, such as public, family, or *nushtarak* (a combination of both). This approach can cater to various donor preferences and ensure a sustainable flow of funds. Additionally, the model should allocate a significant portion of the returns for reinvestment to cover potential losses and ensure long-term sustainability.

The WUTM model is seen as a potential solution to enhance the liquidity of *waqf* assets. S6 suggested that a diversified investment portfolio could include fixed deposits, unit trusts, and equities to balance risk and return. S6 emphasised the importance of long-term investments to maximise returns and suggested a mix of 50% in fixed deposits, 30% in unit trusts, 10% in equities, and 10% in reserves. The model should also include a clear strategy for reinvestment and allocation of returns to ensure sustainability. S6 highlighted the need for flexibility and immediate decision-making in investment management to capitalise on market opportunities.

The S5 suggested that the model should involve strategic planning and optimal utilisation of *waqf* assets. This includes identifying suitable lands for development and engaging in joint ventures with developers

to maximise the potential of *waqf* properties. The creation of subsidiary companies, such as Urus Maju Ehsan (M) Sdn Bhd, can help in the development and advancement of *waqf* lands. The model should also include mechanisms for *istibdal* (substitution) to replace fewer valuable lands with more strategic and beneficial properties.

The R1 is interested in leveraging the capabilities of asset management companies to manage *waqf* funds. The model could involve raising funds through *sukuk* for the development of *waqf* assets and engaging fund managers to structure and launch *waqf* funds. The idea is to create a retail market product that gives credibility to the fund and ensures that the public is comfortable contributing to it. The model should focus on maintaining the principal amount and using the returns generated for the beneficiaries. This approach ensures sustainability and allows for the reinvestment of returns to grow the fund further.

S4 suggested that the model should involve redefining the concept of cash *waqf* to include the principal amount collected as *waqf*, with the proceeds from investments distributed to beneficiaries. This approach aligns with contemporary needs and practices, allowing for quicker results and better utilisation of funds. The model should also address the structural issues within *waqf* management, such as clarifying the roles of sole trustees, *Mutawalli*, and *Nazir*, to ensure proper governance and accountability.

The WUTM model is seen as a potential solution to enhance the liquidity of *waqf* assets. WC2 suggested that the model should involve converting cash *waqf* into tangible assets and using a portion of the proceeds for reinvestment to ensure sustainability. WC2 highlighted the importance of adhering to *Shariah* principles and avoiding conventional financial systems that may involve *riba* (interest). The model should also include a clear strategy for allocating proceeds, with a significant portion dedicated to reinvestment, beneficiaries, and operational costs. This approach aligns with historical practices and ensures the long-term viability of *Waqf* funds.

4.3 Stakeholders' Stance on Feasibility

Stakeholders, including financial advisors and fund managers, generally support the WUTM model. FC1 pointed out that the model's success hinges on professional management and a clear understanding of the associated costs and charges. He suggested that the model could be enhanced by incorporating a reinvestment strategy, where a portion of the returns is reinvested to compound growth over time. This approach could significantly increase the fund size and its impact on social causes. Stakeholders, including financial experts and SIRC representatives, generally view the WUTM model as feasible and beneficial. A2 noted that the model's implementation would require clear guidelines and transparency to build trust among stakeholders. He also highlighted the importance of educating SIRC staff and collaborating with professional fund managers to ensure effective management of *waqf* funds. The integration of Takaful (Islamic insurance) to hedge against investment risks was also recommended to safeguard the principal amount of *waqf* funds.

Concerning the stakeholders, including regulatory bodies, investors, and fund managers, generally A1 views the WUTM model as feasible and beneficial. The expert noted that the model's success would depend on gaining acceptance from governance and regulatory bodies, such as SIRC, Bank Negara Malaysia (BNM), and SCM. Additionally, the model should adhere to *Shariah* compliance and standard operating procedures set by these bodies. The expert emphasised the importance of transparency, clear processes, and societal support to build trust and confidence in the model. Training and certification programs for *waqf* management staff were also recommended to address the shortage of human capital and enhance competency in managing *waqf* assets.

Stakeholders, including university management and financial experts, generally support the WUTM model. The WC1's collaboration with internal and external auditors ensures transparency and accountability, which are crucial for gaining stakeholders' trust. The WC1 also engages directly with

donors, bringing them to meet the beneficiaries, which enhances confidence and transparency. However, challenges such as the rigid regulations imposed by State Islamic Religious Councils (SIRCs) and the need for professional fund management expertise remain. The WC1's reliance on short-term investments and the need for liquidity suggest that a more diversified and professionally managed investment strategy, as proposed in the WUTM model, could be beneficial.

Stakeholders, including regulatory bodies like the Securities Commission (SC), are generally supportive of the WUTM model. FC2, FC3, S1, S2, and S3 noted that SC's involvement would ensure proper regulation and protection of both donors and beneficiaries. The need for transparency and periodic reporting to donors was emphasised to build trust and confidence in the model. Additionally, the FC2, FC3, S1, S2, and S3 suggested that Takaful operators could potentially ensure the capital for investment, providing an extra layer of security.

Stakeholders, including regulatory bodies and financial experts, generally support the WUTM model. The FC4 emphasised the need for good governance, transparency, and trust to attract and retain donors. The involvement of regulatory bodies like the Securities Commission (SC) would ensure proper regulation and protection of both donors and beneficiaries. The FC4 also suggested that Takaful operators could potentially provide coverage for the WUTM model, offering an additional layer of security for the investment. The importance of a business-oriented approach and the involvement of corporate professionals in managing *waqf* funds were reiterated to ensure the model's success.

Stakeholders, including regulatory bodies and financial experts, generally support the WUTM model. A3 emphasised the importance of good governance, transparency, and trust to attract and retain donors. The involvement of regulatory bodies like the Securities Commission (SC) would ensure proper regulation and protection of both donors and beneficiaries. The model should also include a monitoring system to oversee the management of *Waqf* properties and ensure compliance with *Shariah* principles. A3 suggested that the model could benefit from integrating knowledge from various fields, including *Shariah*, economics, finance, and management, to improve overall efficiency.

Stakeholders, including regulatory bodies and financial experts, generally support the WUTM model. S6 noted that the involvement of professional fund managers and corporate trustees would ensure efficient management and governance of the WUTM model. S6 also emphasised the importance of good governance, transparency, and trust to attract and retain donors. The model should comply with *Shariah* principles and be approved by the fatwa committee to gain acceptance. S6 mentioned that the Fatwa Committee has shown some openness to the idea of investing *Waqf* funds in financial instruments, provided that the risks are managed appropriately.

Stakeholders, including regulatory bodies and financial experts, generally support the WUTM model. S5 emphasised the importance of gaining consent from donors and beneficiaries before implementing *istibdal* processes. Transparency and clear communication with stakeholders are crucial to ensure their confidence and support. The involvement of professional fund managers and developers can enhance the efficiency and effectiveness of *waqf* land development. Additionally, the model should comply with *Shariah* principles and be approved by the fatwa committee to gain acceptance.

Stakeholders, including regulatory bodies and financial experts, generally support the WUTM model. R1 emphasises the importance of engaging with SIRCs and other stakeholders to create awareness and address any concerns they may have. The involvement of professional fund managers and the use of structured financial products can help gain the confidence of the public and ensure the effective management of *Waqf* funds. R1 also highlights the potential for exporting expertise in managing *waqf* funds to other countries, which could further enhance the credibility and impact of the WUTM model.

Stakeholders, including regulatory bodies and financial experts, generally support the WUTM model. S4 emphasised the importance of engaging with external entities and professionals to bring in the necessary expertise for managing *waqf* investments. S4 also highlighted the need for clear definitions and roles within the *waqf* management structure to avoid misunderstandings and ensure effective administration. The involvement of professional fund managers and the use of structured financial products can help gain the confidence of the public and ensure the effective management of *Waqf* funds.

Stakeholders, including regulatory bodies and financial experts, generally support the WUTM model. WC2 emphasised the need for collaboration between religious scholars and contemporary financial experts to effectively manage *waqf* investments. WC2 also highlighted the importance of integrating *waqf* management with modern financial practices while maintaining adherence to Islamic principles. The involvement of professional fund managers and the use of structured financial products can help gain the confidence of the public and ensure the effective management of *waqf* funds. Additionally, there is a need for a supportive regulatory framework and political will to facilitate the growth and development of *waqf* initiatives.

In summary, the interviews with FC1, A2, A1, WC1, FC2, FC3, S1, S2, S3, FC4, A3, S6, S5, R1, S4, and WC2 provide valuable insights into the concern over liquidity constraints faced by *waqf* institutions, the potential benefits of the WUTM model, and the positive stance of stakeholders towards its implementation. The findings suggest that with proper management, correct guidance from financial managers, strategic investment, and stakeholder collaboration, the WUTM model could effectively enhance the liquidity and sustainability of *waqf* assets in Malaysia.

The findings from the interviews suggest that the *Waqf* Unit Trust (WUTM) model can effectively address liquidity constraints in *waqf* institutions through several mechanisms. Firstly, liquidity pooling allows for the aggregation of *waqf* funds from various sources, creating a larger, more manageable pool of capital that can be strategically invested. This approach enhances the overall liquidity of *waqf* assets, making it easier to allocate funds where they are most needed. Secondly, cash flow solutions are integral to the WUTM model, as they ensure a steady stream of income from investments. By diversifying investments into low to moderate-risk instruments, such as fixed deposits, unit trusts, and equities, the model can generate consistent returns. These returns can then be reinvested or distributed to beneficiaries, ensuring a continuous flow of funds. Lastly, the WUTM model aims to generate continuous income and wealth by leveraging professional fund management and strategic investment practices. This not only preserves the principal amount but also grows the *waqf* fund over time, creating a sustainable financial ecosystem that supports the long-term objectives of *waqf* institutions. Through these elements, the WUTM model can significantly enhance the liquidity, sustainability, and impact of *waqf* assets in Malaysia.

Findings propose the craft of *Waqf* Unit Trust model framework could potentially assist in liquidity pooling, cash flow solutions and generate continuous income and wealth.

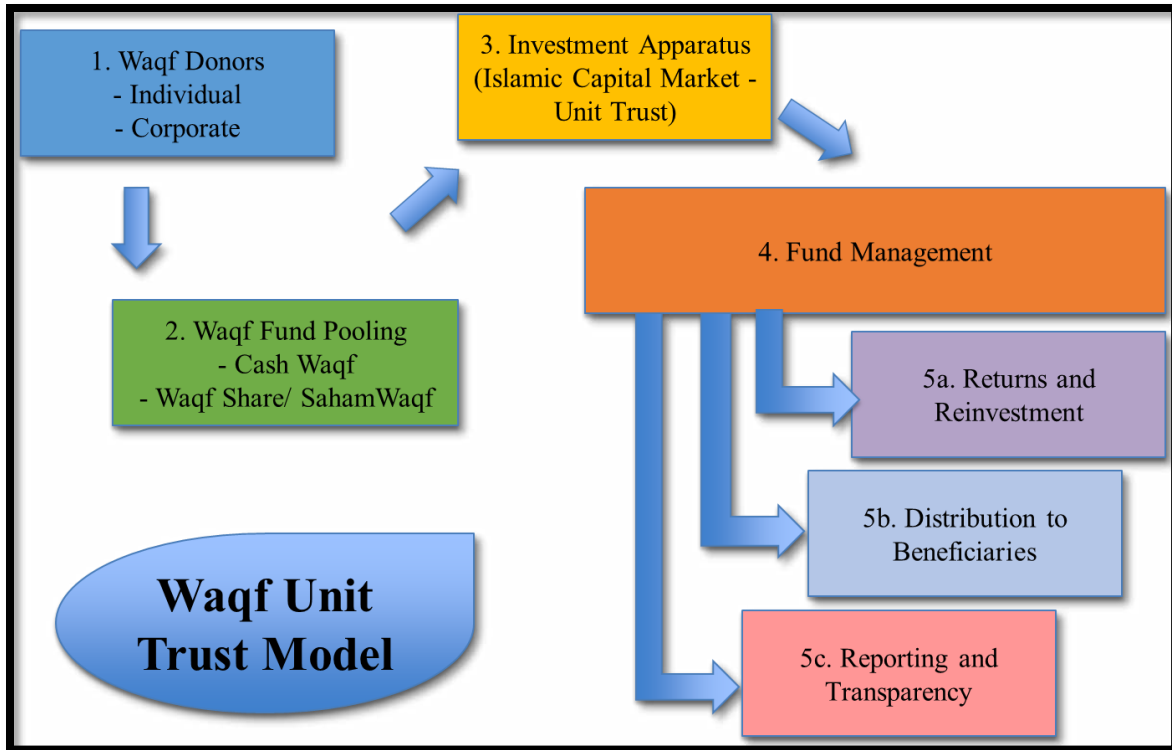


FIGURE 1: WAQF UNIT TRUST MODEL FRAMEWORK

Source: Figure by Authors

Based on the Figure 1 framework above, the modus operandi of WUTM model is as follows:

1. **Fund Collection from *Waqf* Donors**
 Individual Donors: Contributions from individuals who wish to participate in the *Waqf* initiative.
 Corporate Donors: Donations from businesses and corporations as part of their corporate social responsibility (CSR) programs.
 Institutional Donors: Contributions from institutions such as universities, banks, and other organisations.
2. ***Waqf* Fund Pooling**
 Aggregation of *Waqf* Funds: All collected funds are pooled together to create a larger, more manageable capital base.
 Centralised Fund Management: A centralised system is established to manage the pooled funds efficiently.
3. **Unit Trust as an apparatus for investment strategy.**
 Diversified Portfolio: The pooled funds are invested in a diversified portfolio to minimise risk and maximise returns. Instances of the portfolio can range from;
 Fixed Deposits: Low-risk investments to ensure capital preservation.
 Unit Trusts: Medium-risk investments to achieve steady growth.
 Equities: Higher-risk investments for potentially higher returns.
 Risk Management: Strategies are implemented to manage and mitigate investment risks.
4. **Fund Management**
 Professional Fund Managers: Experienced fund managers are appointed to oversee the investment portfolio.

Shariah Compliance: All investments are made by Shariah principles to ensure ethical and permissible financial practices.

Regular Audits: Periodic audits are conducted to ensure transparency and accountability.

5a. Returns and Reinvestment

Allocation of Returns: The returns generated from investments are allocated as follows:

Reinvestment (e.g., 40%): A portion of the returns is reinvested to grow the fund further.

Beneficiaries (e.g., 30%): Funds are distributed to various beneficiaries.

Operational Costs (e.g., 20%): Covering the costs of managing the *waqf* fund.

Reserve Fund (e.g., 10%): Setting aside funds for future contingencies.

5b. Distribution to Beneficiaries

Education: Scholarships, school construction, and educational programs.

Healthcare: Funding for hospitals, clinics, and medical services.

Social Welfare: Support for the needy, orphans, and other vulnerable groups.

Infrastructure Development: Building and maintaining public infrastructure such as roads, bridges, and community centres.

5c. Reporting and Transparency

Regular Reports to Donors: Providing donors with periodic updates on the performance and impact of their contributions.

Public Disclosure of Fund Performance: Making fund performance data available to the public to ensure transparency.

Stakeholder Engagement: Engaging with stakeholders to gather feedback and improve the *Waqf* initiatives.

This framework ensures that WUTM operates efficiently, transparently, and sustainably, ultimately enhancing the liquidity and impact of *waqf* assets in Malaysia.

5. CONCLUSION

The history of *waqf* institutions is marked by significant achievements that span various phases of socio-economic life and human development. However, recent initiatives among local *waqf* institutions reveal that liquidity limitations are a primary concern hindering further development efforts. This research aims to provide a sustainable financing source through the implementation of a *waqf* Unit Trust Model (WUTM) to help local *waqf* institutions overcome their liquidity constraints and support initiatives such as land rejuvenation, health sector improvement, educational enhancement, and other critical needs.

Specifically, this study seeks to identify the liquidity constraints faced by *waqf* institutions in Malaysia, propose an alternative WUTM model to enhance the liquidity of *waqf* assets and explore stakeholders' perspectives on the feasibility of the proposed model. The research employs in-depth interviews for data collection with *waqf* practitioners, including authorities from State Islamic Religious Councils (SIRCs), financial consultants involved in capital market development, academicians engaged in *waqf*-related projects, and regulators of the Islamic capital market in Klang Valley (Selangor and Kuala Lumpur), Penang, and Johor.

The findings suggest that implementing innovative *waqf* models can help overcome liquidity constraints. The majority of respondents view that the WUTM model framework could potentially aid in liquidity pooling, provide cash flow solutions, and generate continuous income and wealth. At the same time, efficient management and optimal financial structures are crucial for the sustainability of *waqf* institutions. Moreover, proper investment strategies that consider liquidity and risk factors are essential to maintain the value and perpetuity of *waqf* funds. This study contributes to the body of knowledge by offering a potential solution to the liquidity constraints faced by *waqf* institutions.

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PROFILES OF DIGITAL PAYMENT ADOPTION AMONG *AR-RAHNU* CO-OPERATIVE CUSTOMERS IN MALAYSIA

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ABSTRACT

The rapid shift towards digital finance, accelerated by the COVID-19 pandemic, has become a key challenge and opportunity for Islamic microfinance institutions, particularly *ar-rahnu*, to maintain customer engagement and ensure financial accessibility. *Ar-rahnu* is an institution that offers loans by pawning gold or jewellery as a pledged asset at their physical outlet. Therefore, after the spreading of COVID-19, it is quite difficult for this institution to survive as these institutions must be in contactless with each other which has never happened before. Because that has never happened before, this study is designed to understand the profiles of *ar-rahnu* users, especially in terms of technology usage. Therefore, understanding the profiles and preferences of *ar-rahnu* customers is crucial for the optimisation of e-payment platforms. Data analysis was conducted using SPSS 28, where descriptive statistics and correlation analysis were employed to assess the relationship between demographic profiles and digital payment adoption. The results show that the majority of *ar-rahnu* users are women, Malay, and married, predominantly holding certificate or diploma qualifications, residing in urban areas, and working in the private sector. Social media platforms like Facebook play a crucial role in disseminating information about *ar-rahnu*, supplemented by personal networks and messaging apps like WhatsApp. By profiling the preferences of *ar-rahnu* users, this study offers actionable insights for policymakers to design more inclusive digital payment solutions, enhancing financial literacy and digital trust among underserved communities.

KEYWORDS: *AR-RAHNU, CASHLESS, E-PAYMENT, PROFILES*

ABSTRAK

Peralihan pesat ke arah kewangan digital, yang dipercepatkan oleh pandemik COVID-19, telah menjadi cabaran dan peluang utama bagi institusi mikro kewangan Islam, khususnya *Ar-rahnu*, dalam mengekalkan penglibatan pelanggan dan memastikan akses kewangan. *Ar-rahnu* ialah sebuah institusi yang menawarkan pinjaman dengan mencagarkan emas atau barang kemas sebagai aset gadaian di premis fizikal mereka. Oleh itu, selepas penularan COVID-19, institusi ini menghadapi kesukaran untuk bertahan kerana ia perlu beroperasi secara tanpa sentuhan, sesuatu yang belum

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pernah berlaku sebelum ini. Ekoran oleh perubahan ini, kajian ini direka bentuk untuk memahami profil pengguna *ar-rahnu*, terutamanya dari segi penggunaan teknologi. Oleh itu, memahami profil dan keutamaan pelanggan *ar-rahnu* adalah penting bagi pengoptimuman platform e-pembayaran. Analisis data telah dijalankan menggunakan SPSS 28, yakni statistik deskriptif dan analisis korelasi digunakan untuk menilai hubungan antara profil demografi dan penerimaan pembayaran digital. Hasil kajian menunjukkan bahawa majoriti pengguna *ar-rahnu* adalah wanita, berbangsa Melayu, dan sudah berkahwin, kebanyakannya memiliki kelayakan sijil atau diploma, menetap di kawasan bandar, serta bekerja di sektor swasta. Platform media sosial seperti Facebook memainkan peranan penting dalam menyebarkan maklumat mengenai *ar-rahnu*, yang turut disokong oleh rangkaian peribadi dan aplikasi pemesejan seperti WhatsApp. Dengan memprofilkan keutamaan pengguna *ar-rahnu*, kajian ini menawarkan pandangan yang boleh diambil tindakan oleh pembuat dasar untuk mereka bentuk penyelesaian pembayaran digital yang lebih inklusif, sekaligus meningkatkan literasi kewangan dan kepercayaan digital dalam kalangan komuniti yang kurang mendapat akses kewangan.

KATA KUNCI: AR-RAHNU, TANPA TUNAI, E-PEMBAYARAN, PROFIL

1. INTRODUCTION

Technology is something essential in today's era of globalisation. Almost at all times, society uses technology to update data, information, purchases, and so on. In fact, with technology, we can control and manage almost everything at our fingertips (Nik Azman *et al.*, 2022). The use of technology brings many benefits in all areas of administration in a country. This includes the use of technology in *ar-rahnu* transactions. According to Ting *et al.* (2020), current technology and specific computer programs have been created to make *ar-rahnu* operations more optimistic and suitable for the times. Current *ar-rahnu* services have also moved freely like banking systems, enabling them to advertise their products on social media and mass media.

The financial services industry has witnessed significant transformations over the years. Initially characterised by personal interaction and limited automation, it saw the first signs of computerisation with the arrival of Automated Teller Machines (ATMs) in the late 1960s (Woodyard & Grable 2018). The transfer of regular banking functions to these machines provided customers with greater autonomy (e.g., the ability to withdraw cash after business hours) and allowed banks to expand their service networks without building additional branches (Piehlmaier, 2022). Following the emergence of the internet, a second wave of automation occurred (Jung *et al.*, 2018). Banks then digitised more services and made them available through online banking systems. Subsequently, mobile banking applications were added to these services. The advancement of information technology has made banking transactions easier for customers while reducing costs for financial organisations.

During COVID-19 the number of cashless is increasing in Malaysia. By doing cashless, people can avoid handling physical cash completely and minimise human contact. Besides, *zakat* also used online payment that was approved by Islamic authorities to control the spreading of Coronavirus. Therefore, this pandemic has brought a new change for Malaysians. Everything must be contactless with each other to control the spreading of COVID-19. In Malaysia, the economic situation is not in good condition because of this pandemic. Therefore, many people are struggling to survive this pandemic which has caused Malaysians are move forward as a cashless society.

One of the businesses that operate in Malaysia is an *ar-rahnu* which is one of the Islamic Financial Institutions that has been eyed as the prime mover of Islamic microfinance institutions. *Ar-rahnu* is one of the institutions that has been affected by COVID-19 in Malaysia. This is because *ar-rahnu* is an institution that offers loans by pawning gold or jewellery as a pledge asset. Therefore, after the spreading of COVID-19 in Malaysia, it was quite difficult for this institution to survive in this situation because these institutions had to be in contactless with each other which had never happened before. Therefore, understanding the profiles and preferences of *ar-rahnu* customers is

crucial for the optimisation of e-payment platforms during this period. By effectively identifying and analysing customer demographics, financial behaviours, and transaction patterns, *Ar-rahnu* can tailor its e-payment platforms to meet the specific needs and preferences of its customer base. Customisation of e-payment platforms based on customer profiles allows for a seamless and personalised user experience. For example, if a significant portion of *ar-rahnu* customers prefer mobile banking, the platform can prioritise mobile optimisation and offer features such as push notifications for payment reminders, improving overall customer satisfaction and engagement. Moreover, targeted marketing efforts can be implemented based on the identified customer segments. By understanding the unique preferences and behaviours of different customer groups, *ar-rahnu* can offer promotions, discounts, and services that are more likely to resonate with specific segments, leading to higher conversion rates and customer loyalty. Additionally, risk management strategies can be refined with a better understanding of customer profiles. For example, if certain customer segments are more prone to defaulting on payments, the platform can implement stricter verification processes or offer lower credit limits to mitigate potential risks.

Furthermore, insights into customer profiles can guide product development. By identifying customer interests and preferences, *ar-rahnu* can introduce new products and services that align with customer needs, such as investment options for customers interested in growing their wealth. A deep understanding of *ar-rahnu* customer profiles is essential for optimising e-payment platforms, improving customer satisfaction, and ensuring efficient and secure transactions. The Tech-Savvy Millennials - this group, aged 25-40, embraces digital platforms for their convenience and flexibility. They prefer online services, including *ar-rahnu* Digital, for quick and hassle-free transactions.

2. LITERATURE REVIEW

After the spreading of COVID-19, it substantially disrupted socio-economic maturity across the globe. According to the Statistics of Labour Force back in August 778,200 persons equivalent to 4.6 per cent of the Malaysian population are considered unemployed. To stabilise household incomes, Islamic pawn broking or *ar-rahnu* is the solution to get quick cash financing. In Malaysia, research on *ar-rahnu* began around 1997 by Ismail and Ahmad (1997) by looking at the collateral issues and comparison of *ar-rahnu* with conventional pawnshop. Since then, *ar-rahnu* has been studied from various angles such as the flexibility of the repayment period, the default payment and collateral accepted studied by Ismail and Ahmad (1997), Mohamed *et al.* (2005), Ismail and Sanusi (2005), Sanusi and Johari (2006), Bhatt and Sinnakkannu (2008), Abdul Khir *et al.* (2013), Sulaiman *et al.* (2014) and Hisham Sabri *et al.* (2013).

In addition, there are also several literatures discussing the acceptance of *ar-rahnu* (Shaari & Azlina, 2003; Amin *et al.*, 2007; Sam *et al.*, 2010; Appannan & Doris, 2010; Baharum, 2014). Further, Shaari and Azlina (2003) examined the acceptance in terms of demographic profiles such as age, marital status, race, income level and working status. Besides, Amin *et al.* (2007), Sam *et al.* (2010), Appannan and Doris (2011), and Baharum (2014) asserted that Shariah compliance, customer satisfaction, service charges, collateral and locality as awareness and acceptance towards *ar-rahnu*.

Moreover, the challenges faced by *ar-rahnu* institutions were also studied by previous researchers such as Bhatt and Sinnakkannu (2008), Cheong and Sinnakkannu (2012) and Hisham *et al.* (2013). These studies highlighted that illegal money lending, conventional pawnbroking systems, and fake gold syndicates are the challenges for *ar-rahnu* institutions preventing them from flourishing in the industry. Another challenge for *ar-rahnu* is the negative perception among customers towards *ar-rahnu* as they perceived *ar-rahnu* as a product for the poor and needy. This indirectly contributes to the negative impact towards *ar-rahnu* development. The higher margin of financing offered by conventional pawn broking also can be considered a challenge for *ar-rahnu* because customers can

negotiate the loan amount with the officers concerning the perceived value of the collateral. This challenge has led customers to use conventional pawn brokers or illegal sources for financing.

In the recent studies done by Nik Azman *et al.* (2020) and Yahaya and Bahari (2018), *ar-rahnu* has been pointed out as one of the financial solutions for micro-entrepreneurs that facing with shortage of capital. Recent studies also reveal *ar-rahnu* as an important tool for women micro-entrepreneurs to survive in doing business. Recent studies have covered a wide range of issues about *ar-rahnu*. However, by far, the main body of study has mainly centred on the characteristics or product features of *ar-rahnu* (in comparison to its conventional counterpart) and the operational system of *ar-rahnu*, acceptance and awareness of *ar-rahnu* and effectiveness of *ar-rahnu* institutions.

After the establishment of pawnbroking in Indonesia in the early Dutch era and operation with *Shariah* principles since 2003 by PT Pegadaian (Persero) and Malaysia had existed since the Sultan Melaka era and became Islamic principles since the 90th, (Buana *et al.*, 2021), this study shows that not all banks provide Islamic pawnbroking. However, the *ar-rahnu* contract for *Shariah* financing still exists in both *Shariah* or Islamic banking and non-banking finance institutions. This study indicates although *ar-rahnu* contracts exist in both Islamic and non-banking institutions, business operations in the present period indicate a decreasing pattern in the operations of Islamic pawnbroking in both countries Indonesia and Malaysia.

Ar-rahnu can have a big impact on improving the economic well-being of the clients in Malaysia as done by Razak and Asutay (2022). The higher cost of living in Malaysia in recent years resulted in a decline in disposable income due to the imposed GST in 2015. Due to insufficient income, those who have been affected would patronize *ar-rahnu* financing as a solution to make ends meet. The usage of *ar-rahnu* financing for production purpose-related economic activity is significant in enhancing individual well-being. This study showed the statistical significance of the relationship between financial inclusion and individual and societal well-being through customer adoption of *ar-rahnu*. That means the usage of *ar-rahnu* financing is significant in enhancing individual well-being resulting in micro-balancing and improving financial and socio-economic development.

Previously, critical success factors of *ar-rahnu* in Malaysia have been studied by Yaacob *et al.*, 2014 showed that critical success factors are different to each cluster. The most important critical success factor from the perspective of the scheme operators is customer trust. This is because, the reputation of a business can increase, hence the total collection of safekeeping charges also can increase. However, to increase the trust of customers, staff competency is crucial because they have to determine the purity of gold. This is because cheating cases involving fraud like sake gold are becoming more sophisticated in the advancement of technology.

In our time, Islamic pawn broking also known as *ar-rahnu* is now a growing industry in Malaysia. Demand for *ar-rahnu* services is increasing amongst the Malaysian community. Hence, it must have been a factor that led to the usage of *ar-rahnu* services. Previous studies by Rahman and Kassim (2017) indicate the factors influencing the acceptance of *ar-rahnu* in Terengganu. In this study, there are six independent variables, which are reviewed: service factor, pricing, pledge, locality, *Shariah* view and social factor is a factor that can influence customers to use *ar-rahnu* services. However, the factors that can influence customers to use *ar-rahnu* is different between private and state. Hence, these seem crucial to be highlighted because different pawnbrokers provide difference features in attending to their customers.

3. METHODOLOGY

This study employs a quantitative method. Quantitative research is a method used to test objective theories by examining the relationships between variables and measuring them using instruments so that numerical data can be analysed using statistical procedures (Creswell, 2018). A survey questionnaire is used as the instrument for this study. The questionnaire items of this study were adapted from Al-Qeisi (2009), Singh (2020); Rahi *et al.* (2018) and Najib *et al.* (2021). The population for this study consists of customers who transact at cooperative *ar-rahn* outlets. This study uses purposive sampling, where the criteria for respondents are predefined, namely customers who use *ar-rahn* services and are aged 18 and above. The sample size for this study is determined using G-Power. G-Power shows the minimum sample size required (Hair *et al.*, 2016), which is 138 respondents, but this study obtains 200 respondents. This study employs Statistical Package for the Social Sciences (SPSS) Version 32.0 for data cleaning and screening to eliminate extraneous data. Subsequently, descriptive analysis was conducted to outline the demographic profile of respondents, followed by a correlation analysis with the variables.

4. FINDINGS

This study discusses the study findings that have been analysed using SPSS. The analysis began by examining the overall respondent profile. Based on Table 1, the majority of respondents were women, accounting for 59.0% or 118 individuals. Meanwhile, there were only 82 male respondents, accounting for 41.0% of the study population. In terms of ethnicity, the largest majority, comprising 89.5% or 179 individuals, were Malays. Additionally, there were 2 Indian respondents, accounting for 1.0%, and 19 respondents of other ethnicities, accounting for 9.5%. Furthermore, the majority of respondents, 97 individuals (48.5%), were in the 31-40 age group. A total of 74 individuals (37.0%) were aged between 21-30 years, 20 individuals (10.0%) were aged between 41-50 years, and 9 individuals (4.5%) were 51 years and older. Additionally, 151 individuals (75.5%) were married, 43 individuals (21.5%) were single, and only 6 individuals (3.0%) had other marital statuses.

TABLE 1: RESPONDENTS PROFILE

Item	Breakdown	Frequency [%]
Gender	Male	82 [41.0]
	Female	118 [59.0]
Race	Malay	179 [89.5]
	Indian	2 [1.0]
	Others	19 [9.5]
Age	21-30 years old	74 [37.0]
	31-40 years old	97 [48.5]
	41-50 years old	20 [10.0]
	51 years old and above	9 [4.5]
Marital status	Single	43 [21.5]
	Married	151 [75.5]
	Widow/ Widower	6 [3.0]
Education level	SPM and lower	37 [18.5]
	Certificate/ Diploma	87 [43.5]
	Bachelor's Degree	62 [31.0]
	Master's Degree	6 [3.0]
	Others	8 [4.0]
Residential area	City	132 [66.0]
	Rural	68 [34.0]
Occupation	Government	11 [5.5]
	Private Sector	136 [68.0]
	Self-employed	23 [11.5]
	Business/Hawker	8 [4.0]

	Others	22 [11.0]
State	Selangor	37 [18.5]
	Kuala Lumpur	17 [8.5]
	Perak	17 [8.5]
	Kedah	37 [18.5]
	Pulau Pinang	3 [1.5]
	Kelantan	4 [2.0]
	Terengganu	18 [9.0]
	Pahang	13 [6.5]
	Negeri Sembilan	3 [1.5]
	Johor	16 [8.0]
	Melaka	2 [1.0]
	Sabah	18 [9.0]
	Sarawak	15 [7.5]
Cooperative members	Yes	92 [46.0]
	No	108 [54.0]
Household size	1-3 persons	105 [52.5]
	4-6 persons	89 [44.5]
	7-9 persons	6 [3.0]
Head of household	No	116 [58.0]
	Yes	84 [42.0]

Notes: N=200

Source: Table by Authors

Based on the education level, the majority of respondents indicated that they possessed a certificate or diploma, with 87 individuals (43.5%) having this qualification. 62 individuals (31.0%) held a Bachelor's degree, 37 individuals (18.5%) had a Malaysian Certificate of Education (SPM) or lower level of education, 8 individuals (4.0%) had other educational qualifications, and 6 individuals (3.0%) had a Master's degree. The majority of respondents, 132 individuals (66.0%), resided in urban areas, while 68 respondents (34.0%) were from rural areas. The respondents who answered the survey also had various types of jobs from different sectors. The private sector was the majority with 68% or 136 respondents, followed by self-employed respondents with 23 individuals (11.5%). 22 respondents (11.0%) stated that their jobs were not listed in the answer options or were categorized as "other". Government employees accounted for 11 individuals (5.5%), and the remaining group was made up of traders or vendors with 8 individuals (4%).

From a state perspective, Selangor and Kedah had the highest number of respondents, each represented by 37 individuals, making up 18.5% of the respondent population. Meanwhile, Terengganu and Sabah each had 18 respondents, accounting for 9.0%. In addition, Kuala Lumpur and Perak were represented by 17 respondents each (8.5%). Johor had 16 respondents (8.0%), Sarawak had 15 respondents (7.5%), Pahang had 13 respondents (6.5%), Kelantan had 4 respondents (2.0%), Negeri Sembilan and Penang had 3 respondents each (1.5%), and Melaka had 2 respondents (1.0%). Interestingly, the majority of respondents were not cooperative members, with 108 individuals (54.0%) compared to 92 individuals (46.0%) who were cooperative members. In terms of household size, the majority of respondents, 105 individuals (52.5%), had a household size of between 1-3 people. 89 respondents (44.5%) had a household size of between 4-6 people, and the remaining 6 individuals (3.0%) lived in households with 7-9 members. Lastly, the majority of respondents, 116 or 58%, stated that they were not the head of the household, and conversely, 84 individuals or 42% were the head of the household.

Based on Figure 1, Facebook was one of the most popular platforms for providing information about *ar-rahnu* to respondents, with a percentage of 77%. Friends or family also played a role in providing information about *ar-rahnu*, with a percentage of 58.8%, and WhatsApp with 43.5%. In

addition, respondents also provided feedback that they obtained information about *ar-rahnu* through Instagram (31%), TikTok (19.5%), Television (18%), Radio (17.5%), newspapers (12%), Telegram (8.5%), and Twitter (4.5%).

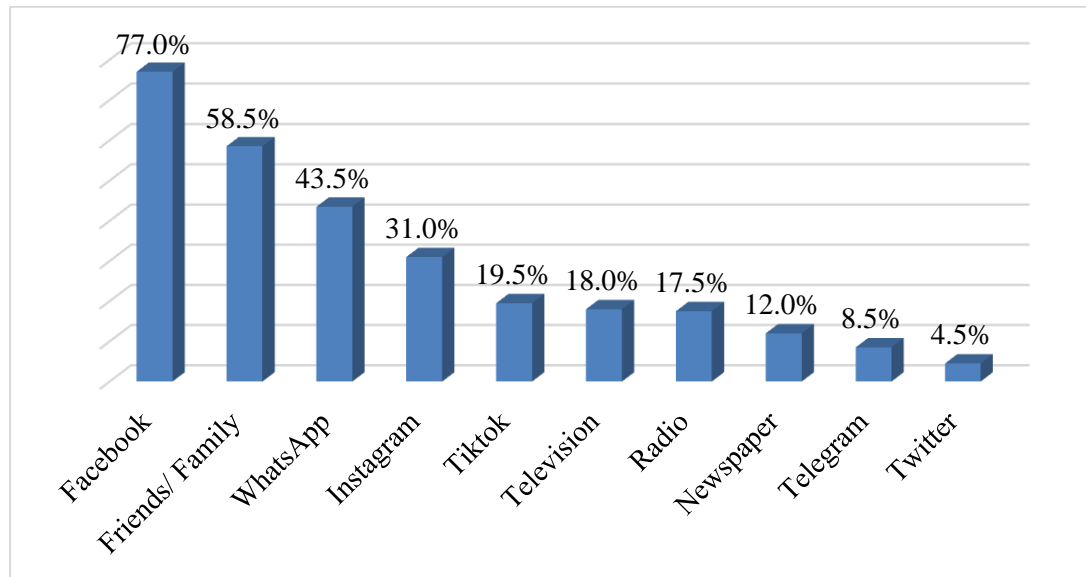


FIGURE 1. AR-RAHNU INFORMATION SOURCE

Source: Figure by Authors

Figure 2 shows that the majority of respondents had a monthly income between RM1,501 and RM2,000, accounting for 42%. Meanwhile, 13% of respondents had an income between RM2,001 and RM2,500, which was the second highest, and 11% had a monthly income between RM2,501 and RM3,000. However, there were respondents with incomes below RM1,500, totalling 15%. Additionally, there were respondents with incomes above RM3,000, which was 6.5% (RM3,001 - RM3,500), 3.5% (RM3,501 - RM4,000), 2.5% (RM4,001 - RM4,500), and 6.5% (over RM5,001).

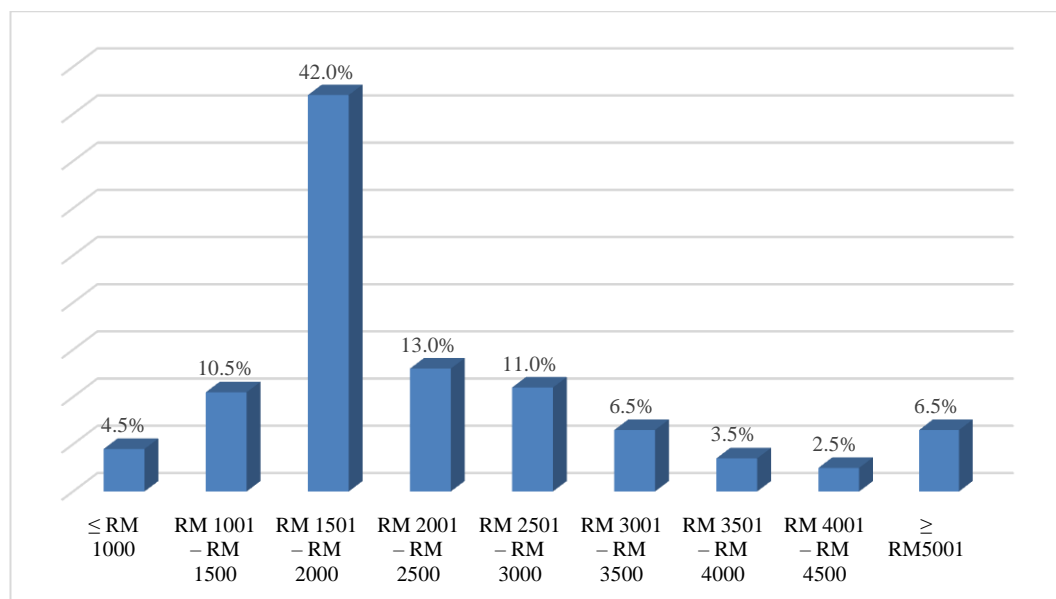


FIGURE 2. PERSONAL MONTHLY INCOME

Source: Figure by Authors

Figure 3 represents the percentage of income in various ranges for individuals or households. 42% of respondents consist of individuals or households with an income of less than RM 3,000 per month. Meanwhile, individuals or households with an income between RM 3,001 to RM 4,000 are 19.5%. The study also shows that respondents with an income of RM 4,001 and above are less likely to do business at *ar-rahnu* outlets, representing 38.5% of respondents.

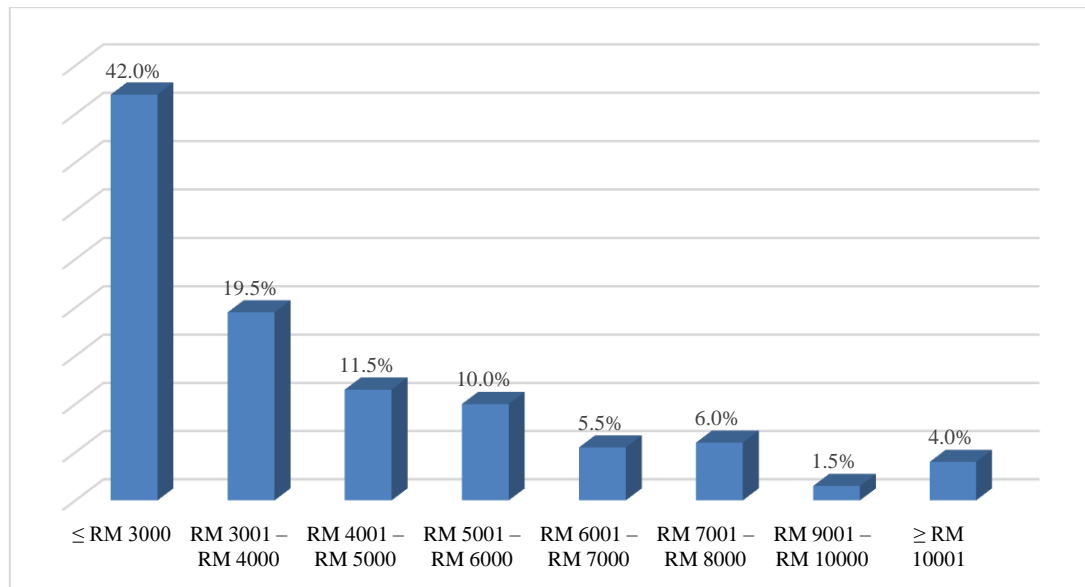


FIGURE 3. HOUSEHOLD MONTHLY INCOME

Source: Figure by Authors

Figure 4 shows the estimated expenditure in various categories for individuals or households in this study. The majority of respondents allocate less than RM500 for each expenditure category, including transportation, utilities, health, education, children, and entertainment, except for food and drink. For the food and drink category, 42% of respondents spend a total amount of RM501 to RM1000 for this purpose. The findings also indicate that not more than 10% of respondents are willing to spend more than RM1001 for each category of expenditure. However, there are also 1% of respondents who are willing to spend more than RM3000 on their food and drink.

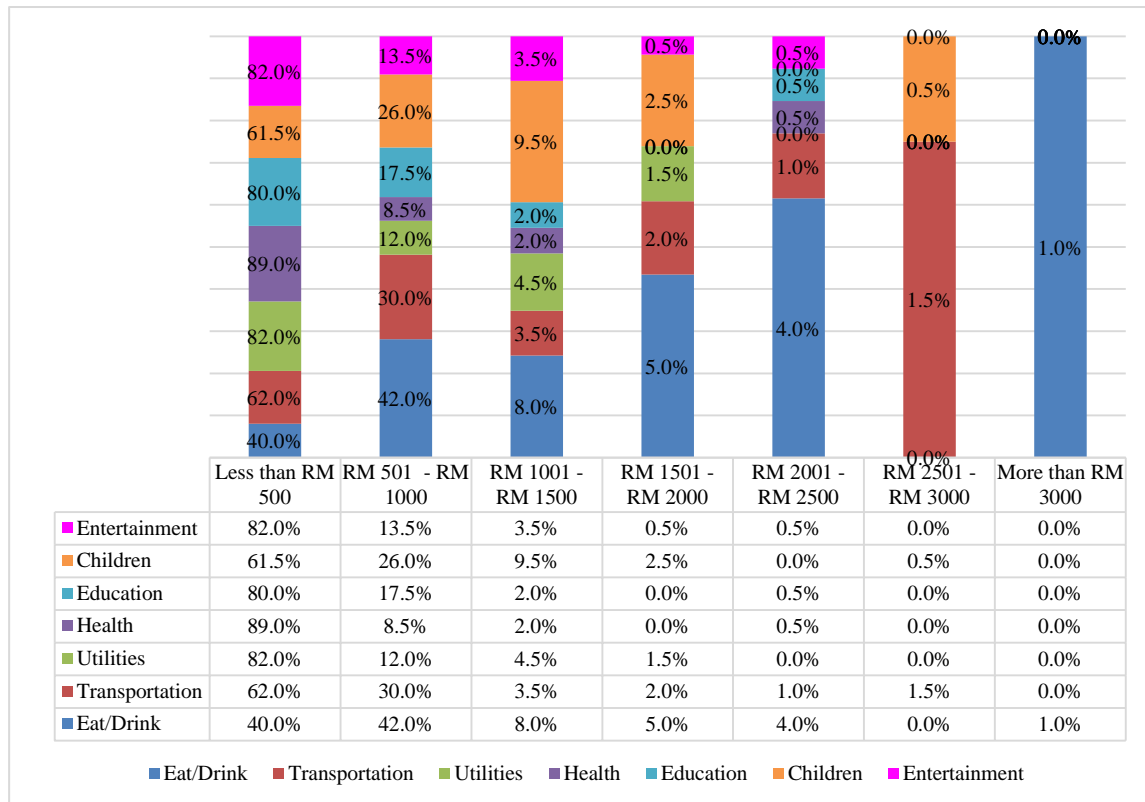


FIGURE 4. ESTIMATED EXPENSES

Source: Figure by Authors

This study also aims to understand the saving patterns among the *ar-rahnu* respondents. Figure 5 indicates that the majority of respondents save in Tabung Haji and Amanah Saham Nasional (ASN) or Amanah Saham Bumiputera (ASB), accounting for 50.5% and 44%, respectively. Some respondents save in SSPN, accounting for 14.5%, while 29.5% of respondents save in cooperatives. However, some respondents do not have any savings, accounting for 11.5%.

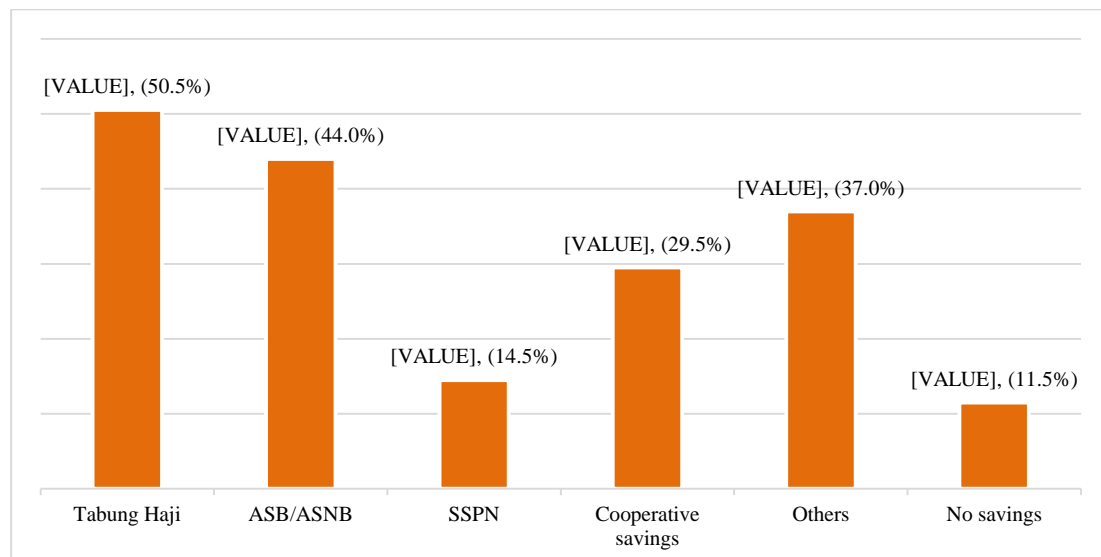


FIGURE 5. TYPES OF SAVING

Source: Figure by Authors

There are 6 business transactions conducted at *ar-rahnu*, as shown in Figure 6. The most common business transaction is pawnbroking, with 125 transactions representing 62.5% of pawnbroking-related activities. In addition, there are 31 transactions or 15.5% related to extending the pawn period, while a total of 29 transactions or 14.5% of transactions that day indicate respondents present to redeem their pawned items. Other business transaction activities carried out by respondents include jewellery cleaning with 8 or 4.0% of respondents, savings with 4 or 2.0% of respondents, and finally jewellery auction transactions with 3 or 1.5% of transactions.

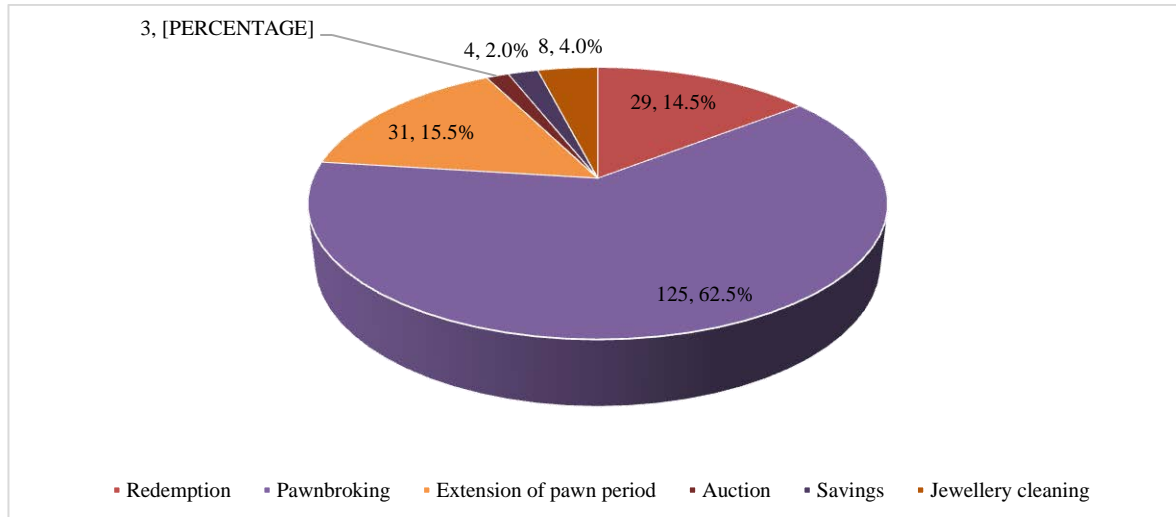


FIGURE 6. THE PURPOSE OF TRANSACTIONS AT AR-RAHNU

Source: Figure by Authors

Various financing purposes of *ar-rahnu* are used by the respondents (Figure 7). The most commonly used business transaction purpose by respondents is business turnover capital, accounting for 69 respondents or 34.5% of the total. The second highest purpose is debt repayment, contributing to 46 or 23.0% of respondents.

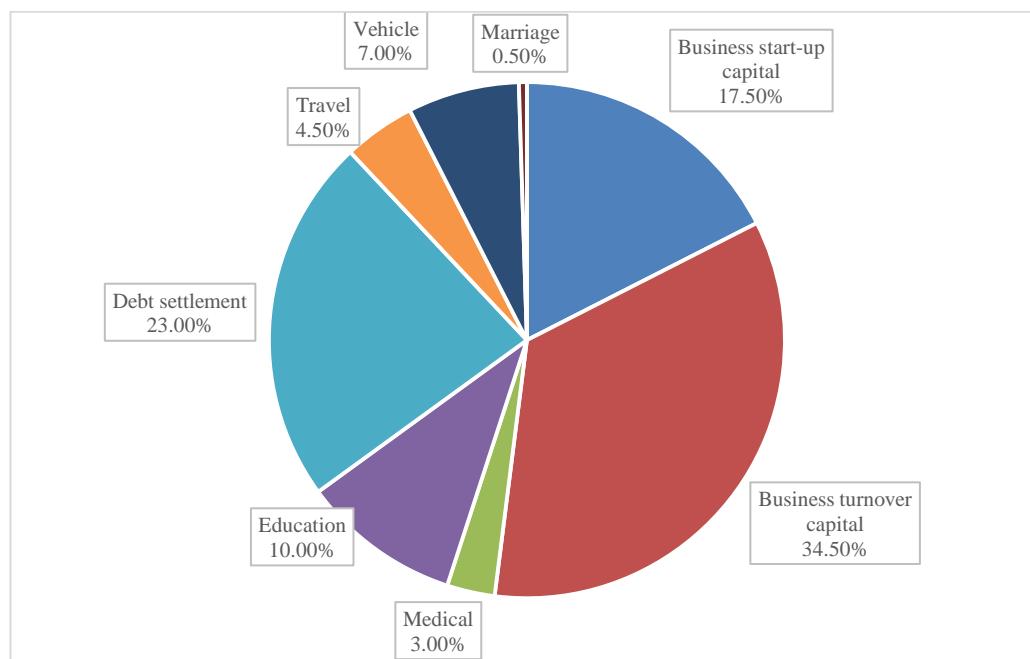


FIGURE 7. FINANCING PURPOSES AT AR-RAHNU

Source: Figure by Authors

Business start-up capital is the third highest purpose with 35 or 17.5% of respondents, while other *ar-rahnu* financing purposes are for Education, accounting for 20 or 10.0% of respondents, vehicle purchase with 14 or 7.0% of respondents, travel purposes represented by 9 or 4.5% of respondents, medical purposes with 6 or 3.0% of respondents, and finally, for wedding purposes with 1 or 0.5% of respondents.

Figure 8 illustrates the total financing obtained from *ar-rahnu* in different amounts. A total of 154 transactions represent various financing amounts. The highest and most common financing amount obtained is between RM 1001 to RM 3000, with 81 respondents or 49.0%. The second highest is those who received financing of less than RM 1000, with 28 customers or 18.5%. The third highest is those who received financing between RM 3001 to RM 5000, representing 23 respondents or 17.0%. Next are those who received financing between RM 5001 to RM 7000, with 11 respondents or 8.0%, followed by 7 respondents or 4.5% who received financing of more than RM 10,001. Next is those who received financing between RM 9001 to RM 10,000, with 3 respondents or 1.5%. Finally, 1 customer or 1.5% received financing between RM 7001 to RM 9000.

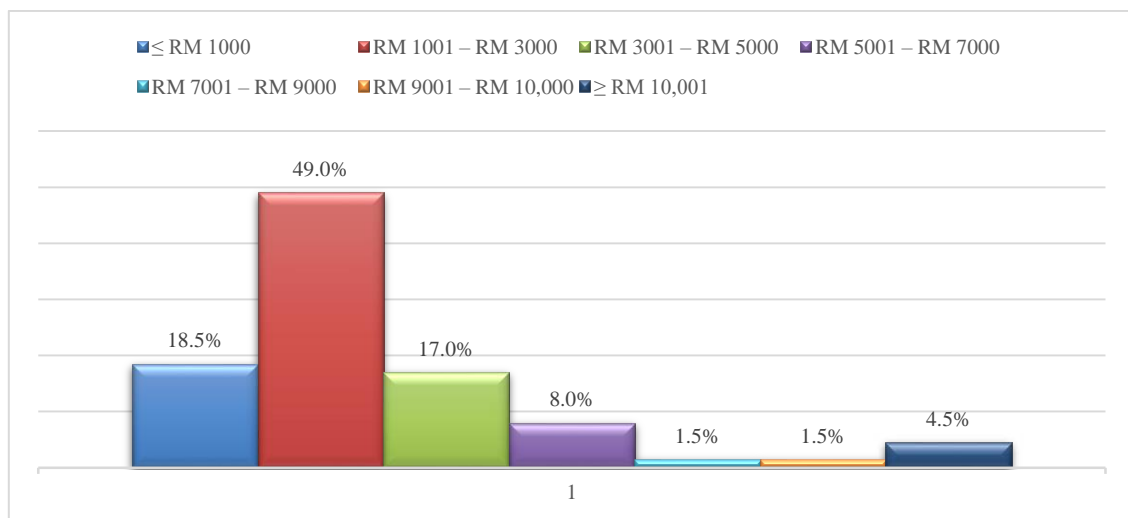


FIGURE 8. TOTAL FINANCING FROM AR-RAHNU

Source: Figure by Authors

Figure 9 explains the frequency of subscribing to *ar-rahnu*. The highest number of frequent subscribers to *ar-rahnu* is 39 respondents or 25.0%, who are first-time customers conducting pawn transactions. Second, those who subscribe to *ar-rahnu* between 2 to 4 times are 76 respondents or 49.0%. The third highest is those who subscribe to *ar-rahnu* between 5 to 7 times, with 21 respondents or 12.0%. Next is those who subscribe to *ar-rahnu* between 8 to 10 times, with 6 respondents or 4.0%. Subsequently, for those who subscribe to *ar-rahnu* 11 times or more, there are 12 respondents or 10.0%.

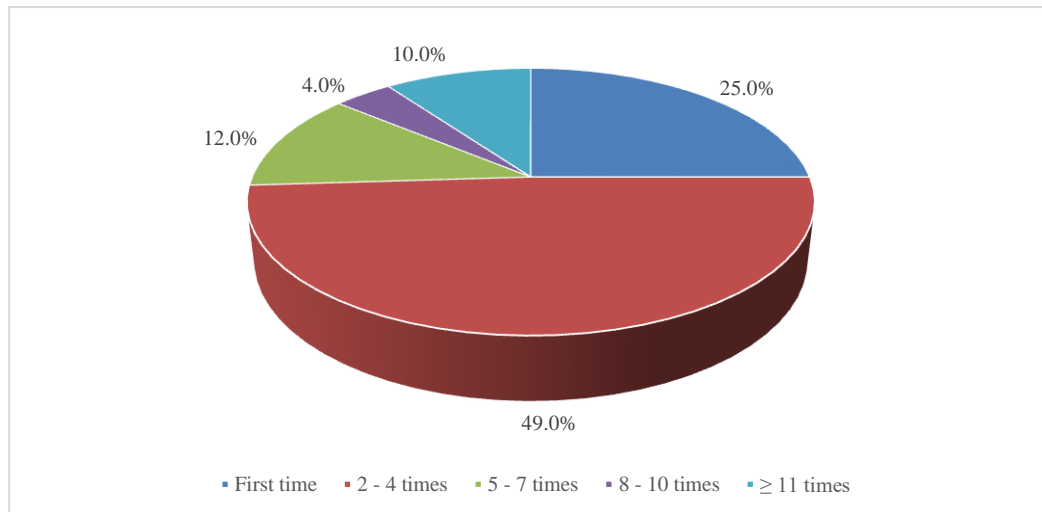


FIGURE 9. RESPONDENT'S FREQUENCY OF SUBSCRIBING TO AR-RAHNU

Source: Figure by Authors

The study found that the majority of respondents who transact with *ar-rahnu* are customers who have 1 existing pawn ticket, as shown in figure 4.10 below. A total of 42% of respondents already have 1 pawn ticket, followed by 32% who have 2 to 3 pawn tickets, 13% have 4 to 5 pawn tickets, 2% have 6 to 7 pawn tickets, while 11% of respondents already have more than 8 pawn tickets.

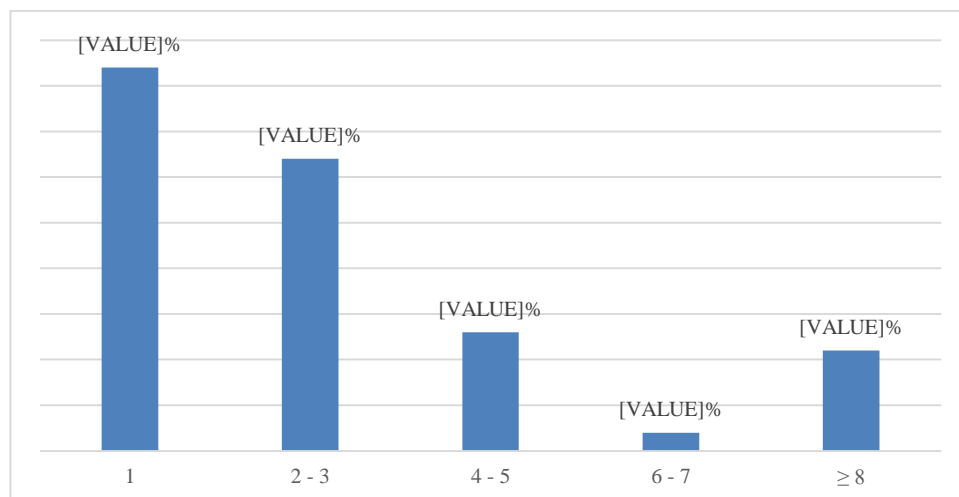


FIGURE 10. NUMBER OF EXISTING PAWN TICKETS

Source: Figure by Authors

The research findings also provide the frequency of the number of pawned items that have been auctioned. Figure 11 shows that the category with the largest percentage is "never auctioned," which comprises 91% of the respondents. There are also one to two (4.5%) and three to four (3.0%) pawned items that have been auctioned. The category with the lowest percentage of the number of pawned items that have been auctioned is seven or more times, which only accounts for 1.5% of the total data.

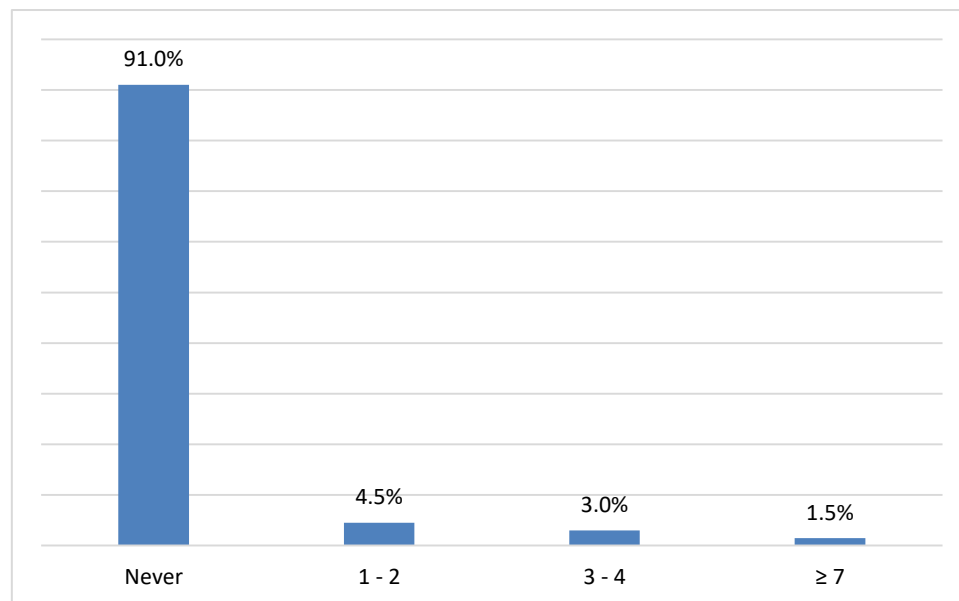


FIGURE 11. NUMBER OF PAWNED ITEMS AUCTIONED

Source: Figure by Authors

Referring to Figure 12, although overall the study found that respondents are satisfied with the services provided by *ar-rahnu*, there are 4 reasons for choosing *ar-rahnu* that have higher percentages (exceeding 50%) compared to others, namely the easy and fast pawn process (65%), *ar-rahnu* transactions comply with sharia requirements (60.5%), the profit rate charged is low (59.5%), and the pawn transactions are conducted transparently (54.0%). Other reasons such as location (48.0%), flexible period (46.0%), and others (10.5%) also play a role in considering *ar-rahnu* options, although with lower frequencies.

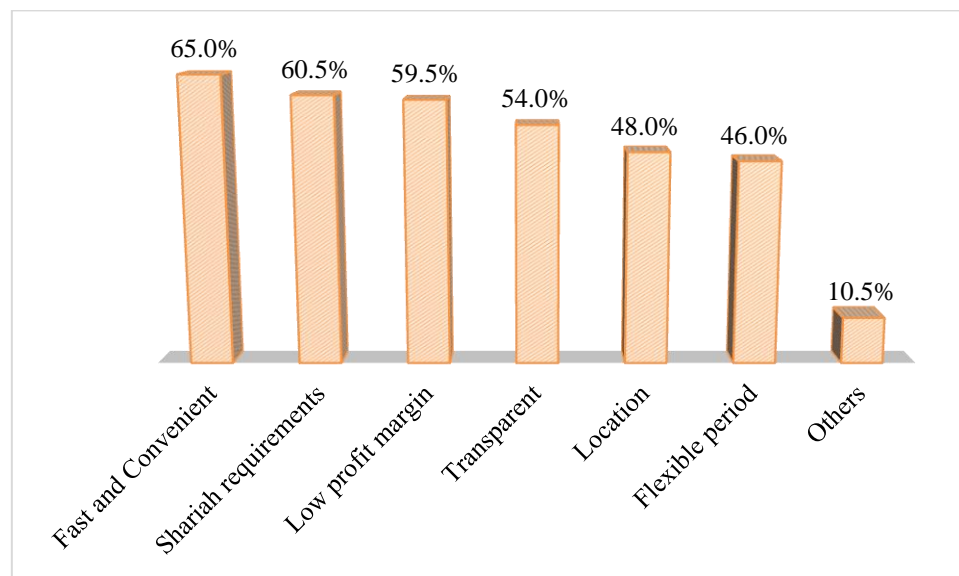


FIGURE 12. REASONS FOR CHOOSING AR-RAHNU OVER CONVENTIONAL PAWNSHOPS

Source: Figure by Authors

Table 2 below shows the findings for the minimum score for items that measure types of satisfaction with *ar-rahnu*. The minimum scores for items are between 4.23 and 4.57. The lowest minimum statement is "The profit rate charged is reasonable" (4.23) while the highest minimum score is "Friendly service provided to customers" (4.57). All the statements below have minimum scores

exceeding 4, indicating that the respondents in this study are satisfied with the services and services provided by *ar-rahnu*.

TABLE 2. TYPES OF SATISFACTION

Elements	Min
Friendly service provided to customers	4.57
Pawn transactions are easy and fast	4.51
Pawn transactions are conducted transparently	4.51
Conducive facilities are provided for convenience	4.46
<i>Ar-rahnu</i> transactions comply with Shariah requirement	4.45
The location of <i>ar-rahnu</i> outlets are strategic	4.34
Flexible pawn duration	4.26
The profit rate charged is reasonable	4.23

Source: Table by Authors

5. CONCLUSION

In summary, the study delves into the profiles and preferences of *ar-rahnu* users in Malaysia, particularly in the digital context, revealing significant insights. It finds that the majority of *ar-rahnu* users are women, Malay, and married, predominantly holding certificate or diploma qualifications, residing in urban areas, and working in the private sector. Social media platforms like Facebook play a crucial role in disseminating information about *ar-rahnu*, supplemented by personal networks and messaging apps like WhatsApp. Financially, users typically earn between RM1,501 and RM3,000 per month and allocate modest budgets for expenses, with a preference for Islamic savings instruments like Tabung Haji and Amanah Saham Nasional (ASN). *Ar-rahnu* emerges as the most common transaction at the outlets, predominantly used for business-related purposes such as capital turnover and debt repayment. Users generally express satisfaction with *ar-rahnu* services, particularly appreciating the ease of transactions, Shariah compliance, and transparent processes. These findings highlight the importance of understanding customer demographics and preferences for optimising digital platforms and enhancing user satisfaction in the *ar-rahnu* industry, ultimately promoting financial inclusion and supporting economic well-being in Malaysia. *Ar-rahnu* institutions need to take proactive ways to enhance the satisfaction of *ar-rahnu* usage among users. In terms of policy, this study offers policymakers insights into shaping targeted policies to foster financial inclusion and economic development in Malaysia. By understanding the profiles and preferences of *ar-rahnu* users, policymakers can design tailored digital literacy programs and regulations to promote trust in digital financial services. This approach enhances access to financial services, fosters innovation, and bolsters *ar-rahnu* users' protection. Ultimately, aligning policies with the needs of *ar-rahnu* users can drive socio-economic advancement in Malaysia.

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**ISRAELI-PALESTINIAN CONFLICT, BOYCOTTED PRODUCTS'
STOCK SHARES, GEOPOLITICAL RISK, POLICY UNCERTAINTY,
AND OIL PRICES NEXUS: EVIDENCE FROM WAVELET-BASED
APPROACH**

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ABSTRACT

This paper aims to study the media coverage connectedness and correlations between the Israeli-Palestinian Conflict and some boycotted targeted companies. We utilize monthly data from January 2016 to December 2023 using three groups of variables. For the analysis part, we utilize the Wavelet-Based Approach alongside panel data regression and Granger causality to identify significant correlations and patterns. Demonstration, PolCiv Event, PolCiv Fatalities as the indicator for Israel-Palestinian conflict. Wix.Com Ltd (WIX), Yum! Brands Inc (YUM), Restaurant Brands International Inc (QSR), Papa John's International Inc (PZZA), Domino's Pizza Inc (DPZ), and McDonald's Corporation's Stock (MCD) as boycotted targeted companies and Global Price of WTI Crude (WTI), Economic Policy Uncertainty (EPU) and Geopolitical Risk Index (GPR) as global indicators. We found strong correlations among Demonstration, PolCiv Event, and PolCiv Fatalities, indicating their connectedness. However, only a few share prices, like WIX and YUM, exhibit limited significance in reflecting the humanitarian conditions tied to the conflict. Additionally, boycotted-product stock prices show medium to high correlations with media coverage, and global indicators (WTI, EPU, GPR) significantly correlate with selected boycotted-product share prices. Surprisingly, WTI and GPR exhibit a strong correlation, suggesting that geopolitical tensions globally influence oil price fluctuations. However, direct impacts on targeted companies are challenging due to opposing perspectives on the conflict, but a reduction in consumption is observed. We uncover strong correlations among various factors, including Demonstration, PolCiv Event, and PolCiv Fatalities. These connections highlight their interconnectedness and contribute fresh insights to existing

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knowledge. Additionally, the study explores the intriguing relationship between boycotted-product stock prices and media coverage, revealing medium to high correlations. Surprisingly, global indicators like WTI (oil prices) and GPR (geopolitical risk index) demonstrate a strong correlation, suggesting that geopolitical tensions globally influence oil price fluctuations. Overall, this research advances our understanding of the multifaceted effects arising from conflict-related events.

KEYWORDS: ISRAELI-PALESTINIAN CONFLICT, BOYCOTTED PRODUCTS, GEOPOLITICAL RISK, POLICY UNCERTAINTY, WAVELET ANALYSIS

ABSTRAK

Kajian ini bertujuan untuk meneliti keterkaitan dan korelasi antara liputan media mengenai konflik Israel-Palestin dan prestasi saham beberapa syarikat yang menjadi sasaran boikot, menggunakan data bulanan dari Januari 2016 hingga Disember 2023. Analisis dilakukan dengan pendekatan berasaskan gelombang (Wavelet-Based Approach), regresi data panel, dan kausaliti Granger, melibatkan tiga kumpulan pemboleh ubah: indikator konflik (Demonstrasi, Peristiwa Politik-Sivil dan Kematian Politik-Sivil), syarikat boikot (WIX, YUM, QSR, PZZA, DPZ, MCD), serta indikator global (harga minyak WTI, Ketidaktentuan Polisi Ekonomi (EPU) dan Indeks Risiko Geopolitik (GPR)). Dapatan menunjukkan hubungan yang kuat antara ketiga-tiga indikator konflik, mencerminkan keterkaitan yang jelas antara peristiwa politik dan kemanusiaan. Hanya beberapa saham seperti WIX dan YUM menunjukkan signifikan terhadap isu kemanusiaan, manakala saham syarikat boikot secara umum menunjukkan korelasi sederhana hingga tinggi dengan liputan media. Penunjuk global seperti WTI, EPU dan GPR turut mempunyai hubungan signifikan dengan saham-saham syarikat boikot, di mana WTI dan GPR menunjukkan korelasi yang sangat kuat, menandakan ketegangan geopolitik global memberi kesan langsung terhadap turun naik harga minyak. Walaupun kesan terus terhadap prestasi syarikat sukar ditentukan akibat perbezaan persepsi terhadap konflik, penurunan dalam penggunaan produk syarikat boikot dapat dikesan. Secara keseluruhan, kajian ini menyumbang kepada pemahaman yang lebih mendalam terhadap kesan berlapis konflik terhadap pasaran saham, liputan media dan faktor global.

KATA KUNCI: KONFLIK ISRAEL-PALESTIN, PRODUK DIBOIKOT, RISIKO GEOPOLITIK, KETIDAKTENTUAN DASAR, ANALISIS GELOMBANG

1. INTRODUCTION

The Israeli-Palestinian conflict has claimed tens of thousands of lives and displaced many millions of people and has its roots in a colonial act carried out more than a century ago. According to Pressman (2005), the Israeli-Palestinian Conflict began as early as 1881, but major events started on 31 October 1917. This was led by World War I when the British took Palestine from the Ottoman Empire to honour the Balfour Declaration where they wanted to establish a national home for the Jewish people in Palestine (Hajjar & Bein, 1988). That is when many Jewish migrated to Palestine to flee from Nazism in Europe. The Arab revolt happened from 1936 until 1939 because of the demographic and tension that was sensed by the Palestinians in their homeland while Zionist organizations continued to campaign for a homeland for Jews in Palestine using armed forces and killing many innocent Palestinians until today. Palestinian-Israeli Conflicts have been for decades and most discussions have described them as unable to solve and at a dead end. With the world changing, and the influence of media, people around the world are more educated about the situations happening in Gaza and the devastation of the Palestinians and the mounting death toll has triggered worldwide protests, and now people are trying to show their support for them by boycotting Israeli products or products that are affiliated with them. Media plays an important role as a means of spreading information to the public all over the world, no matter their age as long as they have the means to access them in the form of digital or printed. Multiple media platforms affect our comprehension of global and national events. Consuming the information helps us to stay connected to the real world and allows us to understand the events around us and the experiences of others.

Recently, in late October, there was another big incident that happened in Gaza, many media try to cover all kinds of situations there, whether true or false news. The media travels far and almost all people around the world are aware of it. In light of the brotherhood solidarity, Muslims all over the world have united to boycott products of Israeli and international companies that are complicit in violations of Palestinian rights by following the BDS (Boycott, Divest, and Sanction) movement, to show that we stand with the Palestinians. The BDS movement is more of a strategy than a group. Its goal is to "end international support for Israel's oppression of Palestinians and pressure Israel to comply with international law." Even though this movement started in 2005, people are starting to be aware of it because of the power of social media and digital activism. Boycott can be understood as a way to withhold buying products from certain companies or organisations and it is considered as a form of ethical consumption as followed by (Smith, 1987). One of the examples of how well boycotts worked was during the apartheid rule in South Africa, where they managed to bring down the government (Shiblak, 2013). Nowadays the ongoing boycott of Israeli products has not only put economic pressure on Israel but also put economic pressure on Israel and forced some companies to reconsider their involvement in the Palestinian-occupied territories.

In finance, the media is one of the most important tools for investors to get information about the market to maximise profits and minimize losses. It also helps the investor to know what assets to hold or buy. Thus, with the boycott movement, the profit of the boycotted products will be reduced, making investors stay away from buying the share. Or those that are more sentimental will withdraw from the share as a form of boycott. Some scholars have studied multiple connections between media and asset prices including bonds and share price. Further, Zhang *et al.* (2022) studied emotional reactions to internet news and bond markets in China and have proven that investors have a certain reaction towards certain news on the internet regarding the bond market. Tetlock (2010) in his studies found that public news serves as a crucial factor in providing information to certain investors, while not having the same effect on others. If a specific group of investors possess the ability to anticipate and engage in trading based on forthcoming news, the effect of the news on prices will be diminished. However, it is still unclear whether there is a strong connection between media reports and the share price of the direct target companies. This article focuses on how media plays a role in determining share price trends especially for those that are directly linked with the media reports and covers. Within this background, this study primarily aimed to see the relationship between the Israeli-Palestinian Conflict with the boycotted products' share prices in a certain period. However, the insufficient resources to employ specific web scraping techniques to gather all of the news, articles, or public opinions regarding this conflict is considered this study's limitation. Thus, we examine the data related to demonstration events, political violence events, civilian targeting events, political violence fatalities, as well as civilian targeting fatalities in Palestine to proxy the "rising tension" indicator of the Israeli-Palestinian Conflict throughout a certain period. This proxy is also considered and justified by Gartner and Segura's (1998) research that mainly discussed how to determine models of war, casualties, and public opinion. Furthermore, this study modifies the study from Sharif *et al.* (2020) by replacing COVID-19 from their study with the Israeli-Palestinian Conflict and extending them with the nexus analysis with the Geopolitical Risk Index (GPR) as an addition to other variables such as the stock market, crude oil price, and Economic Policy Uncertainty (EPU).

With the aforementioned justifications, this article contributes by analysing the connectedness and the lead-lag interplay between the Israeli-Palestinian Conflict, Boycotted Products' Stock Shares, Geopolitical Risk, Policy Uncertainty, and Oil Prices from January 2016 to December 2023 based on a frequency-based approach. To accomplish this goal, we employ Wavelet Analysis where we apply the Continuous Wavelet Transform (CWT) and Wavelet Coherence (WC), along with panel data regression and Granger causality to enrich the analysis. The reasons for using Wavelet Analysis are because firstly, it enables time series data to be decomposed into several scales, which might uncover relationships that are not readily apparent in the overall data. Second, it is flexible and doesn't need strong assumptions about how the data is generated as it can effectively depict complex data without having prior knowledge of its underlying functional structure (He & Nguyen, 2015). The structure of the paper is as follows: A review of earlier research on these subjects that supports the choice of

specific factors used in this study can be found in Part 2. The panel data regression strategy, granger causality analysis, wavelet coherence analysis, and other techniques used in this study are explained in Part 3. The main discussion and analysis of fresh empirical data about the relationship between the aforementioned variables are expanded upon in Part 4. In conclusion, this study offers a comprehensive analysis of the findings along with some policy implications and suggestions for further investigation.

2. LITERATURE REVIEW

Theoretical Foundations

In structuring the paper, there is a theory that is being followed. The main inference is to look at how media sentiment has been shown to have an impact on stock return. This hypothesis stems from financial behaviour where researchers realize that media is one of the low-cost information that can help investors overcome their rational ignorance. Based on the "spiral of silence" theory of communication by Elisabeth Noelle-Neumann in 1974, it mainly discussed how the inclination of individuals to convey their opinions was dependent upon their perception of the general public's opinion. In our study, it can be understood how investors react towards media sentiments on the targeted companies. Studies by Jiao and Walther (2016), categorize two types of media, which are traditional news media and social media coverage and both types of media have different impacts on investors. Several studies determine how the public perceives the media whether it is beneficial or not for them including how much ownership of media, whether it is by government or wealthy private institutions (Djankov *et al.*, 2003). This is further acknowledged when Thaler (2019), stated that people respond to any information that relates to their interests regarding an asset's price.

Previous Studies

As mentioned before, media reporting can exert a large causal influence on financial markets, and even when there is no causal channel, media content can be a useful window into investors' and managers' beliefs. The media often represents and influences the expectations of investors and managers for companies, impacting the supply and demand for securities, as well as their financial strategies. Media can influence the market by attracting investors' attention to certain things. Behavioural finance theory studies show that the asset's price depends on how people in the market respond concerning new information or information that affects them (Thaler, 2019). Inevitably, investors' responses using their feelings, general knowledge, and experience to information or news may be one of the main influences on their decision regarding purchasing and selling their assets, which results in irrational investment behaviour (Fischer, 2011).

A study by Merton (1987) in which he looked at a model of incomplete information in which some investors don't know about a group of securities and don't include them in their portfolios. The study proves that stock prices are low and expected returns are high for companies with small investor groups leading to understanding that a company's exposure in the media could bring in more investors, which would raise its market value and lower its expected return. (Tetlock *et al.*, 2007) conclude three findings in their paper which are that bad media coverage about companies will result in the companies' loss of profit. This is because the news isn't just extra information, but it also shows the basics of companies that would be hard to measure quantitatively. The second finding is that unfavourable information is slightly delayed by the stock market before it is reflected in pricing and lastly, negative media being discussed in news articles is a great way to forecast the profits and returns of certain companies. Nowadays, with the use of various social media, the news about companies is also being traded easily and quickly. What happens in companies in the US can be spread to other countries in the blink of an eye. Several studies (Bollen & Mao, 2011), (Bartov *et al.*, 2016) and (Gu & Kurov, 2020) have examined the predictive return on several targeted companies from social media sentiments. It shows that there are sentiments that contain information that can be used to analyse share prices. (Zhang *et al.*, 2022), studied sentiments on internet news on China's bond market. Lastly, Jiao and Walther (2016) stated that social media coverage forecasts high volatility while news coverage forecasts low trading volatility.

Research Gaps

Existing literature has looked at various impacts of media on stocks, however to the best of our knowledge, no study has looked into specific media impact on a well-known company's stock, especially those that can be classified as giants in their industry. It is important to also look at whether these companies are affected because of public opinion or not. Table 1 shows the overviews of various research and identifies the existing knowledge gaps that are used to construct this paper.

TABLE 1: OVERVIEW OF VARIOUS RESEARCH AND RESEARCH GAP

ARTICLE	FOCUS	FINDINGS	METHOD	GAP
(Antweiler & Frank, 2001)	The research analyzed 1.5 million interactions on Yahoo! Finance and Raging Bull platforms that specifically discussed 45 firms listed in the Dow Jones Industrial Average and the Dow Jones Internet Index.	The study concludes that Internet stock message boards are related to stock markets.	Naïve Bayes algorithm	In the study, the media used is a direct media that specifically discusses stocks rather than an indirect impact caused by public opinion.
(Jiao & Walther, 2016)	The research shows how investors react differently in news media and social media.	The study has two findings, which are social media coverage predicts high volatility for the next period while news media coverage predicts low volatility.	The study developed a general model of asset pricing and information processing.	The study uses certain buzz for measuring sentiments from the media, while our study uses the sentiments from the public that agreed to do consumer boycott.
(Azar & Lo, 2016),	The research focuses on the content of tweets that can be used to predict future returns of the company and focus on the Federal Open Market Committee (FOMC) announcements.	Tweets do contain information, which can be used to predict returns even after controlling for common market factors.	Polarity Score to Twitter from Natural Language Processing Techniques.	The study examines the informational role of Twitter sentiment-specific events by focusing on FOMC rather than emotional sentiments.
(Zhang et al., 2022)	The study examines how two important bond participants react to financial news on the	Credit rating agencies (CRAs) and bond investors exhibit disparate responses to	Multiple Regression	The study examines how two important bond participants react to financial news on the

	internet. The two bond participants are credit rating agencies (CRAs) and bond investors.	financial news disseminated on the Internet.		internet. The two bond participants are credit rating agencies (CRAs) and bond investors.
(Dong <i>et al.</i> , 2022)	The research examines the influence of media sentiment on stock prices in the STAR market via the perspective of behavioural finance.	The influence of media sentiments on the efficiency of IPO pricing is not significant. Favourable media sentiments have positive effects on (IPO) first-day returns. COVID-19 had a more significant influence on IPO first-day performance through media sentiments.	Machine Learning-Based Text Analysis Technique	The study looks at the IPO stock price rather than a stable company that has been listed for more than 5 years.
(Gu & Kurov, 2020)	This study analyzes the informational value of firm-specific sentiment derived from Twitter messages.	Twitter sentiment analysis offers useful insights that can be utilized to forecast future stock returns at the firm level.	Fama-MacBeth Regression	The study looks at Twitter sentiments at firm levels and not at how the public perceives the firm.
Current study	This paper studies the correlation of media on consumer boycotting targeted companies and their stock price.		Wavelet-Based Approach	The study looks at stable companies' stock and whether they are affected by the media.

Source: Table by Authors

Effectiveness of Boycott

Throughout history, consumer boycotts have been used to pressure some companies or the government to take action. They serve to advocate for social, economic, and political equality and to combat injustices they have witnessed. According to Micheletti and Didem Oral (2018), the four categories of political consumption are consumer boycotts, buycotts, discursive acts, and lifestyle adjustments. A consumer boycott is a deliberate strategy to attain certain aims or objectives by abstaining from purchasing or consuming certain products or services. With a great number of audiences, these boycotts are capable of effecting ethical changes in society (Lekakis, 2018).

A study by Koku *et al.* (1997) shows that most of the time, companies that are targeted by boycotts and threats of boycott don't lose any money. Targeted companies, on the other hand, usually get richer when they are being targeted. But these kinds of wins are possible because companies are usually main products like Google, Wix and Intel where the market capitalizations are big and stable, and they are also active in promoting their products. One of the reasons for that company to get richer is also because when the stock price decreases, those who do not boycott the product will buy and support them because of the same reason, which is a stable market. Nevertheless, the study cannot measure the success of negotiating with the targeted companies. Regarding this effect of consumer boycotts, the conflict between Russia and Ukraine serves as an instance of how boycotts have an indirect rather than direct impact. Amidst the early phases of the Russian invasion, some companies like McDonald's, Coca-Cola, and Apple withdrew or temporarily suspended their activities in Russia (Al Jazeera, 2022). While boycotts may not directly endanger the state's economy or a company's sales, they effectively convey dissatisfaction among stakeholders. Investors may perceive this dissatisfaction as a potential risk to a firm's reputation and position.

The same can be seen from our study where there is no correlation between media social coverage of the Israeli-Palestinian Conflict and stock prices of the boycotted companies. Nonetheless, there are plenty of examples where there are indirect effects for the company for example, according to Al Jazeera (2024), Domino's Pizza had a decline of 8.9 per cent in same-store sales during the second half of 2023 mainly by consumers in Muslim-populated country like Malaysia and Domino's Pizza Israel has deleted posts related to supporting the Israel Defense Forces (IDF) and mocking of Palestinian prisoner in response to the termination of its sponsorship by the Trinity College Dublin Students' Union (TCDSU) for the company's UK and Ireland franchise over the posts (Kent, 2024). (BBC, 2024) stated that McDonald's, in almost four years, had its first quarterly revenue decline, primarily due to sluggish development in its foreign business segment. The sales increase globally except in the Middle East, China, and India was 0.7% in the fourth quarter of 2023, far lower than what the market anticipated. On the other hand, McDonald's franchises in Saudi Arabia, Egyptian, Jordanian, and Turkish have all declared that they will donate millions of dollars to help the Palestinians (Blair, 2024). From the examples, we can see that the effect of media in these situations is prone to be rather indirect than directly to the targeted companies.

3. METHODOLOGY

Data, Sample, and Model Development

The study's data set includes monthly observations of demonstration, political violence and civilian targeting events and fatalities in Palestine, the listed boycotted products' stock prices, crude oil price, policy uncertainty index, and geopolitical risk index. The data collection period spans from January 2016 to December 2023, resulting in 96 observations for the study. This research also extracted the data based on monthly due to its availability for the related socio-political variables with the Palestine-Israeli conflict. A detailed explanation of each variable can be seen in the table below.

TABLE 2: DATA AND OPERATIONAL VARIABLES

Variable	Code	Definition	Source of Data
Demonstration Events	Demonstration	The total number of reported demonstration events includes protests and riots except for mob violence.	The Humanitarian Data Exchange, https://data.humdata.org/
Political Violence & Civilian Targeting Event	PolCiv_Event	The total number of reported civilian targeting events and number of reported political violence events	The Humanitarian Data Exchange, https://data.humdata.org/
Political Violence &	PolCiv_Fatalities	The total number of reported civilian targeting fatalities and	The Humanitarian Data Exchange,

Variable	Code	Definition	Source of Data
Civilian Targeting Fatalities		number of reported political violence fatalities	https://data.humdata.org/
Wix.Com Ltd	WIX	Monthly return of WIX share prices	https://www.investing.com/
Yum! Brands Inc	YUM	Monthly return of YUM share prices	https://www.investing.com/
Restaurant Brands International Inc	QSR	Monthly return of QSR share prices	https://www.investing.com/
Papa John's International Inc	PZZA	Monthly return of PZZA share prices	https://www.investing.com/
Domino's Pizza Inc	DPZ	Monthly return of DPZ share prices	https://www.investing.com/
McDonald's Corporation's Stock	MCD	Monthly return of MCD share prices	https://www.investing.com/
Economic Policy Uncertainty	EPU	EPU index reflects the relative frequency of own-country newspaper articles that contain a trio of terms about the economy (E), policy (P) and uncertainty (U)	https://www.policyuncertainty.com/
Geopolitical Risk Index	GPR	A new index of undesirable geopolitical events based on the number of media stories on geopolitical tensions is examined, together with its historical development and economic implications since 1900.	https://www.policyuncertainty.com/
Global Price of WTI Crude	WTI	Global price of WTI crude in U.S. Dollars per Barrel	International Monetary Fund Data

Source: Table by Authors

Generally, the research methods employed in this study follow the way how Sharif *et al.* (2020) did in their study on “*COVID-19 pandemic, oil prices, stock market, geopolitical risk and policy uncertainty nexus in the US economy: Fresh evidence from the wavelet-based approach*”. This study justifies the significant causality of two variables based on Granger causality before the correlation between those two variables is examined through biwavelet coherence analysis. Furthermore, the panel data regression is added to the discussion to enrich the dynamic of change in the social phenomena as mentioned in Baltagi (2008).



FIGURE 1: LIST OF BOYCOTTED PRODUCTS

Source: bdsmovement.net

First, in choosing the boycotted-products stock price, we specify certain products from the BDS movement website that are recommended from the organic boycott targets. According to BDS website, this category means that these products are boycotted by the grassroots organic movements not initiated by the BDS movement. BDS backs these boycott efforts because these businesses, or their Israeli affiliates or branches, have publicly backed apartheid Israel and/or generously donated in kind to the Israeli military amid the ongoing massacre. If these grassroots initiatives aren't already naturally occurring in your community, we advise concentrating your efforts on the aforementioned strategic campaigns. Recently in January 2024, a Malaysian McDonald's franchisee launched a Strategic Lawsuit Against Public Participation (SLAPP) action alleging slander against campaigners for solidarity. Rather than confronting the Israel franchisee for its sponsorship of genocide, the BDS movement is now seeing corporate intimidation of activists. Therefore, the movements are urging an intensified boycott of McDonald's until the parent firm acts and breaks the brand's complicity for these two reasons.

Based on the above discussion, this research selects six stock prices which are MCD, DPZ, PZZA, QSR (Burger King holding company), WIX, and YUM (which holds the Pizza Hut company). Then, this study tries to enrich the analysis by adding the EPU variable as recommended by Baker *et al.* (2016), GPR as designed by Caldara and Iacovellio (2018), as well as the WTI which is also examined by Sharif *et al.* (2020). For the EPU variable, we utilize the global-scale data (GEPU) which is a GDP-weighted average of 16 countries' national EPU indices. These 16 countries account for two-thirds of the world's output (Davis, 2016). An excellent worldwide EPU index that can capture the uncertainty of economic policy from a global standpoint is the GEPU Index. One important metric in economic studies that can be used to forecast a recession is Global Economic Policy Uncertainty or GEPU. Business owners lower their investments when uncertainty is high, which prolongs the post-recession recovery (Kaveh-Yazdy & Zarivzadeh, 2021).

One textual indicator of geopolitical risk is the GPR index. The amount of stories in significant English-language newspapers that highlight potentially dangerous geopolitical events and issues is how it is determined. The amount of articles that address growing geopolitical threats is tallied each month and divided by the total number of articles that are published (Caldara & Iacovellio, 2018). Greater likelihood of disasters, more substantial downside risks, decreased investment, and decreased employment are all correlated with higher geopolitical risk. Additionally, it may result in increased loan costs, stricter non-price terms, and higher loan prices for bank loans (Caldara & Iacoviello, 2022).

Panel Data Regression

Panel techniques provide for a more thorough and in-depth analysis when examining intricate social phenomena with several dimensions related to time, context, and the intricacy of interdependent variables (Gil-García and Puron-Cid, 2015). Comparing panel data models with standard OLS regression yields several advantages: more information can be obtained, larger sample size can be obtained, variability in cross-section units and time dimensions can be captured, and the dynamics of change within social phenomena can be more accurately described (Baltagi, 2008). These then serve as the explanations for how the panel data improves the model formulation and estimations. Therefore, this study has 3 models for panel data regression with different dependent variables according to the Israeli-Palestinian Conflict data as mentioned earlier, which are described as follows:

These three equations have the same independent variables to be observed but have different dependent variables. The first equation stands for the demonstration events as the explained variables, while the political and civilian targeting events are for the clarity in the second equation, and the fatalities numbers for political and civilian targeting are posited as the output variables in the third equation. To distinguish between fixed and random effects and identify the best model, this study then applied the Hausman test, following Gujarati and Porter (2012) and Wooldridge *et al.* (2016). The Hausman test is then used to determine which of the fixed-effects and random-effects models is the best fit. According to Hausman (1978), the Hausman test can assist you in selecting between a fixed effects model and a random effects model while conducting panel data analysis, which is the analysis of data over some time. The alternative hypothesis is that the model is fixed effects, while the null hypothesis is that the preferred model is random effects.

The panel data method also has a classic assumption test. In theory, the classical assumption test in Ordinary Least Square (OLS) consists of linearity, autocorrelation, heteroscedasticity, multicollinearity, and normality tests (Gujarati & Porter, 2012). However, in the panel data method, the classical assumption test is only performed to test heteroscedasticity. Regarding the problem of multicollinearity, Hanushek (1977) in his book states that multicollinearity will not affect the bias of the resulting estimated coefficients. Multicollinearity will only increase the standard error of a variable so that it will increase the p-value and decrease the statistical significance value. Thus, this study will not take into account the multicollinearity effect if after testing the model the resulting variance inflation factor (VIF) value exceeds 10. Meanwhile, the linearity test is also not carried out in this panel data method because the assumption that the panel model is linear has been fulfilled. Next, the autocorrelation test is also not carried out because the panel data has a different time dimension than the time-series data model. The normality test is also not practised in the panel data method because it is not a general requirement of BLUE (Best Linear Unbiased Estimator). Within that notion and some limitations in the panel data regressions, this study only utilizes the panel regression to know the significant correlation of each independent variable in those 3 models. Hence, the significant variable can be further analyzed with Granger causality before the wavelet coherence analysis is conducted.

EQUATION 1: PANEL DATA REGRESSION

$$\text{Demonstration} = \alpha + \beta_1 WIX + \beta_2 YUM + \beta_3 QSR + \beta_4 PZZA + \beta_5 DPZ + \beta_6 MCD + \beta_7 EPU + \beta_8 GPR + \beta_9 WTI + \varepsilon_{it} \quad (1)$$

$$\text{PolCiv_Event} = \alpha + \beta_1 WIX + \beta_2 YUM + \beta_3 QSR + \beta_4 PZZA + \beta_5 DPZ + \beta_6 MCD + \beta_7 EPU + \beta_8 GPR + \beta_9 WTI + \varepsilon_{it} \quad (2)$$

$$\text{PolCiv_Fatalities} = \alpha + \beta_1 WIX + \beta_2 YUM + \beta_3 QSR + \beta_4 PZZA + \beta_5 DPZ + \beta_6 MCD + \beta_7 EPU + \beta_8 GPR + \beta_9 WTI + \varepsilon_{it} \quad (3)$$

Granger Causality

The Granger test is based on a typical bivariate dynamic structural framework, which can be described as follows, according to Thornton & Batten (1985):

EQUATION 2: THORNTON & BATTEN

$$y_t + \alpha x_t = L(\beta)^H y_{t-1} + L(\delta)^K x_{t-1} + \varepsilon_{1t} \quad (4)$$

$$x_t + \delta y_t = L(\lambda)^l x_{t-1} + L(\mu)^N y_{t-1} + \varepsilon_{2t} \quad (5)$$

x and y are jointly determined endogenous variables in the maintained structure, with $iid(0, \sigma_i^2), i = 1, 2$ being assumed to be ε_1 and ε_2 . To keep things simple, let $E(\varepsilon_{1t} \varepsilon_{2t'}) = 0$ for all t and t', and let $L(\cdot)^J$ stands for the polynomial lag operator of order J, for instance, $L(\beta)^J y_{t-1} = \beta_1 y_{t-1} + \beta_2 y_{t-2} + \dots + \beta_j y_{t-j}$. The reduced form of the model is

EQUATION 3: THORNTON & BATTEN REDUCED FORM

$$y_t = L(\pi_{11})^G y_{t-1} + L(\pi_{12})^P x_{t-1} + \mu_{1t} \quad (6)$$

$$x_t = L(\pi_{21})^G y_{t-1} + L(\pi_{22})^P x_{t-1} + \mu_{2t} \quad (7)$$

where π s are nonlinear functions of the structural parameters in (4&5), and G and P are the greater of H or N and K or l, respectively. Meanwhile, the usual formulas for the Granger version of the causality test are found in equations (6&7).

The following theories are investigated in order to look into Granger causality between x and y: $L(\pi_{12})^P = 0$ and $L(\pi_{21})^G = 0$ and B. X and y are independent series if they are both incapable of being rejected. The rejection of both indicates "feedback" between x and y. Unidirectional causation from x to y exists if the former hypothesis is rejected but the latter is not; conversely, if the latter is rejected and the former is not, the opposite is true.

The typical model selection criteria, according to Thornton & Batten (1985), trade off the inefficiency linked to overparameterization against the bias associated with a parsimonious parameterization. Different criteria can choose substantially different lag structures because they assign varying weights to the trade-off between bias and efficiency. In general, the estimates will be impartial but ineffective if P, G, or both are excessively large. Therefore, there are two criteria for deciding lag-length selection which consist of the Akaike Information Criterion (AIC) and the Bayesian Estimation Criterion (BEC).

Moreover, AIC was suggested by Hsiao (1981) and included in Akaike's (1970) final prediction error (FPE). It selects lags that are too lengthy on average in big samples, making it asymptotically inefficient. However, it places a substantially higher value on unbiasedness than efficiency. The second is the estimating criterion for Bayesian processes (BEC), proposed by Geweke & Meese (1981). It is asymptotically efficient because it typically chooses the appropriate latency. However, because of its significant benefit as described in Kery & Royle (2020), this study will solely use the analysis based on the magnitude of AIC. When calculating the marginal likelihood, AIC offers the benefit of automatic model selection. It also generates weights that are immediately applicable for model-averaging predictions or parameters with a unified interpretation across models.

The Continuous Wavelet Transforms (CWT)

By taking into account the widely used methodology, i.e., wavelet coherence, regardless of the time series, the relationship between the Israel-Palestine conflict, boycotted products stock price, geopolitical risk index (GPR), Economic policy uncertainty (EPU), and crude oil prices can be

examined through periods. From a practical standpoint, the cross wavelet transform (CWT) and cross wavelet power are defined initially. According to Torrence and Compo (1998), two-time sequence $a(t)$ and $b(t)$ can provide clarification on the cross-wavelet transform as follows:

EQUATION 4: CROSS WAVELET

$$N_{ab}(p, q) = N_a(p, q)N_b^*(p, q) \quad (8)$$

where two continuous transforms of $a(t)$ and $b(t)$ are represented by $N_a(p, q)$ and $N_b^*(p, q)$, respectively; p and q indicate the location index and measure, and $(*)$ represents the composite conjugate. Wavelet power by $|N_a(p, q)|$ can be computed using the cross-wavelet transform. The cross-wavelet power spectra divide the region in the time-frequency domain associated with the time series under investigation where a strong energy concentration (cumulus of the constrained variance) is perceived.

The wavelet coherence technique (WCT) can identify the precise zones in the time-frequency domain where significant and unforeseen changes occur in the co-movement patterns of the observed time series. According to Torrence and Webster (1998), the coefficient of adjusted wavelet coherence has the following equation:

EQUATION 5: ADJUSTED WAVELET COHERENCE

$$W^2(p, q) = \frac{|M(M^{-1}N_{ab}(p, q))|^2}{M(M^{-1}|N_a(p, q)|^2)M(M^{-1}|N_b(p, q)|^2)} \quad (9)$$

The smoothing mechanism is denoted by M . The squared wavelet coherence coefficient's range is displayed by $0 \leq W^2(p, q) \leq 1$. A high correlation is indicated by proximity to unity, whereas the absence of correlation is indicated by proximity to zero. The Monte Carlo technique is applied to investigate the theoretical distribution of wavelet coherence.

4. RESULTS AND DISCUSSIONS

In this section, the analysis results based on panel regression, granger causality, and wavelet coherence are elaborated in a sequence manner.

Panel Regression Result

According to Table 3, the Hausman test result shows that two models will be analyzed in the random-effect model, while one model will be examined through the fixed-effect model. The first and third model, which posit Demonstration and PolCiv, Fatalities as their dependent variables, have chi-squared values for more than the alpha value of 5%. Hence, those two models' hypotheses do not reject their null hypothesis. On the other hand, the second model in which PolCiv_Event as its dependent explanatory has chi-squared for less than 5% and resulted in its null hypothesis rejection.

TABLE 3: HAUSMAN TEST RESULT

Model	χ^2	Decision	Results
1 st Model (Demonstration)	0.098	Do not reject the null hypothesis	Random-Effect Model is preferred
2 nd Model (PolCiv_Event)	0.000	Do reject the null hypothesis	Fixed-Effect Model is preferred
3 rd Model (PolCiv_Fatalities)	0.580	Do not reject the null hypothesis	Random-Effect Model is preferred

Source: Table by Authors

The panel data regression result is presented in Table 4 below. Based on the first model, there are two variables which significantly correlate with the Demonstration as the dependent variable. YUM has a significant level of 5% while WTI has a 1% level of significance in the first model. In addition, the geopolitical risk index (GPR) shows a significance level of 1% for both the second and third models. Therefore, the relation between those significant variables which are Demonstration-YUM, Demonstration-WTI, PolCiv_Event-GPR, and PolCiv_Fatalities-GPR will further be examined for their correlations in the wavelet analysis.

TABLE 4: PANEL REGRESSION RESULTS

Independent variables	Dependent Variables		
	Demonstration	PolCiv Event	PolCiv Fatalities
WIX	-31.90721	4.063015	759.0086
YUM	-161.4606**	-489.9247	-4429.378
QSR	35.37755	-26.97113	702.0885
PZZA	-4.745995	-29.55683	1088.713
DPZ	8.156142	244.3844	898.7388
MCD	192.4924	1064.863	5256.887
EPU	-.0664357	-.2727229	-.4815271
GPR	-.0751505	3.964574***	21.1857***
WTI	1.600275***	-2.266559	-.9364126
Cons	3.710217	128.0493	-1737.655
R-Squared within	0.0616	0.1090	0.1315
R-Squared Between	0.6375	0.0444	0.1370
R-Squared Overall	0.2288	0.0840	0.1282

Note: *** significant at 1%, ** significant at 5%, * significant at 10%

Source: Table by Authors

Granger Causality Result

Granger causality measures the degree of effective connectivity, which refers to the causal interactions between elements. It quantifies the extent to which the signal in one variable can predict the signal in another variable (Geweke, 1982; Granger, 1969). Due to the significance of this stage in Granger causality testing, the lag length selection is typically determined by objective criteria. The Akaike information criterion is commonly employed for selecting the appropriate lag length (Akaike, 1974). The lag length selection in this study is determined by the minimum value of the Akaike information criteria (11,11998), resulting in a lag length of 1. Table 5 shows the outcome of the Granger causality.

TABLE 5: GRANGER CAUSALITY RESULTS

DV	IVs											
	Demonstration	PolCiv Event	PolCiv Fatalities	WIX	YUM	QSR	PZZA	DPZ	MCD	WTI	EPU	GPR
Demonstration	-	2.887 *	0.678	0.0013	1.9753	1.3853	0.5149	2.3748	0.1929	0.0103	1.0121	0.0344
PolCiv Event	1.802	-	0.248	2.6415	0.0089	0.5672	0.3901	1.9293	1.0027	0.0016	0.3220	0.0698
PolCiv Fatalities	3.980 **	0.136	-	3.8933 *	0.2782	1.4783	0.7182	2.2658	2.4551	0.4927	0.0925	0.0014
WIX	0.122	1.528	0.774	-	0.1352	1.8489	0.0198	0.1944	0.4128	1.5592	2.3523	2.7144
YUM	1.165	0.545	0.579	0.1623	-	4.0488 **	0.2101	0.1380	0.2611	6.1677 **	4.5270 **	1.0566
QSR	1.235	0.671	0.547	0.3030	0.8812	-	1.1836	8.7080 ***	1.4325	1.9666	2.6005	2.8E-07
PZZA	0.049	1.259	1.080	2.0036	0.0475	0.4292	-	0.0346	0.0937	3.4908 *	3.1243 *	2.6574
DPZ	0.698	2.485	0.544	0.0350	1.932	0.7860	6.1E-0	-	3.8322 *	0.9112	0.6565	0.6768
MCD	0.018	3.614 *	2.613	0.5833	0.0024	1.5975	1.8588	0.1174	-	0.4026	2.2659	1.8653
WTI	10.09	6.490	2.232	7.3224	2.5496	1.9243	5.9827	1.5449	0.1238	-	0.6174	7.1790

	***	**		***			**				***	
EPU	0.0005	0.202	0.036	0.39158	0.4633	1.6279	0.5296	2.1011	0.6134	0.0434	-	0.69763
GPR	0.041	1.028	0.001	0.66687	1.05666	0.32121	4.05573	0.56852	0.00372	0.5941	0.2612	-
							**					

Note: *** significant at 1%, ** significant at 5%, * significant at 10%, DV = dependent variable, IVs=Independent variables

Source: Table by Authors

The Granger causality results provide insight into the complex causal connections between variables, specifically concerning the Israeli-Palestinian Conflict and its possible influence on some equities that are being boycotted owing to the perceived endorsement of Israel. There is a noteworthy association between Political Violence and Civilian Targeting (PolCiv) Fatalities and Demonstrations, where PolCiv Fatalities substantially influence Demonstrations at a 5% significance level according to the Granger causality test. This suggests that the presence of deaths in the conflict affects future protests and establishes a possible link between the intensity of events and public responses (Weiss *et al.*, 2023). Moreover, rallies, like the one led by Granger, resulted in political violence and incidents of targeting civilians. This suggests a connection in time between public protests and subsequent political events throughout the conflict (Asali *et al.*, 2024).

The Israeli-Palestinian Conflict has a low influence on the chosen stocks within the financial industry. Bröckerhoff & Qassoum (2021) argue that the conflict environment also shapes and limits the decision-making and actions of political consumers so that the interests of participation in boycotts do not have a greater impact. There is a clear correlation between the number of fatalities in the political and civil sector and the company Wix.com Ltd (WIX), with a significance level of 10%. Causal links exert a greater influence on other stock assets. For example, the stock prices of Yum Brands (YUM) about Restaurant Brands International Inc (QSR), the stock prices of QSR of Domino's Pizza Inc (DPZ), and the stock prices of DPZ concerning McDonald's Corp (MCD). These stocks are subject to multiple factors that expose them to possible vulnerabilities arising from the ongoing conflict (Jha & Shayo, 2019). YUM's stock price is notably affected by the stock of Wix.com Ltd (WIX) at a statistically significant level of 5%. This highlights the susceptibility of YUM's stock to external factors like internet sentiment and web development trends. However, although consumers have the power to boycott, they always fear taking serious, timely steps in boycotting (Buheji & Ahmed, 2023).

Moreover, it has been observed that the price of Crude Oil (WTI) is affected by both WIX and PZZA. Geopolitical risk (GPR) is considered a significant factor affecting the PZZA, indicating that geopolitical events, potentially linked to conflicts, and oil price variations could affect this company's performance. The Granger causality study reveals that there is a significant influence of Crude Oil Price (WTI) on Geopolitical Risk (GPR) at a 5% significance level. This highlights the interconnection between geopolitical uncertainties and global economic situations associated with conflicts (Jha & Shayo, 2019).

The Continuous Wavelet Transforms (CWT)

Wavelet analysis is carried out on variables that have a significance of at least 10% in panel regression analysis and Granger causality. Before examining the wavelet outcome, it is imperative to comprehend the principles of wavelet analysis to make an informed assessment. The horizontal axis represents time, we use the number of observations from January 2016 to December 2023. January 2016-August 2017 (Obs 1-20), September 2017-April 2019 (Obs 21-40), May 2019-December 2020 (Obs 41-60), January 2021-August 2022 (Obs 61-80), and September 2022-December 2023 (Obs 81-96). Meanwhile, the vertical axis represents frequency with larger scales indicating lower frequencies. The wavelet coherence is used to identify the specific areas in time-frequency space where the two times series exhibit a mutual correlation. Warm area (Red) indicates regions with substantial connection, whilst blue indicates weaker dependency between the series. The cold regions (blue) outside the important sections exhibit time and frequencies that are completely independent of the series (Thaker & Mand, 2021).

The arrow in the wavelet coherence plots indicates the temporal correlation (lead or lag) between the analyzed series. A zero-phase difference indicates that the two-time series exhibit synchronous movement on a specific scale. Arrows indicate rightward (\rightarrow) or leftward (\leftarrow) direction when the time series are in-phase or in anti-phase (opposition). When the two series are in phase, it signifies that they are moving in the same direction, whereas anti-phase shows that they are moving in the other way. Arrows pointing diagonally to the right-down (\searrow) or left-up (\nearrow) indicate that the first variable is in a leading position, while arrows going diagonally to the right-up (\nearrow) or left-down (\searrow) show that the second variable is in a leading position. The table below summarizes the wavelet coherence results that focus on Israeli-Palestinian conflict variables.

TABLE 6: SUMMARY OF TIME-FREQUENCY ANALYSIS-CWA FOR THE ISRAELI-PALESTINIAN CONFLICT

Pairs		Frequency		
		Jan16-Apr19 Colour Dominance: Relationship: Phase:	Apr19-Dec20 Colour Dominance: Relationship: Phase:	Dec20-Dec23 Colour Dominance: Relationship: Phase:
Demonstrations PolCiv Events	vs	Red Colour Strong Relationship In-Phase	Red Colour Strong Relationship In-Phase	Red Colour Strong Relationship In-Phase
Demonstrations PolCiv Fatalities	vs	Blue Colour Weak Relationship In-Phase	Blue Colour Weak Relationship In-Phase	Red Colour Strong Relationship In-Phase
Demonstrations WTI	vs	Mixed Colour Moderatec Relationship In-Phase	Mixed Colour Moderatec Relationship No-Phase	Blue Colour Moderatec Relationship In-Phase
Demonstrations YUM	vs	Blue Colour Weak Relationship In-Phase	Blue Colour Moderatec Relationship In-Phase	Blue Colour Weak Relationship In-Phase
PolCiv Events vs MCD		Blue Colour Weak Relationship No-Phase	Blue Colour Weak Relationship No-Phase	Blue Colour Weak Relationship No-Phase
PolCiv Events vs WTI		Blue Colour Weak Relationship In-Phase	Blue Colour Weak Relationship No-Phase	Blue Colour Weak Relationship No-Phase
PolCiv Events vs GPR		Blue Colour Weak Relationship In-Phase	Blue Colour Weak Relationship No-Phase	Blue Colour Weak Relationship No-Phase
PolCiv Fatalities WIX	vs	Blue Colour Weak Relationship No-Phase	Blue Colour Weak Relationship No-Phase	Blue Colour Weak Relationship No-Phas
PolCiv Fatalities GPR	vs	Blue Colour Weak Relationship	Blue Colour Weak Relationship	Blue Colour Weak Relationship

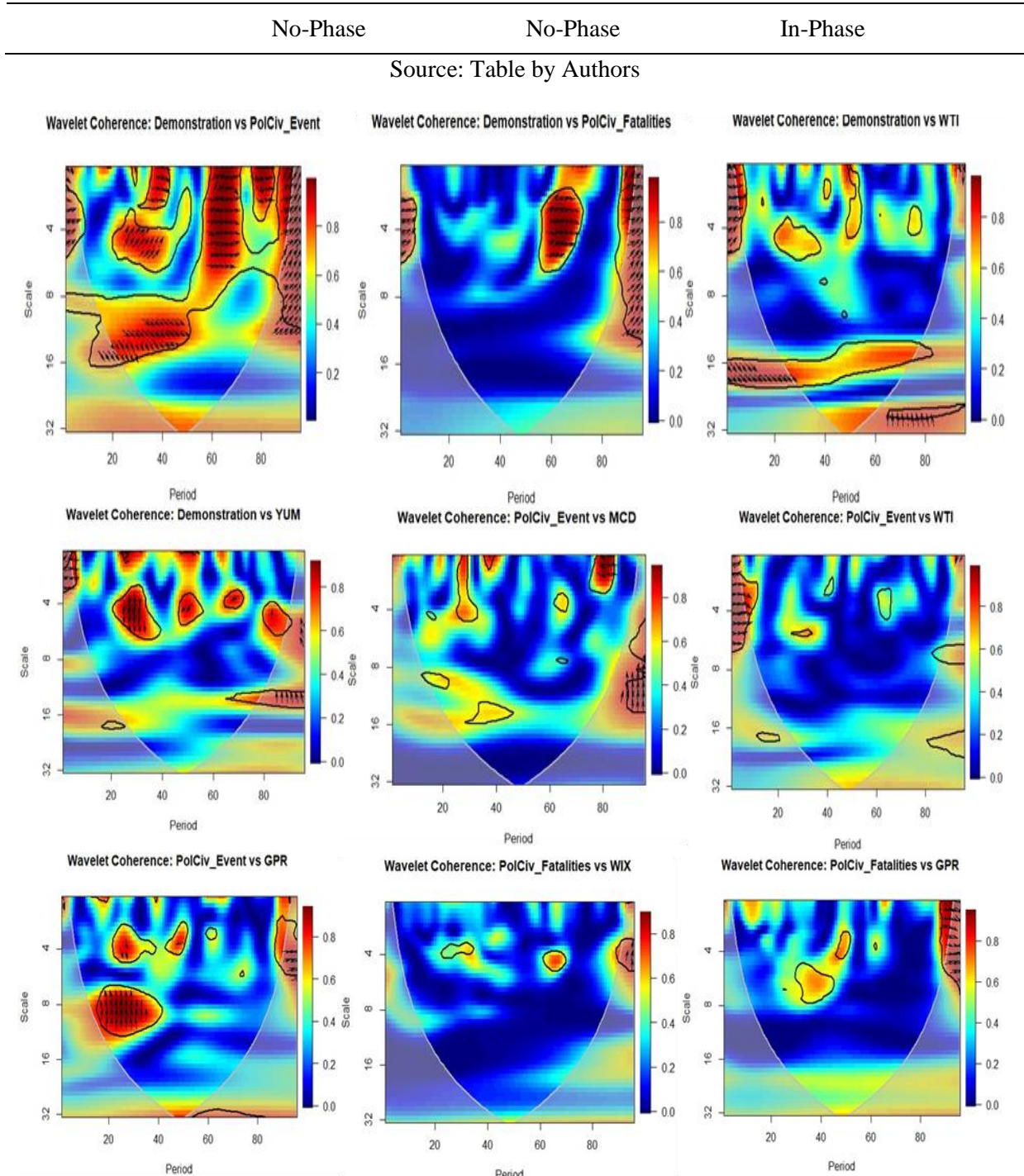


FIGURE 2. WAVELET RESULT FOR ISRAELI-PALESTINIAN CONFLICT
Source: Figure by Authors

The study shows the wavelet results in Figure 2, which focuses more on variables representing the Israeli-Palestinian Conflict. This variable concerns the demonstration variable, Political Violence and Civilian Targeting (PolCiv) Events, and Political Violence and Civilian Targeting (PolCiv) Fatalities. The Demonstrations and PolCiv Events have a strong correlation with dominant warm (red) areas. This result was supported by Weiss *et al.*, (2023) that people more participated in political movements during the conflict. The direction of the arrow is shown to the right (\rightarrow) and right-down (\searrow), which means this correlation is in the in phase, and the demonstration is leading the PolCiv Event. In contrast, PolCiv Fatalities seem to lead to the Demonstration variable. This can be seen from the limited direction of the arrow. Furthermore, the area is mostly dominated by cold area

(blue colour) indicating a weaker correlation. Product boycotts can have dire consequences for multinational companies and their brands (Knudsen *et al.*, 2011). This is due to the role moral emotions (empathy and anger) play in consumer buying intention regarding pro-Israeli products (Hino, 2023). Another indicator in the issue of boycotting products seems to only affect YUM, MCD, and WIX stocks. The dependency correlation is weak with a dominant of blue. Only demonstration and YUM show high dependency with varied dark arrow directions. Next, we analyze how conflict-related variables influence global indicators such as crude oil prices (WTI) and geopolitical risk (GPR). Demonstrations and PolCiv Events seem to have a connection with WTI but not very strong. This can be seen from the dominant blue colour on the cones. Apart from that, there is no arrow indicating the direction of correlation. This result is supported by Zhang & Guo (2024) that uncertainty because of conflict can influence the price of WTI. Furthermore, PolCiv Events and PolCiv Fatalities appear to have a dependent relationship with Geopolitical risk but on a low scale. This shows that the conflict in Israel affects global geopolitical risks (Asali *et al.*, 2024). Table 7 below shows the wavelet result that is more focused on boycotted stock and general variables.

TABLE 7: SUMMARY OF TIME-FREQUENCY ANALYSIS-CWA

Pairs	Frequency		
	Jan16-Apr19 Colour Dominance: Relationship: Phase:	Apr19-Dec20 Colour Dominance: Relationship: Phase:	Dec20-Dec23 Colour Dominance: Relationship: Phase:
WTI vs WIX	Blue Colour Weak Relationship No-Phase	Mixed Colour Moderate Relationship In-Phase	Mixed Colour Moderate Relationship In-Phase
YUM vs QSR	Blue Colour Weak Relationship In-Phase	Red Colour Strong Relationship In-Phase	Red Colour Strong Relationship In-Phase
YUM vs WTI	Blue Colour Weak Relationship No-Phase	Mixed Colour Weak Relationship No-Phase	Mixed Colour Weak Relationship No-Phase
YUM vs EPU	Blue Colour Weak Relationship In-Phase	Mixed Colour Weak Relationship In-Phase	Mixed Colour Weak Relationship In-Phase
QSR vs DPZ	Blue Colour Weak Relationship In-Phase	Blue Colour Weak Relationship In-Phase	Blue Colour Weak Relationship In-Phase
WTI vs PZZA	Blue Colour Weak Relationship No-Phase	Mixed Colour Weak Relationship In-Phase	Mixed Colour Weak Relationship In-Phase
PZZA vs EPU	Mixed Colour Weak Relationship In-Phase	Mixed Colour Weak Relationship In-Phase	Blue Colour Weak Relationship No-Phase
GPR vs PZZA	Blue Colour Weak Relationship In-Phase	Mixed Colour Weak Relationship In-Phase	Mixed Colour Weak Relationship In-Phase

DPZ vs MCD	Mixed Colour Weak Relationship In-Phase	Mixed Colour Weak Relationship In-Phase	Mixed Colour Weak Relationship In-Phase
WTI vs GPR	Blue Colour Weak Relationship No-Phase	Mixed Colour Weak Relationship No-Phase	Mixed Colour Weak Relationship In-Phase

Source: Table by Authors

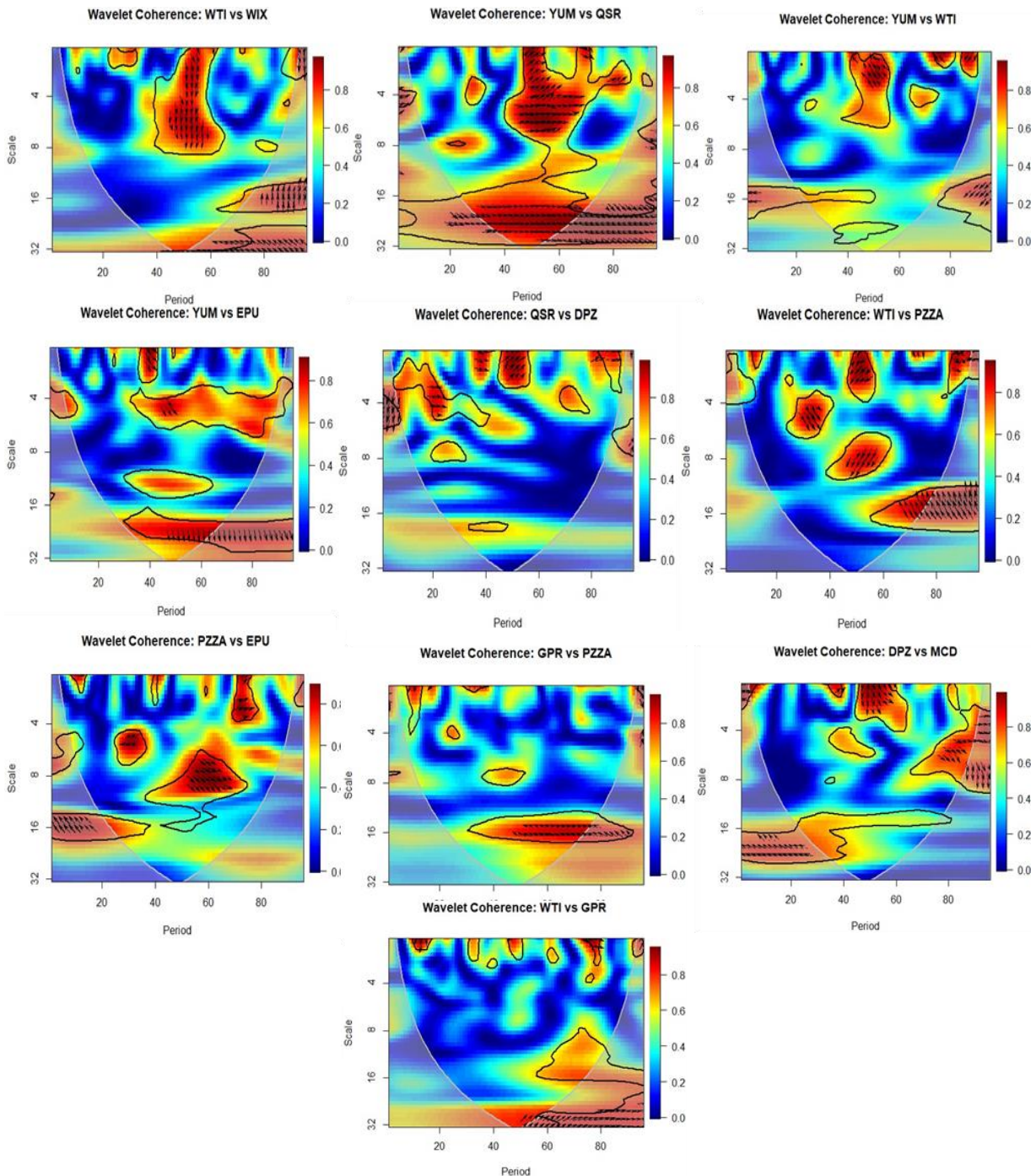


FIGURE 3. GENERAL WAVELET RESULT

Source: Figure by Authors

In Figure 3, a comprehensive analysis of general Wavelet results unveils noteworthy dependencies among various shares, particularly those falling under the Boycott, Divest, and Sanction (BDS) category. Notably, YUM and QSR exhibit a pronounced dependency correlation, indicated by a dominant warm area (red colour) and dark arrow pointing towards the right-down, with YUM taking the lead in this correlation. Further dependencies are observed, such as the correlation between QSR and DPZ, and also DPZ and MCD, with the latter exhibiting a relatively lower dependency. Additionally, WTI demonstrates significant relationships with multiple stock assets, including WIX, YUM, and PZZA. The correlation with WIX is particularly emphasized in warm areas on an intermediate scale, while associations with YUM and PZZA exhibit a lower dependency, characterized by the dominance of the blue area.

Remarkably, WTI also demonstrates a less prominent correlation with geopolitical risk (GPR), marked by a low level of dependency. The Economic Policy Uncertainty Index (EPU) is influenced by YUM and PZZA shares with a low level of significance, suggesting that financial markets play a role in contributing to economic uncertainty (Buheji and Ahmed, 2023). Moreover, WTI exhibits a dependency on GPR, although the influence is lower, as indicated by the dominant blue area in the cone with no arrow direction. This intricate network of dependencies underscores the connectedness of various stocks, including WIX, YUM, QSR, PZZA, DPZ, and MCD, along with commodities such as WTI, and economic indicators like EPU and GPR. It reinforces the idea that financial markets, geopolitical events, and economic policy uncertainties collectively contribute to the complex economic dynamics and uncertainty landscape (Jha & Shayo, 2019).

5. CONCLUSION AND RECOMMENDATIONS

This paper examines the relationships and lead-lag dynamics between the Israeli-Palestinian Conflict, Boycotted Products' Stock Shares, Geopolitical Risk, Policy Uncertainty, and Oil Prices from January 2016 to December 2023. We use Wavelet Analysis to achieve this goal, applying the Wavelet Coherence (WC) and Continuous Wavelet Transform (CWT) in addition to panel data regression and Granger causality to enhance the analysis. As of October 2023, there are many negative media coverages in regards to the Israeli-Palestinian Conflict which leads to consumer boycotts of some companies to pressure them to take action such as to stop sending money to fund Israel or to not support them. Our paper has several findings that can be used as a benchmark. First, Demonstration, PolCiv Event, and PolCiv Fatalities are strongly correlated with those three variables. This is because these three variables are happening in the same place and are related to each other. Second, only a few share prices signify the actual humanitarian condition related to the Israeli-Palestinian Conflict (only WIX and YUM) but with a low significance level. It implies that the awareness of the worldwide population related to the boycotted products is still relatively low when there is rising tension in the Israeli-Palestinian Conflict. Third, boycotted-product stock prices also experience some medium to high correlations with media coverage. Fourth, other global indicator variables such as (WTI, EPU, and GPR) also significantly correlate with the selected boycotted-product share price. Lastly, WTI and GPR surprisingly have a strong correlation magnitude which indicates that the oil price fluctuation is also influenced by the geopolitical tension worldwide.

Overall, we can say that in real life, boycotts towards targeted companies are not able to directly affect the companies as there are two sides of a coin, those who support Palestine and those who support Israel. Because of the nature of the targeted companies which have large market capitalization and are stable, it is hard to boycott them in a place where there is profit, but indirectly, we can see that there is a reduction in the consumption of the targeted companies. In the context of recommendations, we have highlighted several critical points for consideration. Firstly, the importance of Muslims taking a more earnest stance on boycotting products linked to countries that support warfare is emphasized, aiming to mitigate the negative impact of escalating conflicts that could potentially lead to war. This shift in behaviour is advocated to begin at the individual level, with the hope that such actions will signal to the world the necessity to prevent future conflicts and wars for the betterment of humanity. Additionally, it's suggested that future studies should extend their scope to more

comprehensively capture the nuances of the Israeli-Palestinian conflict, including the analysis of public sentiment and the examination of relevant news and articles. Moreover, future research is encouraged to delve deeper into this field by incorporating the use of a time-varying parameter vector autoregression (TVP-VAR) model with stochastic volatility, as proposed by Primiceri in 2005, to explore the interconnectivity between these variables, thereby enriching the research avenues in this area.

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RESEARCH TRENDS IN THE FIELD OF ISLAMIC BANKING AND FINANCE: BIBLIOMETRIC ANALYSIS FROM 2000 TO 2024

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ABSTRACT

This study presents a comprehensive bibliometric analysis of Islamic Banking and Finance (IBF) from 2000 to 2024, aiming to address research gaps, examine publication trends, and propose future research directions. Using a systematic search across five academic databases—Web of Science, ResearchGate, Google Scholar, Connected Papers, and Emerald Insight—150 peer-reviewed studies were selected based on relevance and quality. Analytical tools such as Biblioshiny (RStudio), VOSviewer, and Microsoft Excel were employed to map out the intellectual landscape of IBF. The findings highlight a strong research focus on Islamic banking operations, rate comparisons with conventional banks, and governance structures, while also uncovering patterns in geographical research output, citation networks, and collaboration trends. Importantly, the study identifies critical gaps in the literature, including a scarcity of empirical work on sustainable development, inadequate frameworks for institutional accountability, and limited exploration of digitalisation and fintech in IBF. These insights form the basis for a proposed research agenda to steer future scholarship towards more impactful and globally relevant contributions.

KEYWORDS: BIBLIOMETRIC ANALYSIS, ISLAMIC BANKING, FINANCE, RESEARCH, LITERATURE REVIEW

ABSTRAK

Kajian ini membentangkan analisis bibliometrik yang komprehensif terhadap Perbankan dan Kewangan Islam (IBF) bagi tempoh 2000 hingga 2024, dengan tujuan untuk mengenal pasti jurang penyelidikan, meneliti trend penerbitan, dan mencadangkan hala tuju penyelidikan masa depan. Melalui carian sistematik merentasi lima pangkalan data akademik—Web of Science, ResearchGate, Google Scholar, Connected Papers, dan Emerald Insight—sebanyak 150 kajian yang telah disemak oleh rakan sejawat dipilih berdasarkan kualiti dan kerelevanan. Alat analisis seperti Biblioshiny (RStudio), VOSviewer, dan Microsoft Excel digunakan untuk memetakan landskap intelektual dalam IBF. Dapatan kajian menunjukkan tumpuan utama penyelidikan adalah pada operasi perbankan Islam, perbandingan kadar dengan bank konvensional, dan struktur tadbir urus, di samping mendedahkan corak penyelidikan mengikut geografi, rangkaian sitasi, dan kolaborasi antara penyelidik. Kajian ini turut mengenal pasti jurang ketara dalam literatur, termasuk kekurangan kajian empirikal mengenai pembangunan lestari, ketiadaan kerangka akauntabiliti yang seragam bagi institusi kewangan Islam, dan penerokaan yang terhad terhadap digitalisasi serta integrasi Fintech dalam IBF. Hasil ini menjadi

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asas kepada agenda penyelidikan yang dicadangkan untuk membimbing penyelidik masa depan ke arah sumbangan yang lebih berimpak dan relevan di peringkat global.

KATA KUNCI: ANALISIS BIBLIOMETRIK, PERBANKAN ISLAM, KEWANGAN, PENYELIDIKAN, SOROTAN KARYA

1. INTRODUCTION

Islamic banking and finance (IBF) has been a topic of key scientific interest, as indicated by the large growth in publications on the subject in recent years (Ahmed, 2010). This growth is influenced by factors such as the implementation of a wide range of macroeconomic measures and structural reforms of financial systems, the liberalisation of capital movements, privatisation, the global integration of financial markets, and the introduction of new and innovative Islamic products (Zaher & Zaher, 2001). Western nations, such as the UK and Switzerland, are among the top 20 most significant countries in total conformity with *Shariah* (Islamic law) for commodities. However, this definition does not give a complete view of the Islamic financial system, hence it cannot simply be described as "without interests." The system's fundamental tenet is unquestionably the ban on perceiving and paying interest, but it is supported by additional Islamic teaching tenets that uphold risk sharing, individual rights and obligations, property rights, and the sanctity of contracts. Furthermore, according to Ayub (2013), Iqbal, (1997), and Usmani (1998), the Islamic financial system encompasses capital production, capital markets, and other forms of financial intermediation and is not just restricted to the banking industry.

A World Bank statistician estimates that the assets that comply with *Shariah* (Islamic law) total over US\$2 trillion and include capital and money markets, insurance, banks, and non-bank financial institutions (El-Zoghbi, 2015). In Muslim nations, Islamic finance is growing at a quicker rate than in non-Muslim countries. The allure of its tenets has led to the adoption of Islamic finance by a few non-Muslim nations, including the UK, Luxembourg, South Africa, and Hong Kong. Even though few people think of it as a matter of religion, it is more than just worship and can be used in real-world situations to maximise wealth, savings, return on investment, and viability in a competitive market (Kayed, 2011). According to Islamic law, Islamic finance is a means of assisting individuals in handling financial concerns for their benefit both here on Earth and in the hereafter (Ahmed, 2018). In general, Islamic banking and finance serve both Muslims and non-Muslims as clients. Islamic finance has several problems in the financial markets, such as a lack of knowledge about its advantages, a misconception that it is only applicable to Muslims, and a notion that it is a copy of traditional banking (Mahdzan, 2017).

Nevertheless, according to Majdoub and Ben (2017), it only accounts for less than 1.0 per cent of global financial assets. Islamic banking accounts for 15% of the assets of the banking system in countries like Bangladesh, Brunei, Kuwait, Malaysia, Qatar, Saudi Arabia, the United Arab Emirates, Yemen, Iran, and Sudan, which have fully developed Islamic financial sectors. Additionally, 1.25 per cent of the world's banking assets are represented by it. Islamic banks have stronger capitalisation and asset quality than conventional banks, but their profitability is still lower (Farook *et al.*, 2012). Awareness is the first step towards adoption, which is finished with choice confirmation. According to research by Loo (2010) on how people perceive Islamic banking and finance, non-Muslims knew little about it. Employees of different Islamic banks were also found to be ignorant of the fundamentals of Islamic banking and finance. Further, Rogers' (2010) DOI theory may be used to gauge prospective adopters' perceptions. Adopting a new financial system, especially in a setting where most people are not Muslims, requires a suitable viewpoint. The current study proposes to analyse the research on IBF using the bibliometric analytical approach (Aria & Cuccurullo, 2017). Performing a bibliometric analysis of all the papers on SCOPUS about IBF is the study's goal. According to Sánchez-Riofrío *et al.* (2015), bibliometric analyses provide a quantitative description of scientific communication by establishing a framework for a field of study, highlighting key topics, and identifying connections that already exist. Some examples of these structures are clusters and networks. In this regard, a thorough examination of research progress will aid in a meticulous assessment of the various facets of the scientific landscape that are intrinsic to Islamic banking.

Quotation rates are suggested based on the study; the journals' impact factors are objective, measurable measures that are closely related to the published science. Additionally, this work aims to determine the direction of future research on the subject of Islamic Banking Finance (IBF).

2. RESEARCH QUESTIONS

The following key research questions (RQs) have been formulated to guide the focus and direction of this study:

RQ1. What is the current scenario of publications in the IBF field?

RQ2. What are the most important and influential aspects, such as sources, authors, and countries and their networks in IBF literature?

RQ3. What are the existing themes in the IBF literature?

RQ4. What are the potential research directions in the IBF field?

3. LITERATURE REVIEW

The topic of IBF literature has a large body of published research on bibliometric studies. Each of these studies focuses on various topics, utilises different search strategies, and identifies a variety of study streams and future research questions. By examining several factors, including the databases used, the periods, the keyword search protocols, the identified current research themes, and the suggested future research areas, this section examines the existing studies to identify and fill in any research gaps and provide a bibliometric analysis that enriches the IBF literature. According to Hitt and Tucker (2016), a systematic literature review is carried out in three logical steps: defining eligibility criteria, researching databases using a specific search command, and sorting search results. According to Tambunan *et al.* (2023), a systematic review eliminates bias by synthesising all pertinent data according to common criteria and effect magnitude. The search approach used in this paper, however, is comprehensive and exact; comprehensive implies that all pertinent studies are included, while precise means that the first search result is minimised. The search terms that were used were "Islamic banking," "finance," and "bibliometric analysis." Future research agendas should focus on the following areas, according to the authors: more empirical studies on Islamic banking-based models for sustainable development and their universal applicability; conceptual and empirical analysis to establish a uniform Islamic accountability framework for finance institutions and research on the digitalisation of finance 2017. Finding existing and new areas of subject interest has been made easier with the use of bibliometric methods used to analyse the network. Additionally, it assesses co-citation in addition to other metrics including coupling, scientific collaboration, and co-word analyses. The statistical program R-studio was used to perform the statistical analysis.

Research in Islamic banking and finance has seen significant growth, driven by the sector's unique appeal to ethical investors and its alignment with *Shariah* principles. This field is characterized by a focus on ethical and sustainable financial practices, which differentiate it from conventional banking systems. The research trends in Islamic banking and finance are diverse, encompassing various aspects such as risk management, wealth management, and the integration of technology. These trends highlight the sector's potential to contribute to a more inclusive and ethical global financial system. The following sections outline key research trends in Islamic banking and finance. Recent studies have highlighted several prominent themes in Islamic Banking and Finance (IBF) literature. One significant area is multidisciplinary and international collaboration, which plays a vital role in fostering innovation and sustainable development within the IBF sector. Malaysia, in particular, stands out as a leading contributor to research in this field, actively engaging in international collaborations that expand the global impact of Islamic finance (Husaeni, 2024; Munawaroh & Rahman, 2024; Mohamad, 2024). Another core theme is *Shariah* compliance and ethical finance, which underscores the foundational principles of Islamic banking — including transparency, fairness, and the prohibition of *riba* (usury) and *gharar* (excessive uncertainty). These principles not only differentiate Islamic finance from conventional systems but also enhance its appeal to a broader, ethically conscious audience (Muthoifin *et al.*, 2025; Naila Hafizah *et al.*, 2024).

Emerging technologies and Fintech are increasingly influencing IBF, especially with the integration of fintech and blockchain technologies aimed at enhancing financial inclusion and innovation. The COVID-19 pandemic further accelerated scholarly interest in the intersection of fintech and sustainability in Islamic finance (Munawaroh & Rahman, 2024; Judijanto *et al.*, 2024; Mohamad, 2024). Meanwhile, risk management and wealth management remain central to the literature, with ongoing research focusing on developing strategies that align with *Shariah* principles. Islamic wealth management is also gaining traction, driven by its appeal to ethical investors and its potential contribution to sustainable economic growth (Alghamati *et al.*, 2024; Ninglasari *et al.*, 2024). Despite these advancements, several research gaps persist. Topics such as the role of cryptocurrencies, including bitcoin, and the broader socio-economic impacts of Islamic finance remain underexplored. Additionally, future studies should aim to enhance public understanding of *Shariah* principles and contribute to the refinement of regulatory frameworks to maximize the potential of the Islamic finance sector (Munawaroh & Rahman, 2024; Alghamati *et al.*, 2024; Naila Hafizah *et al.*, 2024).

While Islamic banking and finance research is expanding, challenges remain, such as the public's limited understanding of *Shariah* principles and the need for better regulatory frameworks. Addressing these challenges through education, transparency, and collaboration can strengthen the sector's role in the global financial system. Additionally, the integration of emerging technologies and interdisciplinary approaches offers promising avenues for future research and innovation in Islamic finance.

4. METHODOLOGY

This study adopts a bibliometric analysis approach to systematically examine the intellectual structure, thematic evolution, and research trends within the field of Islamic Banking and Finance (IBF) from 2000 to 2024. The methodological framework is designed to align with the research questions, which focus on identifying publication patterns, influential sources and authors, dominant themes, and potential future directions in IBF literature.

Keyword Selection and Search Strategy

To ensure thematic relevance, the literature search was guided by domain-specific keywords directly tied to IBF topics. Unlike generic terms such as "bibliometric analysis," which are methodological, we employed the following keywords to retrieve content-rich articles:

"Islamic banking," "Islamic finance," "*Shariah* compliance," "Islamic microfinance," "Islamic investment," "Islamic fintech," "Islamic wealth management," "Islamic ethical finance," and "Islamic corporate governance." These terms were chosen to reflect the thematic focus of the study and to capture literature that addresses a broad spectrum of issues within the IBF domain.

The search was conducted across five major academic and open-access platforms:

Web of Science
Google Scholar
ResearchGate
Connected Papers
Emerald Insight

The search was restricted to the period between January 2000 and February 2024, and the language filter was set to English only to maintain consistency and accessibility.

Inclusion and Exclusion Criteria

To ensure the academic quality and relevance of the literature, the following inclusion criteria were applied:

Articles published in peer-reviewed journals
The research focused specifically on Islamic banking and/or Islamic finance
Articles providing empirical, conceptual, or theoretical contributions to the field
Accessible full-text availability

Exclusion criteria included:

Theses, conference proceedings, book chapters, editorials, and retracted articles
Non-English publications
Articles unrelated to IBF despite containing related keywords

Screening and Final Selection

An initial retrieval of approximately 537 articles was recorded. After removing duplicates and applying the inclusion/exclusion criteria through title, abstract, and full-text screening, a final dataset of 150 articles was selected. These articles form the basis for the bibliometric analysis, which is aimed at addressing the research questions outlined in the study.

Data Analysis Tools and Procedures

The bibliometric data were analysed using a combination of tools:

RStudio with the Bibliometrix and Biblioshiny packages: Used for descriptive statistics, thematic evolution, citation analysis, and co-word analysis.
Microsoft Excel: Used for preliminary data cleaning, sorting, and chart generation.

This combination of tools enabled both quantitative and qualitative insights into the structure of knowledge in IBF. The analysis helped reveal dominant research themes, influential contributors, active countries and institutions, and collaborative patterns within the field.

5. RESULT AND DISCUSSION

The key results and conclusions from the analysis of the 150 documents that were retrieved from databases such as Web of Science, ResearchGate, Google Scholar, Connected Papers, and Emerald Insight are discussed in this section. It's important to note that the keywords "Islamic finance" and "Islamic banking" are purposefully quite generic to highlight prestigious journals while expanding the scope of the study topic in question.

The annual number of publications is shown in Figure 1. On the topic of IBF, the first article was published in 2000. Between 2000 and 2024, just 150 studies were published. Studies in this area started to take shape in 2017 and had a significant spike in publications in 2022. The year 2024 saw the most articles, with a total of 27. One may see that there is a growing consideration of the study of Islamic financial products on the financial market. The sustainable growth of the Islamic financial industry has just been the subject of research output in the 2 years.

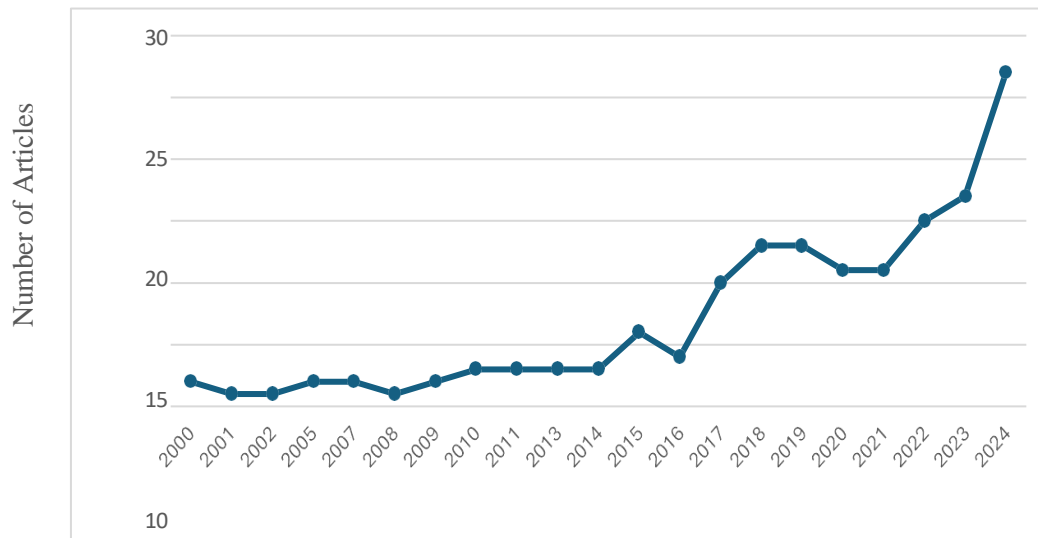


FIGURE 1: KEYWORD ISLAMIC BANKING AND FINANCE AND YEARS

Source: Figure by Authors

Figure 2 lists the top 10 sources of pertinent papers on the subject of IBF. With 16 publications, the Journal of Islamic Accounting and Business Research is the most cited source. It is followed by the International Journal of Islamic and Middle Eastern Finance and Management (15 publications) and the Journal of Islamic Marketing (12 publications). The other pertinent sources include the International Journal of Law and Management, the Journal of Islamic Economic Studies, the International Journal of Islamic Finance, the Journal of Islamic Monetary Economics and Finance, the Pacific-Basin Finance Journal, the International Journal of Islamic Law and Management, and Humanomics. For more details, the readers can refer to the figure.

The authors who have produced the most for Islamic banking and finance are included in this section. Based on the portion of the 10 writers who published the greatest number of publications, Figure 3 was constructed. With 9 publications, M. Kabir Hassan is the most relevant author. Aishath Muneeza and M. Mansoor Khan follow with 4 and 3 publications, respectively. Hassnian Ali, Lina Handayani, Eko Sudarmanto, Ganjar Primambudi, Dinh Hoang Bach Phan, Abdul Rahim Abdul Rahman, and Md Shabbir Alam are other pertinent writers.

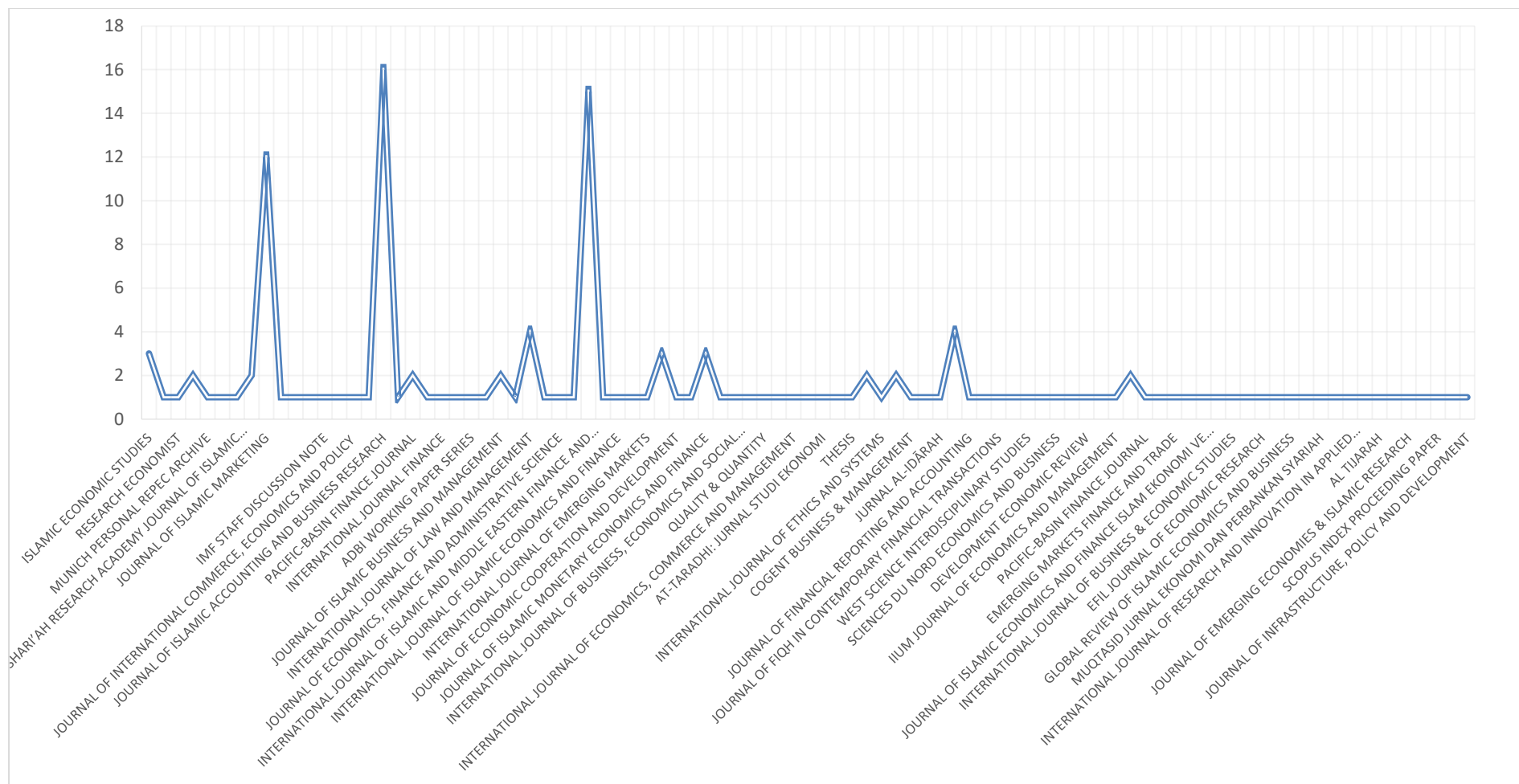


FIGURE 2: JOURNALAND NUMBER OF DOCUMENTS

Source: Figure by Authors

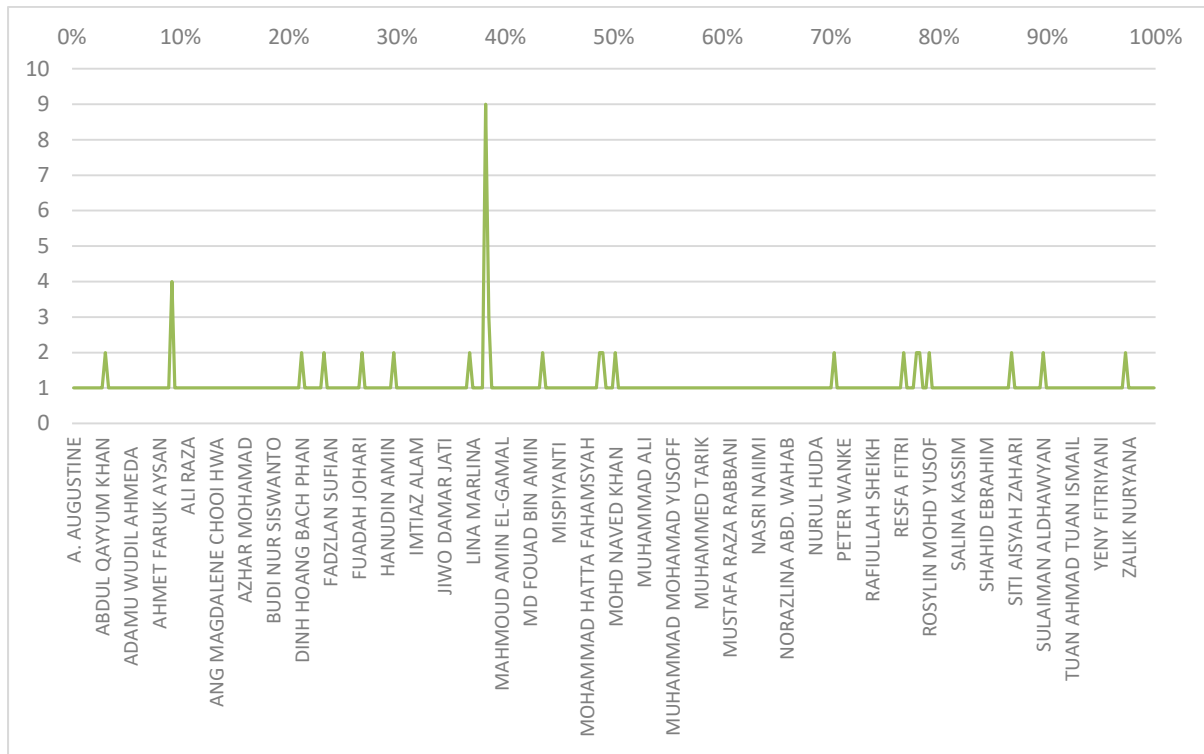


FIGURE 3: AUTHORS AND NUMBER OF PUBLICATIONS

Source: Figure by Authors

TABLE 4: UNIVERSITIES AND NUMBER OF PUBLICATIONS

Rank	Affiliation	Number of publication
1.	International Islamic University Malaysia	11
2.	University of Indonesia	4
3.	University of New Orleans	3
4.	Universiti Sains Malaysia	2
5.	Universiti Malaya	2
6.	Universiti Islam Sultan Sharif Ali	2
7.	Islamic Research and Training Institute	2
8.	Universitas Ahmad Dahlan	2
9.	University of South Australia	2
10.	International Centre for Education in Islamic Finance	2

Source: Table by Authors

According to the number of articles on IBF, Table 4 lists the universities that are most closely associated with the writers. These universities produce about 32 publications. Leading the list with 11 publications is the International Islamic University Malaysia. Six of the ten mentioned institutions are in Indonesia, Brunei, New Orleans, Australia, and Saudi Arabia, and they have contributed 15 of the total publications. Four of the institutions are in Malaysia, and they have produced 17 publications.

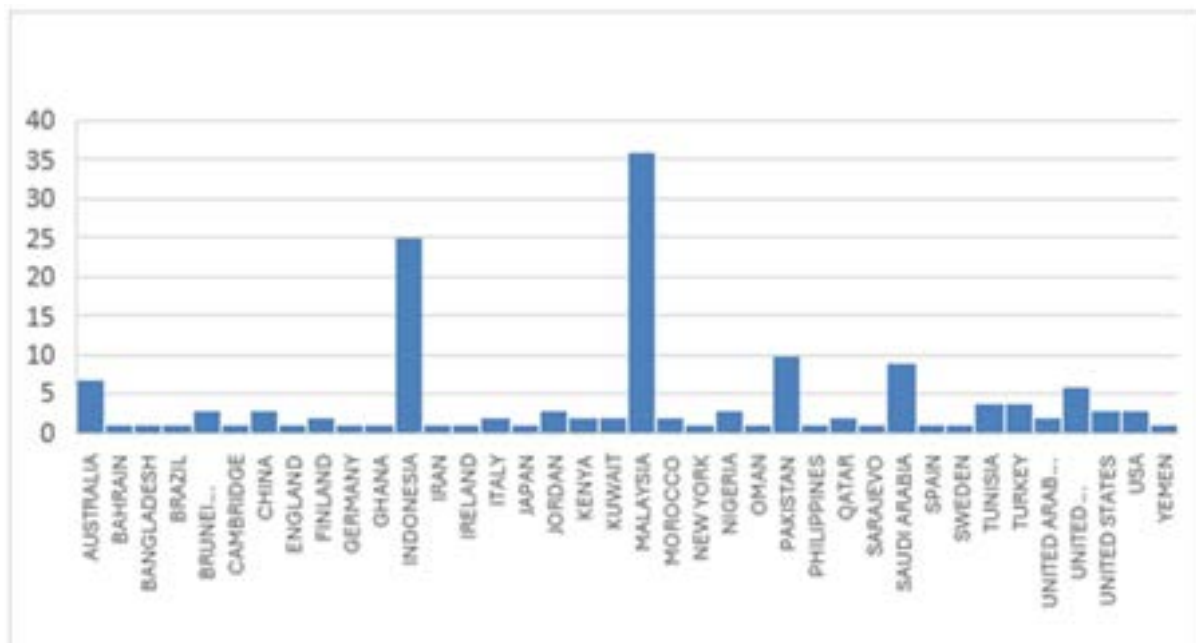


FIGURE 5: PUBLICATION BASED ON COUNTRIES

Source: Figure by Authors

Based on the quantity of research articles that their researchers co-authored, Figure 5 displays the scientific output of the top 38 nations. Malaysia and Indonesia rank first with 36 and 25 studies, respectively.

6. CONCLUSION

This study conducted a bibliometric analysis of 150 peer-reviewed articles published between 2000 and 2024 to map the intellectual structure and thematic evolution of Islamic Banking and Finance (IBF). The research addressed four key questions:

RQ1: What is the current scenario of publications in the IBF field?

The findings reveal a steady increase in IBF-related publications over the past two decades, with a significant rise in output from 2017 onward. Malaysia emerged as the leading country in terms of research volume, followed by Indonesia, reflecting regional leadership in IBF scholarship.

RQ2: What are the most important and influential aspects, such as sources, authors, and countries and their networks in IBF literature?

The analysis identified the Journal of Islamic Accounting and Business Research as the most prolific source. M. Kabir Hassan was the most frequently cited author, and the International Islamic University Malaysia led in institutional contributions. Collaboration networks highlighted strong regional and international linkages, particularly among Southeast Asian institutions.

RQ3: What are the existing themes in the IBF literature?

Through keyword analysis and thematic clustering (via VOSviewer), several dominant themes emerged: *Shariah* compliance, ethical finance, fintech integration, Islamic wealth management, and risk governance. These reflect the evolving priorities in IBF research and demonstrate the field's responsiveness to technological, ethical, and regulatory changes.

RQ4: What are the potential research directions in the IBF field?

Despite the growth in literature, gaps remain in areas such as the socio-economic impact of IBF, digital currency (e.g., crypto and bitcoin), and unified regulatory frameworks. Future studies should

expand on these underexplored areas and increase cross-disciplinary and global collaboration to address emerging challenges in Islamic finance.

In conclusion, this study contributes to the IBF field by systematically mapping its development, identifying leading contributors and emerging themes, and proposing a forward-looking research agenda. These insights offer valuable guidance for academics, practitioners, and policymakers aiming to strengthen the relevance, reach, and impact of Islamic Banking and Finance research.

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THE IMPACT OF WELFARE STATE ON ECONOMIC GROWTH OF OIC COUNTRIES: THE MODERATING ROLE OF GOVERNMENT EFFECTIVENESS

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ABSTRACT

The advent of the COVID-19 pandemic reinforced the need for the state to exhibit benevolence towards its citizens. Though the welfare state system has long been responsible for protecting the well-being of the poor and vulnerable citizens, especially in capitalists' economies, activities of the welfare state have commonly been viewed as being inimical towards efforts in enhancing economic growth. Being a religious obligation, Islamic countries are required to foster welfare state activities, exposing them to a conflict of interests as they intend to achieve increasing economic growth as well. This paper investigates whether such conflict of interests exists by measuring the impact of welfare state on economic development of OIC countries, and to determine the moderating effect of government effectiveness on the relationship. Data from 23 countries spanning 2005 to 2022 were analysed using the System GMM method. The results indicate that the welfare state possesses a significant negative impact on economic growth. Contrary to expectation, government effectiveness fails to moderate the impact on the relationship between the welfare state and economic growth. A robustness check with the LSDVC method affirms the significant negative impact observed. Islamic countries should consider formulating policies that monitor the activities of the welfare state, without compromising tenets of the Islamic worldview for safeguarding the dignity of the needy and vulnerable among the citizenry.

KEYWORDS: WELFARE STATE, ECONOMIC GROWTH, STATE BENEVOLENCE, ISLAMIC WORLDVIEW, GMM

ABSTRAK

Kemunculan pandemik COVID-19 mengukuhkan keperluan bagi negara untuk menunjukkan kebajikan terhadap warganya. Walaupun sistem negara kebajikan telah lama bertanggungjawab untuk melindungi kesejahteraan golongan miskin dan lemah, terutamanya dalam ekonomi kapitalis, aktiviti negara kebajikan sering dilihat sebagai bertentangan dengan usaha untuk meningkatkan pertumbuhan ekonomi. Sebagai kewajiban agama, negara-negara Islam diwajibkan untuk memupuk aktiviti negara kebajikan, yang mendedahkan mereka kepada konflik kepentingan kerana mereka juga berhasrat untuk mencapai pertumbuhan ekonomi yang semakin meningkat. Kertas kerja ini mengkaji sama ada konflik kepentingan tersebut wujud dengan mengukur impak negara kebajikan terhadap pertumbuhan

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ekonomi negara-negara OIC, serta untuk menentukan kesan moderasi kecekapan kerajaan terhadap hubungan tersebut. Data daripada 23 negara dari tahun 2005 hingga 2022 dianalisis menggunakan kaedah Sistem GMM. Hasil kajian menunjukkan bahawa negara kebajikan memberi impak negatif yang signifikan terhadap pertumbuhan ekonomi. Berbeza dengan jangkaan, kecekapan kerajaan gagal untuk memoderasi impak dalam hubungan antara negara kebajikan dan pertumbuhan ekonomi. Semakin ketahanan menggunakan kaedah LSDVC mengesahkan impak negatif signifikan yang diperhatikan. Negara-negara Islam harus mempertimbangkan untuk merangka dasar yang memantau aktiviti negara kebajikan, tanpa menjejaskan prinsip-prinsip pandangan dunia Islam untuk melindungi maruah golongan yang memerlukan dalam kalangan rakyat.

KATA KUNCI: NEGARA KEBAJIKAN, PERTUMBUHAN EKONOMI, KEBAIKAN NEGARA, PANDANGAN DUNIA ISLAM, GMM

1. INTRODUCTION

Poverty and deprivation faced by citizens in capitalist economies, have necessitated the need for establishing the welfare state system (Esping-Andersen, 1989). This need has been reinforced in recent times following the grave global challenges, caused by the COVID-19 pandemic (Nguyen & Darsono, 2022) and the Russian-Ukraine conflict. A World Bank report indicates over 71 million people around the globe have crossed into extreme poverty as a result of the COVID-19 pandemic (Chikwira *et al.*, 2022). This has further increased the income gap between the rich and the poor, leading many countries to knock on the doors of the International Monetary Fund (IMF) for economic bailouts. Additionally, the high intensity of globalisation and financialisation experienced in recent times has worsened the plight of the vulnerable in many economies, which has aggravated the need for benevolent state interventions in the form of welfare provision.

The welfare policy framework reflects the degree of state benevolence in the eyes of citizens. Accordingly, state-sponsored welfare provisions are regarded as acts of state benevolence (Yoltar, 2020). The welfare state is defined as functions and responsibilities that allow the state to assist members of society to obtain a good life, the financing and provision of welfare services and income transfers (Greve, 2008). Central to the description of the welfare state, lies in the emphasis that the government takes responsibility for providing comprehensive welfare for its citizens (Larasati *et al.*, 2023).

However, the welfare state system has suffered huge criticisms, being blamed as a conduit for declining economic growth. Specifically, the Market liberals' theory posits that interventions in free market mechanisms aimed at reducing income inequalities have the propensity to cause a decline in economic growth. This view, though, is opposed by Social reformist and Institutionalist scholars, who consider the welfare system as having the capacity to promote economic growth. From the perspective of both theories, the welfare state has a positive influence on the utilisation of human capital, and thus, results in increasing overall demand in the economy thereby enhancing economic growth (Korpi, 1985). Similarly, inconsistencies exist in the results of extant empirical investigations relating to the subject matter. Some studies have confirmed the existence of a negative impact of the welfare state on economic growth (Uchida & Ono, 2021; Gilleard, 2023). Other investigations show contrasting findings to the effect that the welfare state impacts economic growth positively (Azarnert, 2018; Facchini & Seghezza, 2018). This is because of the differences in the quality and roles of government institutions in welfare delivery, in the various jurisdictions where the investigations were undertaken (Atkinson, 1995).

The absence of consistency, both theoretical and empirical, on how the welfare state impacts economic growth, calls for further evaluation of the relationship. There is a need to explore other jurisdictions with different characteristics, taking into consideration other factors that may influence the relationship. Literature, for the most part, appears to have paid little attention to the nature of the impact on the relationship for a panel of Islamic countries. Such a study is vital given the unique circumstances of Islamic countries, as they endeavour to follow the tenets of Islam. Governments in

Islamic countries appear not to have any choice, but to exhibit benevolence towards the poor and vulnerable among the citizenry. This position is well articulated in the following *Hadith* (sayings and traditions of the prophet Mohammed, Peace Be Upon Him):

"The compassionate are shown compassion by the All-Compassionate. Show compassion to those on earth, and He Who is in heaven will show compassion to you." (Abu Dawud 4941; Al-Tirmidhi 1924).

Based on the above *Hadith*, governments can show compassion to their citizens through the institutional framework of the welfare state. This is not alien to Islam. Indeed, the renowned Islamic philosopher, Abd Ar Rahman bin Muhammed Ibn Khaldun, alludes to a condition by Prophet Mohammed (peace be upon him (pbuh)) stipulating that the ruler must be mild in character to exhibit kindness and beneficence in the ruling of his subjects (Rosenthal, 1958). On his part, Abu Hamid Muhammad b. Muhammad al-Ghazali, an Islamic intellectual and philosopher, advocates for Islamic states to allocate state resources in the form of social security for eradicating poverty, and for the attainment of distributive justice (Islahi & Ghazanfar, 1998). The channel for the realisation of fairness and distributive justice was to be established through the deployment of state resources to care for the poor, needy, unemployed and elderly, provide healthcare, and cater for victims of natural disasters, just to mention a few (Sarkun & Hasan, 2015).

Another motivation for considering Islamic countries is the difference between the welfare state from the Islamic perspective, compared with its counterparts as practiced in the Western world (Chapra, 1979; Abdullah Kuyateh, 2022). Apart from caring for the material and financial well-being of citizens, the Islamic welfare state is also keen on securing the spiritual well-being of the vulnerable (Syafuruddin & Mukhlisin, 2022). In the opinion of Al-Ghazali, the welfare state must function to align with the five objectives of *Shariah*, which seek to protect and preserve religion (*din*), life (*nafs*), progeny (*nasl*), wealth (*mal*) and intellect (*aql*). This means welfare provision in Islamic countries would not exactly mirror what pertains to the Western world. As a typical example, the provision of alcohol and items forbidden in Islam, cannot feature among the expenditure of the welfare state in Islamic countries. Since the Organisation of Islamic Cooperation (OIC) member countries are the embodiment of Islamic countries that seek to integrate Islamic principles into their policies (Bashir, 2022), they stand out as the ideal object of study in the current paper.

Meanwhile, not in every situation the explanatory variable can have a direct impact on the dependent variable (Falk & de Lemos, 2019). This fact has led to the use of moderating variables which are capable of altering the impacts existing between empirical relationships (Lemurt *et al.*, 2024). The concerns raised in the 'leaky bucket' phenomenon, which questions the ability of the welfare system to effectively deliver assistance to the vulnerable, required the use of a moderating variable in the current paper. The 'leaky bucket' phenomenon refers to a situation where the resources taken for purposes of helping the poor, do not reach the intended beneficiaries. In essence, it means the welfare state system leaks, leading to wastage and misappropriation of resources meant to alleviate the suffering of the vulnerable. By referring to the welfare state as a 'leaky bucket', Okun (1975) casts doubt on whether government effectiveness is adequate, to ensure that resources deployed in the welfare state will reach the intended recipients without being misappropriated.

In countries with high government effectiveness, the necessary assistance provided by the state is expected to reach those at risk, leading to an enhancement in the impact of the welfare state on economic growth. Government effectiveness' suitability as a moderating variable is based on its capacity to craft effective policies that elicit government support, encourage investment, and enhance private sector development and economic growth (Shittu *et al.*, 2024). With the above arguments considered, the current study intends also to measure the moderating effect of government effectiveness on the relationship between the welfare state and economic growth.

Fifty-seven (57) countries spread across four continents constitute the OIC. Members of the OIC are bound together through their common desire to integrate Islamic principles into their policy frameworks (Wibowo, 2020). As a consequence, these policies are shaped in ways that do not conflict

with tenets enshrined in Islamic texts and worldviews (Bashir, 2022), to facilitate implementation in the member countries. In this regard, member countries of the OIC, would be expected to align with welfare state principles expressed in the Islamic worldview.

The following verses put an obligation on Islamic countries to show benevolence towards the vulnerable among the citizenry:

"You shall not attain righteousness until you spend out of love (in the way of Allah). Allah knows whatever you spend" (Quran 3:92).

"Indeed, the men who give charity, and the women who give charity, and lend to Allah a goodly loan, it will be multiplied for them, and them is a noble reward" (Quran 57:18).

With the above verses in mind, governments of OIC countries must dedicate funding to concretely establish efficient welfare state systems. However, if the liberalists' theory is anything to go by, then these countries face a possible decline in their economic growth for undertaking welfare state activities. Thus, OIC countries face a conflict of interests in their attempt to adhere to Islamic tenets of being benevolent to citizens, and for achieving economic growth. This dilemma motivates this study.

In general, economies of OIC member countries are not in the best of shape given that about 40% are classified among low-income countries. This income classification prevails despite the member countries, possessing about 70% and 40% of the global energy and mineral resources respectively (Ismail *et al.*, 2019). With huge resources in minerals, crops, oil and gas, it is surprising most of the OIC countries have been bedevilled with challenges of economic backwardness, poverty, unemployment, and low levels in education, science and technology (Wibowo, 2020). Such inadequacies expose member countries to several risks. For instance, the COVID-19 pandemic caused the death of 18,128 persons by May 2020 (Hasan, 2020) in the OIC. Such calamities and other vulnerabilities prevailing in OIC member countries cast doubt on the existence of an effective welfare state system in the OIC (Majeed, 2012).

Figures 1 and 2 provide graphical representations of trends in GDP and social protection expenditure, respectively of the sampled OIC countries, over the period 2005 to 2022. Although both variables exhibit ascending trends in the period, the paths are not similar. While GDP shows a smooth path, the path for the social protection expenditure is undulating. The zigzag path exhibited by the welfare state over the period is an indication that matters regarding the welfare of the poor and vulnerable may not be receiving the seriousness they deserve. The path shown by GDP makes the variable's predictability easier, compared with the path exhibited by the welfare state and its predictability. From the Islamic perspective, the lack of predictability raises concern about the member countries' adherence to the Islamic principles requiring the need for benevolence towards all creatures of Allah.

The System GMM was employed for analyzing data from 23 OIC countries over the period 2005 to 2022. The results indicate the existence of a negative impact of the welfare state on economic growth. Additionally, the results indicate government effectiveness does not moderate the relationship between welfare state and economic growth. By providing an Islamic perspective on the nexus between the welfare state and economic growth, this study contributes substantially to the body of knowledge. Likewise, this paper contributes to the literature in considering a panel of OIC countries as the unit of analysis, which has not received much attention in the past, regarding the topic under consideration.

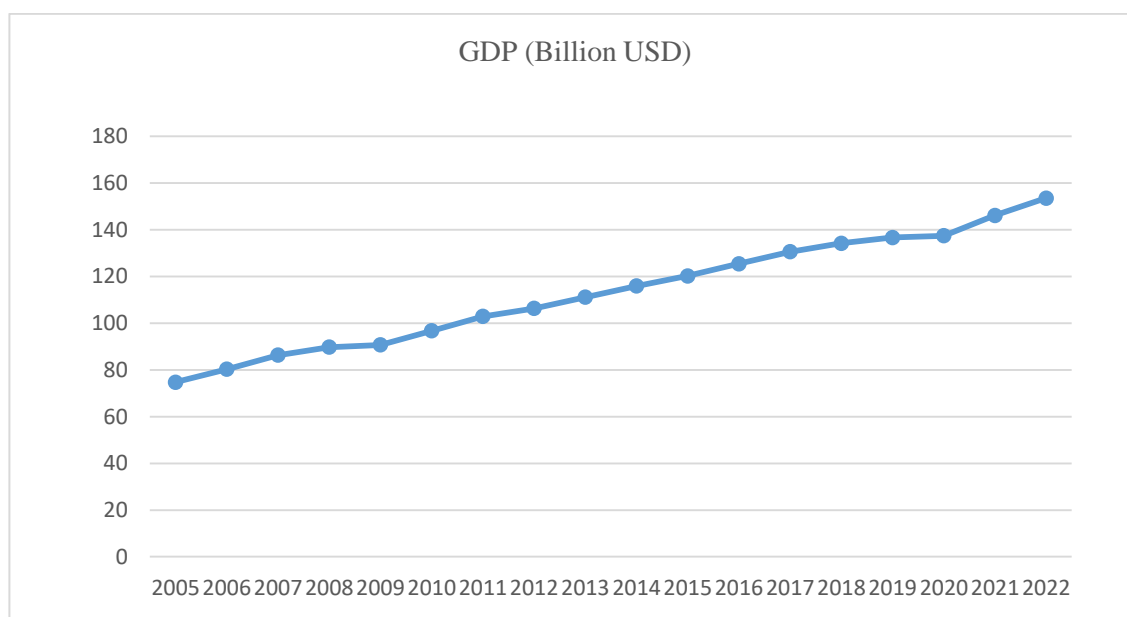


FIGURE 1: GDP (BILLION USD) AN OIC COUNTRY SAMPLED IN THE CURRENT STUDY OVER THE PERIOD 2005-2022

Source: Generated by the Authors with Data from World Bank and IMF databases

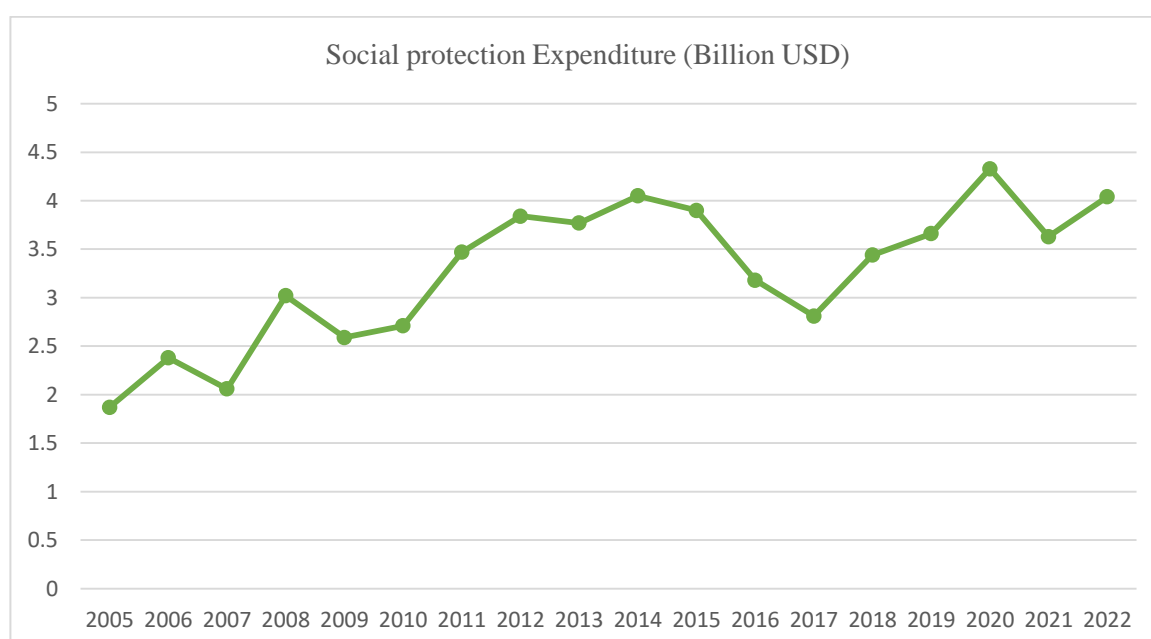


FIGURE 2: SOCIAL PROTECTION EXPENDITURE (BILLION USD) AN OIC COUNTRY SAMPLED IN THE CURRENT STUDY OVER THE PERIOD 2005-2022

Source: Generated by the Authors with Data from World Bank and IMF databases

In the rest of this paper, section 2 contains a review of relevant literature. This is followed by methodology in section 3 and results and discussions in section 4. Section 5 looks at research implications and contributions, and section 6 provides the conclusion and future research areas.

2. LITERATURE REVIEW

Relationship between the Welfare State and Economic Growth

Various theories explain the expected outcome in the relationship between the welfare state and economic performance. From the perspective of the endogenous growth theory, only productive public spending can positively influence total factor productivity (TFP), which will in turn cause a positive impact on economic growth (Facchini & Seghezza, 2018). On this basis, the market liberals' theory considers welfare state spending as unproductive and is expected to impact economic growth negatively. On the contrary, the socialist reformist hypothesis considers activities of the welfare state to positively influence innovation and human capital development, which are vital for the realisation of enhancement in economic growth (Facchini & Seghezza, 2018). Also, institutionalists' hypothesis views activities of the welfare state including cash transfers and social intervention policies, as enhancing aggregate demand, resulting in increased investments and economic growth (Korpi, 1985).

Similarly, extant empirical studies on the subject matter have yielded contradictory results. Among the studies that find the welfare state as possessing a negative effect on economic growth is Gründler and Scheuermeyer (2018) whose results show that income redistribution, on the whole, affects economic growth negatively. Further, Gründler and Scheuermeyer (2018) find redistribution to have a positive impact in developing countries, but a negative impact in developed economies. Besides, Uchida and Ono (2021) find government spending on the elderly's welfare hurts economic growth. On further analysis, however, Uchida and Ono (2021) observed that when an education spending floor is applied, spending on the elderly impacts economic growth positively. Similarly, the findings of Gilleard (2023) provide evidence that increased social spending on the health and welfare of the elderly are factors inhibiting economic growth.

On findings of a positive impact on the relationship between the welfare state and economic growth, Azarnert (2018) provides evidence which shows that when refugees are resettled in a less advanced and less wealthy country followed by income transfers, it causes an increase in human capital accumulation, impacting economic growth of the host country positively. Facchini and Seghezza (2018) find a positive impact of expenditure on the protection of property rights, on economic growth. Further, the results of Facchini and Seghezza (2018) indicate the existence of a positive impact of health spending on economic growth. On the contrary, the authors did not find any significant impacts of social expenditure and education expenditure on economic growth.

Likewise, Yu and Li (2021) report that social security reduces poverty, instilling fairness and stability required for enhancing economic growth. The results of Oyvat and Onaran (2022) indicate social expenditure on social infrastructure, which includes spending on education, childcare, health and social care, has a positive impact on the performance of the non-agricultural sector. On their part, Kalkavan *et al.* (2021) find the Islamic moral values that promote fair income distribution, alleviation of poverty, and access to education, provide a conducive environment for increasing economic growth.

Moderating Role of Government Effectiveness

The realisation that a variable's impact on any sector of the economy could be affected by the quality of public institutions has grown in recent times (Agyapong *et al.*, 2024). The result of this is manifested in the escalating considerations given to the moderating role of institutional quality variables, in addition to determining the direct impacts in empirical relationships (Destek *et al.*, 2023). While some have considered moderating effects as determining indirect impacts in relationships (Lemurt *et al.*, 2024), others seek to find out whether the moderating variable can alter impacts in empirical relationships (Zhao *et al.*, 2024). Specifically, government effectiveness, an important governance quality variable, has been widely applied as a moderating variable in the literature. The reasons for this among others, have been the existence of inconclusive empirical findings, the pursuance of indirect impacts in empirical relationships (Cooray & Nam, 2024), and the need to mitigate observed undesirable impacts in relationships (Zhao *et al.*, 2024).

The moderating may weaken or strengthen the impact between the two variables under investigation (Le *et al.*, 2023). Government effectiveness possesses such a potential, based on its role in the crafting and implementation of policies for generating support and a conducive social, technological and economic environment, required for attracting capital inflows, private sector development, and increased economic growth (Dubey *et al.*, 2023; Shittu *et al.*, 2024).

High levels of government effectiveness can also curb corruption in resource allocation, leading to the efficient application of scarce resources, for attaining desired impacts on economic growth (Destek *et al.*, 2023). Moreover, high government effectiveness can strengthen public institutions (Cooray & Nam, 2024) with the use of modern technology, highly trained and motivated technocrats, and financial support to meet set targets. Additionally, government effectiveness is important for establishing efficient, transparent, and accountable governance, strong regulatory frameworks and rule of law, and the attainment of political stability (Handoyo & Anas, 2024; Shittu *et al.*, 2024). Furthermore, the suitability of government effectiveness as a moderating variable, lies in its role of protecting minority rights, property rights and the vulnerable thereby, curbing inequalities and poverty to meet the aspirations of the socially marginalised (Bakri *et al.*, 2019; Doucouliagos *et al.*, 2021).

Empirically, a study by Agyapong *et al.* (2024) finds government effectiveness to possess a positive moderating effect on the relationship between corporate social responsibility (CSR) and the performance of rural banks. According to Bakri *et al.* (2019), government effectiveness exhibits a negative moderating effect on the relationship between stock liquidity and dividend payout. The finding of Yahya and Rafiq (2020) reveals contrasting moderating effects of government effectiveness. In the first instance, the results show that government effectiveness has no significant moderating impact on the relationship between Brownfield investment (BFI) and renewable energy consumption. However, splitting the countries into categories produces results indicating government effectiveness moderates positively, to enhance the positive impact of Greenfield investment (GFI) on renewable energy consumption, in the global and low-risk panel of countries. Further, Yahya and Rafiq (2020) find government effectiveness to have a negative moderating effect, restricting the negative impact of GFI on environmental performance, in the high-risk panel of countries.

Similarly, Lemurt *et al.* (2024) observe contrasting moderating effects of government effectiveness. The authors report that government effectiveness moderates positively to increase the positive impacts of exchange rate, inflation, and interest rate on horticulture export. On the contrary, Lemurt *et al.* (2024) find government effectiveness interaction with trade to have a negative effect, weakening the negative impact of trade on export performance. Relatedly, the results of Shittu *et al.* (2024) reveal a negative moderating effect of government effectiveness on the negative impact of fuel subsidy on electricity access. According to Zhao *et al.* (2024) as well, government effectiveness exhibits a negative moderating effect on the negative relationship between natural disasters and agricultural import risk.

Besides, Ohemeng *et al.* (2023) find government effectiveness to positively moderate the relationships between GDP growth uncertainty and net FDI inflows, and between inflation uncertainty and net FDI inflows. In Doucouliagos *et al.* (2021), government effectiveness moderates a significant negative impact of health aid on infant mortality. The moderating effects of government effectiveness vary in Abaidoo and Agyapong (2022). The findings of Abaidoo and Agyapong (2022) show that government effectiveness has negative moderating effects on the relationships between crude oil prices and development, and coffee prices and development, but the moderating effect of the same, on the relationship between cocoa prices and development is positive. Further, Abaidoo and Agyapong (2022) indicate that government effectiveness has no significant moderating effect on the relationship between gold prices and development. Finally, Khan *et al.* (2023) provide results which show the moderating effect of government effectiveness as being negative on the nexus between urbanisation and carbon dioxide emissions.

The above review leaves no doubt about the usefulness of government effectiveness as a moderating variable. However, such a moderating role in the relationship between welfare state and economic growth, in the context of the OIC, is yet to receive similar attention.

METHODOLOGY

The Estimation Method

The data to be analysed comes from twenty-three (23) countries of the OIC, covering the period 2005 to 2022. This calls for a panel estimation technique. When a sample suffers from problems of missing data, and the estimations are likely to encounter problems of cross-section dependence, heteroscedasticity and autocorrelation, the results may be inaccurate (Tuncsiper, 2023). To resolve such problems, this study employs the Generalised Method of Moments (GMM) for estimating the regression coefficients in the relationship. Specifically, the System GMM developed by Arellano and Bover (1995) and Blundell and Bond (1998) would be utilised, since the number of units or countries (N) is greater than the number of time series (T).

By using instruments, GMM resolves the problem of correlation likely to exist between the error term and lagged-dependent variable. This is achieved by using two equations, the difference and level equations, to achieve moment conditions. Also, the System GMM is equipped for resolving problems of fixed effects and endogeneity of control variables, correlation among independent variables and error terms, omitted variables bias, and autocorrelation within individuals (Roodman, 2009). In the differenced equation, the independent variables are instrumented with the lags of their levels, while in the level equation, the variables are instrumented with the lags of their first differences. This produces accurate and efficient estimated coefficients (Konstantakopoulou, 2022). Two important diagnostic tests namely, Sargan and Arellano–Bond AR(2) are required for validating the robustness of the estimated coefficients. The Sargan test of overidentification is to ensure the absence of proliferation of instruments. Arellano–Bond AR(2) test provides assurance of lack of second-order autocorrelations among the residuals.

Model Specification

This paper adopts an extended Cobb-Douglas production framework for specifying the two models to be estimated. In the original Cobb-Douglas, formulated through the pioneering work of Cobb and Douglas (1928), capital stock and labour are the main determinants of performance as indicated as follows:

$$P = BL^k C^{1-k} \quad (1)$$

where, P, L, and C represent production, labour, and capital respectively. B, k, and j are constant, factor elasticity of labour, and factor elasticity of capital respectively.

The current study follows Oryani *et al.* (2021) and augments the Cobb-Douglas model by adding the welfare state variable into the original formulation. This is realised by using the general model specification for System GMM estimations (Konstantakopoulou, 2022) as given below:

$$y_{it} = \lambda y_{it-1} + \beta x_{it} + \gamma z_{it} + \eta_i + \varepsilon_{it} \quad (2)$$

$\mu_{it} = \eta_i + \varepsilon_{it}$
 $\eta_i \sim \text{IID}(0, \sigma^2_\eta)$, $\varepsilon_{it} \sim \text{IID}(0, \sigma^2_\varepsilon)$ and $E[\eta_i \varepsilon_{it}] = 0$

For $i = 1 \dots N$ and $t = 2, \dots T$, where y_{it} , λy_{it-1} , x_{it} and z_{it} represent the dependent variable, lagged dependent variable, a matrix of independent variables, and a matrix of control variables respectively. μ_{it} is the error term, ε_{it} represents the random disturbance term, and η_i is unobserved country-specific effects or fixed effects which are correlated with y_{it-1} .

Based on the objectives of this paper, the models following would be estimated:

$$\text{LnGDP} = \beta_0 + \beta_1 \text{LnGDP}_{it-1} + \beta_2 K + \beta_3 L + \beta_4 S + \lambda Z_{it} + \eta_i + \varepsilon_{it} \quad (3)$$

$$\text{LnGDP} = \beta_0 + \beta_1 \text{LnGDP}_{it-1} + \beta_2 K + \beta_3 L + \beta_4 S + \beta_5 \text{GEF} + \beta_6 S * \text{GEF} + \lambda Z_{it} + \eta_i + \varepsilon_{it} \quad (4)$$

where LnGDP , LnGDP_{it-1} , K , L , S , GEF , and $S * \text{GEF}$ are the natural logarithm of gross domestic product (GDP), the natural logarithm of the first-lag of GDP, capital stock, labour stock, government expenditure on social protection, government effectiveness, and interaction variable of S and GEF respectively. S is the proxy for the welfare state. Z represents a matrix of control variables which have been duly defined in the next section. β_0 , β_1 , β_2 , β_3 , β_4 , β_5 , β_6 and λ are coefficients to be estimated.

Variables and Data

The welfare state and economic growth are the independent and dependent variables respectively, in the current study. Various variables have been employed to proxy economic growth in literature. Because the models to be estimated are augmented forms of the Cobb-Douglas framework, and following Baz *et al.* (2020) and Ledhem and Mekidiche, (2020), this study would use GDP to proxy economic growth. Similarly, the welfare state has been represented by different proxies including expenditures on health, housing and childhood care (Facchini & Seghezza, 2018), social expenditure, social rights and benefit receipt (Han & Kwon, 2020), and social protection expenditure (Kutasi & Marton, 2020). Following Kutasi and Marton (2020) and Halaskova and Bednár (2020), the current study adopts central government expenditure for social protection, as the proxy for welfare state. Description by the World Bank, social protection is meant to help the poor and vulnerable survive during crises and shocks, find jobs, cater for their children's health and education, and offer protection to the elderly (Daud, 2021).

In line with many previous studies, fixed capital formation (Oryani *et al.*, 2021) and labour force participation rate (Verma *et al.*, 2022) would be used as proxies for capital stock and labour stock respectively. Intending to lessen the effects of omitted variables on the accuracy of results, several control variables including FDI, government consumption, life expectancy, trade openness, gross domestic savings, rule of law, and government effectiveness would be incorporated in the models. The selection of the control variables has been informed by extant literature in the body of knowledge. Summary descriptions of all the variables to be employed in the study, have been presented in Table 1. Twenty-three countries (23) including Afghanistan, Albania, Azerbaijan, Bahrain, Bangladesh, Burkina Faso, Egypt, Iran, Jordan, Kazakhstan, Kuwait, Kyrgyzstan, Lebanon,

TABLE 1: SUMMARY DESCRIPTION OF VARIABLES IN THE STUDY

Variable	Variable's Function	Expected Sign of Impact	Proxy	Unit of Measurement	Sources of Data
Economic performance (GDP)	Dependent	-	GDP	GDP (in 2015 constant USD)	World Bank
Welfare state (S)	Independent	Negative	Central government expenditure on social protection	Percentage of GDP	IMF
Capital stock (K)	Control	Positive	Gross fixed capital formation	Percentage of GDP	World Bank
Labor stock (L)	Control	Positive	Labour force participation rate, a total of 15-64 years economically active	Percentage of total population ages 15-64	World Bank

Trade openness (TOP)	Control	Positive	The sum of exports and imports	Percentage of GDP	World Bank
Gross domestic Savings (SAV)	Control	Positive	Gross domestic savings	Percentage of GDP	World Bank
Government consumption (CSM)	Control	Negative	General government final consumption expenditure	Percentage of GDP	World Bank
Foreign direct investment (FDI)	Control	Positive	Foreign direct investment, net inflows	Percentage of GDP	World Bank
Life expectancy (LEX)	Control	Positive	Life expectancy at birth	Years	World Bank
Rule of law (ROL)	Control	Positive	Rule of law	Units of a standard normal distribution, i.e. ranging from approximately -2.5 to 2.5	World Bank
Government effectiveness (GEF)	Control/ Moderating	Positive Positive	Government effectiveness	Units of a standard normal distribution, i.e. ranging from approximately -2.5 to 2.5	World Bank

Source: Table by Authors

Maldives, Mozambique, Oman, Palestine, Qatar, Somalia, Tunisia, Turkey, Uganda and Uzbekistan, constitute the object of analysis in this study.

4. FINDINGS

Descriptive Statistics

Descriptive statistics which provide information on means, standard deviations, and minimum and maximum values of all the variables are contained in Table 2. The information indicates that GDP and expenditure on social protection have mean values of USD 113.3 billion and 2.92% of GDP respectively. The mean values of capital stock and labour stock stand at about 24.1% of GDP and 60.6% of the population eligible to work respectively. It is also worth mentioning the prevailing weaknesses in the quality of the rule of law and government effectiveness, their mean values registering negative scores.

The standard deviations of most of the variables including GDP, gross domestic savings, FDI, rule of law, and government effectiveness appear very large, exceeding their respective means. Such largeness reflects the high level of diversity among the countries under investigation, especially, in respect of the specific variables with the anomaly (Agyapong *et al.*, 2024). High standard deviations are common in panel data, which explains why such data hardly passes the criteria for normality in the distribution of variables (Patra & Sethi, 2024). The high standard deviations observed can be attributed to the differences in economic development, culture, democracy and institutional quality, existing among the studied countries.

TABLE 2: DESCRIPTIVE STATISTICS

Variable	Mean	Std. Dev.	Min	Max	Skewness Normality (p-value)	Kurtosis Normality (p-value)	Jarque- Bera (p-value)	Shapiro- Wilk (p-value)
GDP	113.3	186.7	2.2	1094.0	0.000	0.000	0.000	0.000
K	24.1	5.7	1.2	41.3	0.045	0.011	0.001	0.021
L	60.6	13.8	34.6	89.6	0.796	0.000	0.000	0.000
S	2.92	2.79	0.02	18.3	0.000	0.000	0.000	0.000
TOP	78.5	30.9	26.3	191.9	0.000	0.073	0.000	0.000
SAV	20.5	23.6	-44.0	75.6	0.570	0.302	0.501	
CSM	14.6	5.2	2.4	29.0	0.052	0.672	0.132	0.002
FDI	4.5	5.6	-5.7	38.9	0.000	0.000	0.000	0.000
LEX	70.8	7.9	50.5	81.6	0.000	0.644	0.000	0.000
ROL	-0.49	0.72	-2.59	0.98	0.000	0.143	0.000	0.000
GEF	-0.42	0.65	-2.44	1.14	0.000	0.003	0.000	0.000

Note: GDP is in billions of USD.

Source: Table by Authors

Besides, Table 2 contains information on the normality of skewness, kurtosis and distributions of all variables. Information from the table indicates that only labour stock and gross domestic savings have normal skewness, based on the insignificance of the results obtained. Meanwhile, gross domestic savings, government consumption, life expectancy, and rule of law have normal kurtosis. Based on the Shapiro-Wilk normality test, only gross domestic savings pass the normality distribution criteria (Patra & Sethi, 2024). However, the normality test by Jarque-Bera identifies government consumption in addition to gross domestic savings as having normal distributions. This is evident in the tests for both variables being insignificant. Aside from these two variables, the rest are non-normal in their distribution.

Correlations between the variables are provided in Table 3. Information in the table shows the welfare state is positively correlated with GDP, and the correlation coefficient is 0.28. While capital stock has a positive correlation with GDP, the correlation between labour stock and the latter is negative. Though the observed negative correlation between labour stock and GDP is contrary to theory, this outcome cannot be assumed to mean causation (Fuest, Neumeier & Stöhlker, 2018). The real impact of labour stock on GDP, and the other variables will be determined in a regression estimation. Considering the acceptable correlation coefficient to be within 0.7-0.8 (Baur & Hoang, 2021), all the values in Table 3 are normal, except the correlation coefficient of 0.92 existing between the rule of law and government effectiveness, which appears to be very high. Accordingly, collinearity exists between the rule of law and government effectiveness. Featuring both variables can lead to inaccurate estimation results due to the collinearity existing between the variables (Basagaña & Barrera-Gómez, 2022). Such a problem is resolved by not featuring variables that are collinear in the same regression model (Konstantakopoulou, 2022).

TABLE 3: PAIRWISE CORRELATIONS BETWEEN THE VARIABLES

	GDP	K	L	SP	TOP	SAV	CSM	FDI	LEX	ROL	EFF
GDP	1.00										
K	0.14	1.00									
L	-0.14	0.26	1.00								
S	0.28	-0.11	-0.10	1.00							
TOP	-0.37	0.19	0.23	0.14	1.00						
SAV	0.24	0.41	0.55	0.09	0.10	1.00					
CSM	-0.19	0.07	0.04	0.06	0.41	-0.12	1.00				
FDI	-0.24	0.22	0.17	0.01	0.37	-0.14	0.10	1.00			
LEX	0.23	0.34	0.08	0.36	0.32	0.37	0.15	-0.11	1.00		
ROL	0.10	0.23	0.40	0.32	0.32	0.53	0.31	-0.06	0.63	1.00	
GEF	0.20	0.35	0.44	0.29	0.35	0.63	0.22	-0.01	0.71	0.92	1.00

Source: Table by Authors

Results

Regressions estimation results have been provided in Table 4. There are five columns in the table. Estimation of the direct impact of the welfare state on economic growth is obtainable in columns (1) and (2), while the moderating effect of government effectiveness on the relationship is reported in column (3). This is achieved with the introduction of the interaction variable $S*GEF$. The method of estimation in these three columns is the System GMM. Columns (4) and (5) also, contain results of the direct impact of the welfare state on economic growth, and the moderating effect of government effectiveness respectively, however, the estimations are carried out using the Least Square Dummy Variable Corrected (LSDVC) model, and are meant for checking the robustness of the estimated coefficients. Though both columns (1) and (2) measure the direct impact of the welfare state on economic growth, they differ in the effect that column (1) does not feature government effectiveness while column (2) does not feature the rule of law in the respective models. This is meant to avoid inaccuracies associated with collinearity.

The results in columns (1) and (2) of Table 4, show a consistent significant positive impact of the lag-dependent variable on economic growth, justifying the use of a dynamic method for the estimations. There is also an indication of a significant negative impact of the welfare state on economic growth as shown by the coefficient of S in both columns. On the basis that column (1) has a higher Chi-square value relative to (2), the results would be interpreted using the former column. Accordingly, the results imply that economic growth would decline by 0.013% for a 1-unit increase in social protection expenditure. Therefore, increasing social protection expenditure of the government, will lead to a reduction in economic growth. Alternatively, the results imply that increasing the size of the welfare state will cause economic growth to decline.

Likewise, capital and labour have no significant impact on economic growth. This is clear from the impacts shown by K and L in columns (1) and (2). The lack of significant impacts from K and L , suggests that the Cobb-Douglas production framework lacks validity when the model is augmented with the welfare state proxy. This agrees with the assumption that activities of the welfare state discourage work intensity and investments in physical and human capital (Okun, 1975), leading to lower effects on the productivity of both capital and labour.

TABLE 4: ESTIMATIONS OF THE RELATIONSHIP BETWEEN WELFARE STATE AND ECONOMIC GROWTH

	Two-step System GMM			LSDVC	
	(1)	(2)	(3)	(4)	(5)
LnGDP _{t-1}	1.067 (0.000)***	1.064 (0.000)***	1.065 (0.000)***	1.230 (0.000)***	1.240 (0.000)***
K	-0.002 (0.270)	-0.002 (0.288)	-0.002 (0.201)	-0.001 (0.177)	-0.002 (0.119)
L	0.002 (0.122)	0.002 (0.125)	0.002 (0.184)	-0.001 (0.626)	-0.001 (0.705)
S	-0.013 (0.000)***	-0.012 (0.000)***	-0.012 (0.001)***	-0.009 (0.011)**	-0.006 (0.141)
TOP	0.002 (0.000)***	0.001 (0.000)***	0.001 (0.000)***	0.001 (0.001)***	0.001 (0.002)***
SAV	-0.002 (0.016)**	-0.002 (0.015)**	-0.002 (0.014)**	0.001 (0.298)	0.001 (0.261)
CSM	0.001 (0.564)	0.002 (0.362)	0.002 (0.334)	-0.002 (0.284)	-0.003 (0.192)
FDI	0.003 (0.021)**	0.003 (0.008)***	0.003 (0.008)***	0.004 (0.001)***	0.004 (0.001)***
LEX	-0.004 (0.155)	-0.003 (0.244)	-0.003 (0.255)	-0.023 (0.000)***	-0.024 (0.000)***
ROL	0.008 (0.508)				

GEF		-0.016 (0.279)	-0.020 (0.031)**	0.035 (0.041)**	0.002 (0.948)
S*GEF			0.001 (0.906)		0.011 (0.071)*
Constant	-1.419 (0.000)***	-1.427 (0.000)***	-1.451 (0.000)***	N/A	N/A
Wald chi2 test	988983.97 (0.000)	947501.65 (0.000)	792608.51 (0.000)	N/A	N/A
AR(2)	0.191	0.157	0.151	N/A	N/A
Hansen test	0.501	0.479	0.461	N/A	N/A
F-test				N/A	N/A
R-Squared				N/A	N/A

Notes: LnGDP_{t-1} is the natural logarithm of GDP_{t-1} . Values in parentheses indicate p-values. *, **, and *** are 10%, 5% and 1% significance level respectively. N/A implies not applicable.

Source: Table by Authors

Among the control variables, TOP, CSM, FDI, and ROL, have positive impacts on economic growth. However, only the impacts of TOP and FDI are significant. Further, SAV, LEX and GEF, have negative impacts on economic growth, though it is only the impact of SAV which is significant. Both the Arellano-Bond test for AR(2) and the Sargan test are not significant indicating the absence of second-order autocorrelation and excessive proliferations of instruments in the estimations respectively. Thus, the significant negative impact observed in the relationship between welfare state and economic growth is robust to the System GMM framework.

Column (3) of Table 4, contains results regarding the moderating effect of government effectiveness on the relationship between welfare state and economic growth. As depicted by the coefficient exhibited by the interaction term S*GEF, government effectiveness has no significant moderating impact on the aforementioned relationship. Thus, government effectiveness is unable to alter the sign, magnitude or significance of the impact exerted by the welfare state on economic growth. It is important also, to check whether the impacts of other variables have changed, in response to the interaction variable being introduced into the model (Destek *et al.*, 2023). According to the results, the unconditional impact of the welfare state on economic growth remains the same with a value of – 0.012, when column (3) is compared with column (2). This confirms the lack of moderation in the relationship by government effectiveness.

Similarly, the impacts of capital stock and labour stock, and all the control variables have not changed, except government effectiveness whose impact has become significant in the model with the interaction term, when it was not significant without the interaction. Accordingly, the results in column (3) show that economic growth would decline by 0.020% following a 1-unit increase in government effectiveness. It is an indication that government effectiveness is a factor in the capacity to curtail economic growth (Destek *et al.*, 2023).

Discussions

The current finding aligns with the market liberals' theory, which posits that activities of the welfare state would cause a decline in economic growth. The market liberals identified inefficiency (Okun, 1975) and market interference (Olson, 1982) arising from the welfare state, as being the cause of derailment in economic growth. Both concerns are partly true given that OIC countries have been associated with low levels of governance quality and a prevalence of high corruption (Wibowo, 2020). Both factors can certainly reduce the efficiency and effectiveness of social welfare service delivery, affecting economic performance adversely.

Another factor that may account for the negative impact of the welfare state on economic growth, could be the Islamic principles that guarantee the dignity of recipients of any form of charity and benevolence. Such principles could discourage the application of systems for monitoring and evaluating the welfare state architecture, necessary for avoiding the 'leaky bucket' phenomenon, and

for ensuring the achievement of the desired impact on the economy. To assume that the Islamic principle of accountability for one's deeds on the Day of Judgment (Raj & Subin, 2022), might curtail corruption in the Islamic welfare state system, could be a misjudgment. Such principles complement the thoughts of the market liberalists and reflect the current finding of the negative impact of the welfare state.

Empirically, the current finding concurs with those of Gründler and Scheuermeyer (2018), Uchida and Ono (2021), and Gilleard (2023), which found a negative impact of the welfare state on economic growth. The authors attribute the negative impact to problems associated with the welfare state including low levels of investments, human capital development, and savings. These problems are not far-fetched in OIC countries which are noted for low levels of education (Wibowo, 2020). The inability of officials to monitor how receipts of welfare benefits are utilized does not encourage investments of such receipts in profitable ventures. Again governments of OIC countries face several challenges with enormous risks to human survival, the resolution of which leaves little resources for undertaking investments. As noted by ibn Khaldun, the activities of the Islamic welfare state are extensive and include protecting and supporting the vulnerable, preventing against need, caring for the free (noble) elderly, and caring for the needy, accident victims, widows, orphans, and the blind with stipends from the treasury. Non-material welfare care includes being friendly to the weak, the leader allowing frequent visits for the people, show of humility, showing of smiling countenance, and leniency towards the vulnerable (Rosenthal, 1958).

The finding of no significant moderating effect of government effectiveness aligns with Yahya and Rafiq (2020) and Abaidoo and Agyapong (2022), in which government effectiveness was reported as having no moderating effects on the respective relationships studied. Lack of moderation by the variable is the consequence of the prevailing weak levels of public governance institutions (Awwad, 2024) in many of the OIC countries studied. This fact is confirmed by the descriptive statistics which show the average level of government effectiveness to be weak. Implications of the results regarding the interaction term point to the fact that the countries studied are unable to capitalise on high government effectiveness for improving the impact of the welfare state on economic growth. Here also, the Islamic principles of dignifying the needy and vulnerable, could make government effectiveness incapable of moderating in the relationship. This justifies the finding obtained regarding the lack of moderating effect of government effectiveness.

In all, the negative impact of the welfare state on economic growth observed in the studied OIC countries is mainly due to the Islamic principle of protecting the dignity of the needy and vulnerable. This principle prevents officials from ensuring the benefits received from the social protection system are deployed for productive activities that add value to economic growth. Additionally, the principle incapacitates government effectiveness, in the design and implementation of potent government policies for the welfare state, capable of yielding a positive impact on economic performance.

The finding of a significant negative impact of the welfare state on economic growth is robust to the LSDVC method, whose accuracy is assumed to supersede that of the System GMM (Dahir *et al.*, 2019). In column (4) of Table 4, where the results of the direct impact of the welfare state on economic growth are found, the impact of S is a significant negative. This confirms the robustness of the negative impact of the welfare state obtained in the System GMM. In column (5) of the table, results of the moderating effect of government effectiveness estimated using the LSDVC method, are provided as a robustness check on the impact displaced by S*GEF. The impact displayed by the interaction term is positive, just as in the System GMM estimation. However, while the impact of S*GEF is significant under the LSDVC model, the same impact is not significant in the GMM estimations. In this regard, the moderating effect of government effectiveness on the relationship between the welfare state and economic growth appears to be sensitive to the estimation method employed (Abaidoo & Agyapong, 2022), as far as the significance of the interaction term is concerned.

5. CONTRIBUTIONS

Some interesting policy implications drawn from this work are explained accordingly. Governments of the studied countries would have to design appropriate policies aimed at erasing the negative impact of the welfare state on economic growth or convert the same impact into a positive one. Such policies should accommodate the monitoring of welfare beneficiaries to ensure the productive application of their receipts, without infringing on their dignity. It is important to incorporate the inputs of Islamic scholars in the policy formulation and implementation processes. State agencies such as the Ministry of Finance and the Department of Statistics, must continue to monitor the relationship between the welfare state and economic growth and take steps to mitigate the negative impact in the relationship at all times.

With *Shariah*-compliant policies in place, governments of the sampled OIC countries must manage the welfare state system efficiently, devoid of corruption, wastage and misapplication of resources intended for meeting the needs of the vulnerable. There will be the need to undertake reforms in the welfare state system by providing training to make the officers more professional. There is also the need to recruit the best technocrats in the welfare state sector and motivate them appropriately for efficient service delivery that yields a positive impact on economic growth. More importantly, governments must establish potent policies for eradicating poverty, wars, and internal conflicts, a necessity for reducing vulnerability among the citizenry. This is important for reducing the financial burden of the welfare state.

This paper makes two important contributions to the body of knowledge. Firstly, it provides an Islamic perspective of the welfare state, indicating the obligation imposed by the tenets of Islam that require the state to be benevolent towards its citizens facing vulnerabilities. Secondly, this study contributes to the political economy literature by considering a panel of OIC countries as the unit of analysis, which has not received much attention in the past.

6. CONCLUSION

The Islamic worldview holds in high regard, the need to be benevolent to all creatures of Allah. Through the welfare state, governments and state authorities have the opportunity of showing compassion to the citizenry, while following the dictates of Islam as enshrined in the *Quran* and *Sunnah*. For Islamic countries, and membership of the OIC, a show of state benevolence through activities of the welfare, is a religious obligation that is difficult to ignore. Thus, Islamic countries must be seen to undertake and champion welfare state activities.

However, the general assumption that the welfare state system has negative consequences on economic growth, puts Islamic countries in a situation of conflict of interests. In their attempt to undertake welfare state activities as a religious obligation, Islamic countries are faced with the possibility of experiencing a decline in economic growth. This paper investigated the existence of such a conflict of interest in OIC member countries. Therefore, this paper estimated the impact of the welfare state on the economic growth of OIC countries and determined the moderating effect of government effectiveness on the relationship.

After analyzing the data, the welfare state was found to significantly impact economic growth negatively. Also, the results indicate that government effectiveness does not moderate the relationship between the welfare state and economic growth. The findings are largely in agreement with the market liberals' theory which views the welfare state as a disincentive to investments in physical and labour capital, and a source of crowding out effect both of which in turn lead to lowering of economic growth (Ansategi & Marsiglio, 2017).

The lack of appropriate and effective policy mechanisms, to ensure that the activities of the welfare state are managed in ways for achieving a positive impact on economic growth, is a reflection of the negative impact of the welfare state observed. To the extent that Islamic tenets forbid monitoring of

recipients of benevolence to ensure the proper utilisation of the benefit received, the finding is not unexpected. Under the circumstances, beneficiaries are free to appropriate welfare benefits as they deem fit, even at the detriment of adding value to economic growth. The current situation paints a picture depicting that beneficiaries of social protection interventions in the OIC countries studied, might have been using the receipts unproductively, which has caused the negative impact of the welfare state on economic growth.

Further, the findings reveal the lack of moderation by government effectiveness in the relationship between the welfare state and economic growth. This is due to the generally weak level of the quality of government effectiveness in the countries sampled (Awwad, 2024). Again, the Islamic principles of safeguarding the dignity of the needy and vulnerable, and encouraging providing help to the latter in secrecy, debar government effectiveness from effectively functioning as a moderating variable. Any state activity for monitoring the disbursement and utilisation of welfare benefits in Islamic countries would be considered as going contrary to the tenets of the Islamic worldview. The adherence to these Islamic principles does not allow the OIC countries studied to benefit from increasing levels of government effectiveness in erasing the adverse impact of the welfare state on economic growth.

Following the results obtained, governments of the studied OIC countries are exposed to a conflict of interests, as they intend to adhere to the Islamic obligation requiring the state to be benevolent to citizens and to simultaneously pursue achieving the enhancement of economic growth. This conflict exists because the activities of the welfare state cause a decline in economic development. As a cardinal obligation in Islam, state benevolence through the welfare state, intended to secure the welfare of the vulnerable, cannot be ignored. It is for this reason the well-known Islamic scholar al-Ghazali, advocates for the state to undertake the obligation of protecting citizens' welfare, even if it means imposing extra-Islamic taxes (Islahi & Ghazanfar, 1998). Similarly, al-Ghazali holds the state responsible for ensuring the realisation of economic prosperity and progress (Irijanto *et al.*, 2015). The two objectives outlined by al-Ghazali further strengthen the position of the current study that Islamic countries are exposed to conflicting interests, as far as the protection of vulnerable citizen's well-being, and the achievement of economic growth by the respective governments are concerned. Thus, governments of the OIC countries studied must exercise maximum caution, when implementing the Islamic principles of state benevolence towards the needy among the citizenry.

There are two limitations to this study. Firstly, the lack of data for about 50% of the OIC countries limits generalising the findings for the entirety of the OIC membership. Hence, the findings should be viewed in the context of the countries investigated. Secondly, a comparison of the impact of the relationship in Islamic countries with that of non-Islamic countries could not be undertaken due to a constraint of space. As the current study is already voluminous, adding another objective of making such a comparison would have been both laborious and complicated. Future research work should devote attention to investigations to cover all the 57 OIC countries, and to compare the impacts in Islamic and non-Islamic countries, about the welfare state-economic growth nexus.

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INISIATIF PERBANKAN BERASASKAN NILAI DI BIMB: KAJIAN KES *SADAQA HOUSE*

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ABSTRAK

Inisiatif *Sadaqa House* oleh Bank Islam Malaysia Berhad (BIMB) merupakan contoh pelaksanaan Pengantaraan Berasaskan Nilai (*Value-Based Intermediation, VBI*) yang diperkenalkan oleh Bank Negara Malaysia (BNM) untuk menyokong pembangunan mampan dalam sektor perbankan Islam. Kajian ini bertujuan untuk meneroka peranan *Sadaqa House* sebagai inisiatif utama VBI di BIMB serta mengenal pasti cabaran-cabaran yang dihadapi dalam pelaksanaannya. Kajian ini menggunakan pendekatan kualitatif melalui kaedah kajian kes, analisis dokumen dan temu bual separa berstruktur bagi tujuan pengumpulan data. Data primer dianalisis menggunakan analisis kandungan dan bertema. Hasil kajian mendapati *Sadaqa House* telah memberi sumbangan penting kepada sektor pendidikan, kesihatan, dan pemeliharaan alam sekitar. Namun demikian, *Sadaqa House* menghadapi cabaran dalam aspek komitmen penerima manfaat dan kekurangan promosi awam bagi tujuan kutipan dana. Kajian ini turut menekankan kepentingan tadbir urus yang kukuh serta strategi pengurusan dana yang lebih berkesan bagi memastikan kesinambungan program *Sadaqa House* dalam jangka panjang.

KATA KUNCI: BANK ISLAM MALAYSIA BERHAD, KAJIAN KES, PERBANKAN ISLAM, KEWANGAN SOSIAL, PENGANTARAAN BERASASKAN NILAI (VBI)

ABSTRACT

The *Sadaqa House* initiative by Bank Islam Malaysia Berhad (BIMB) is an example of the implementation of Value-Based Intermediation (VBI), introduced by Bank Negara Malaysia (BNM) to support sustainable development within the Islamic banking sector. This study aims to explore the role of *Sadaqa House* as a key VBI initiative at BIMB and to identify the challenges faced in its implementation. This study employs a qualitative approach through case study methods, document analysis, and semi-structured interviews for data collection. The primary data were analyzed using content and thematic analysis. The findings indicate that *Sadaqa House* has made significant contributions to the education, healthcare sectors, and environmental preservation. However, *Sadaqa House* faces challenges in terms of beneficiary commitment and a lack of public promotion for fundraising purpose. This study also emphasizes the importance of strong governance and more effective fund management strategies to ensure the long term sustainability of *Sadaqa House* program.

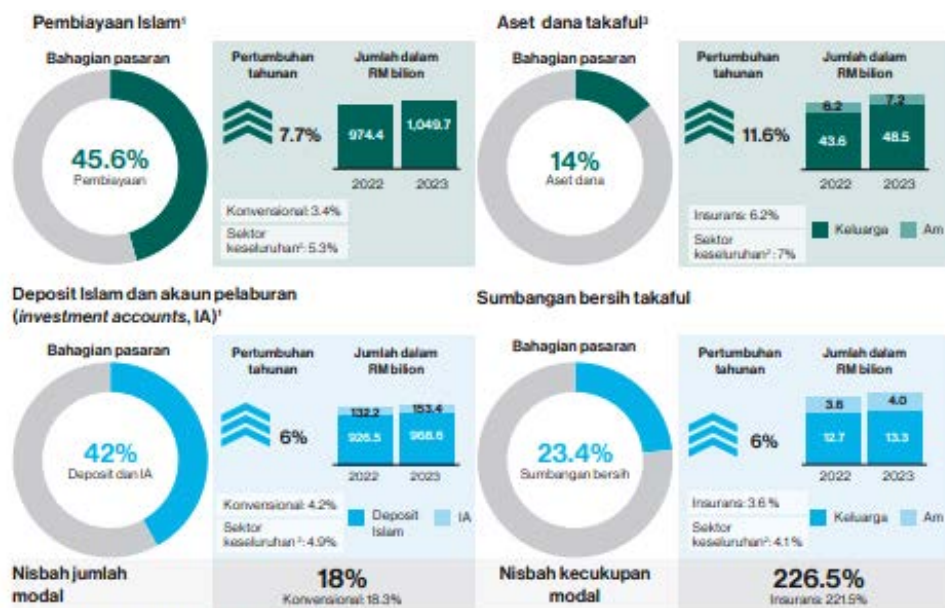
KEYWORDS: BANK ISLAM MALAYSIA BERHAD, CASE STUDY, ISLAMIC BANKING, VALUE-BASED INTERMEDIATION (VBI)

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1. PENGENALAN

Pertumbuhan industri perbankan dan kewangan Islam di Malaysia semakin mengukuh melalui usaha berterusan dalam menyokong ekonomi yang mampan, inklusif dan pelbagai. Berdasarkan Laporan Tahunan Bank Negara Malaysia (BNM – 2023), pembiayaan Islam mencatatkan bahagian pasaran sebanyak 45.6% dengan kadar pertumbuhan tahunan 7.7%. Sementara itu, deposit Islam dan akaun pelaburan mencapai bahagian pasaran 42% dengan kadar pertumbuhan 6% (BNM, 2023). Dalam pada itu, aset dana takaful pula mencatatkan pertumbuhan sebanyak 11.6%, dengan jumlah aset keseluruhan bernilai RM46.1 bilion (rujuk Rajah 1).

Salah satu inisiatif penting yang diperkenalkan oleh Bank Negara Malaysia (BNM) bagi memperkukuh industri perbankan dan kewangan Islam ialah Pengantaraan Berasaskan Nilai (*Value-based Intermediation, VBI*). *VBI* yang diperkenalkan pada tahun 2017 bertujuan untuk mengukuhkan peranan institusi kewangan Islam dalam mencapai objektif Syariah (Mahadi *et al.*, 2019) dan mengekalkan *raison d'être* kewangan Islam (Hassan & Mohamad Nor, 2019) yang melangkaui pematuhan Syariah semata-mata. Menurut laporan BNM (2023), pengintegrasian *VBI* dalam strategi perniagaan bank-bank Islam telah memberikan sumbangan positif kepada individu, isi rumah, dan perniagaan termasuk perusahaan mikro, dengan penyaluran berjumlah RM433.8 bilion antara tahun 2017 hingga 2022. Walau bagaimanapun, cabaran utama yang dihadapi adalah untuk memastikan pertumbuhan ini seiring dengan impak sosial yang bermakna.



RAJAH 1: PERTUMBUHAN INDUSTRI PERBANKAN DAN KEWANGAN ISLAM PADA TAHUN 2023

Sumber: Bank Negara Malaysia (2023)

Bank Islam Malaysia Berhad (BIMB), sebagai pelopor perbankan Islam di Malaysia, telah mengambil langkah proaktif dalam melaksanakan *VBI* melalui pelbagai inisiatif, termasuk penubuhan *Sadaqa House* pada tahun 2018. *Sadaqa House* berfungsi sebagai platform kewangan sosial Islam yang bukan hanya berperanan sebagai medium kutipan sedekah, malah turut mempromosikan inovasi dana berterusan (*perpetual fund*). Inisiatif ini bertujuan untuk memberikan kesan sosial jangka panjang, dengan fokus utama kepada pembangunan komuniti, pendidikan, kesihatan, dan kelestarian alam sekitar. Namun begitu, kajian oleh Hameed *et al.* (2018) mendapati bahawa pada fasa awal penubuhannya, *Sadaqa House* hanya menumpukan satu teras *VBI* iaitu pemeraksanaan komuniti, dengan tumpuan kepada pembangunan ekonomi ummah. Hal ini mungkin berpunca daripada garis panduan

VBI yang masih kabur (Ismail *et al.*, 2020), seterusnya menimbulkan cabaran ketara bagi pengamal dalam memahami dan melaksanakan prinsip-prinsipnya.

Oleh itu, kajian ini bertujuan untuk meneroka peranan *Sadaqa House* sebagai inisiatif utama *VBI* di BIMB serta mengenal pasti cabaran-cabaran yang dihadapi dalam pelaksanaannya. Di samping itu, kajian ini turut mengkaji bagaimana *Sadaqa House* dapat memberikan impak sosial dan ekonomi yang signifikan dalam jangka masa panjang. Kajian ini berpotensi untuk memperkukuh kedudukan *Sadaqa House* sebagai contoh inisiatif kewangan sosial yang inovatif, yang mampu menyumbang kepada pembangunan komuniti yang mampan, selaras dengan Matlamat Pembangunan Mampan (*SDGs*). Dengan meneliti implikasi jangka panjang *VBI* terhadap kemampanan ekonomi dan sosial, kajian ini menyediakan asas penting bagi pengukuhan strategi kewangan mampan dalam perbankan Islam, yang bukan sahaja berorientasikan keuntungan malah turut memberi impak menyeluruh kepada masyarakat dan alam sekitar.

Susunan kajian ini diteruskan dengan bahagian kedua yang membincangkan tinjauan literatur. Seterusnya, bahagian ketiga menghuraikan metodologi kajian, diikuti oleh bahagian keempat yang membentangkan dapatan serta perbincangan kajian. Akhir sekali, bahagian kelima merumuskan kajian dan mengemukakan cadangan penyelidikan masa hadapan.

2. TINJAUAN LITERATUR

Pengantaraan Berasaskan Nilai

Konsep *VBI*

Bagi memperkukuh peranan dan impak Institusi Perbankan Islam, BNM telah mencadangkan beberapa strategi untuk menonjolkan institusi perbankan Islam sebagai agen perubahan positif yang lebih terkemuka dalam sistem kewangan Malaysia. Pada Julai 2017, BNM dengan kerjasama industri kewangan Islam di Malaysia, telah menerbitkan kertas strategi mengenai *VBI*. *VBI* ialah fungsi pengantaraan yang bertujuan untuk mencapai matlamat syariah melalui amalan, etika, dan tawaran yang menjana impak positif serta mampan terhadap ekonomi, masyarakat, dan alam sekitar sejajar dengan pulangan mampan kepada pemegang saham dan kepentingan jangka panjang (BNM, 2018a; Ramli dan Muhamed, 2018). *VBI* bertujuan untuk membentuk perbankan Islam yang lebih berdaya tahan dan mampan dalam menangani cabaran ekonomi semasa (Mahyudin & Rosman, 2020). Matlamat utamanya adalah untuk memenuhi *maqasid al-syariah*, iaitu objektif utama syariah, yang merangkumi ekonomi, masyarakat, dan alam sekitar.

Idea *VBI* berasal daripada konsep Perbankan Berasaskan Nilai (*Value-based Banking - VBB*) yang diperkenalkan oleh *Global Alliance for Banking on Value (GABV)* pada tahun 2009 (Mahyudin dan Rosman, 2020). *GABV* adalah rangkaian bebas bank dan koperasi perbankan yang menggunakan kewangan untuk pembangunan mampan bagi golongan yang kurang mendapat perkhidmatan, komuniti, dan alam sekitar. *VBB* bertujuan untuk membentuk sistem perbankan yang lebih telus, menyokong ekonomi, dan mampan dari segi sosial dan alam sekitar (GABV, 2019; Abdul Kadir *et al.*, 2024).

Menurut BNM, *VBI* merupakan strategi untuk menjadikan kewangan Islam lebih daripada sekadar pematuhan syariah, dengan menekankan nilai tambah yang mampan kepada masyarakat secara keseluruhan (Ramli dan Muhamed, 2018). Menerusi pendekatan *VBI* ini, institusi kewangan Islam dapat memainkan peranan yang lebih bermakna dalam pembangunan sosial dan memenuhi keperluan masyarakat. Hassan dan Mohamad Nor (2019) menjelaskan bahawa *VBI* memastikan pemeliharaan aset melalui pengagihan kekayaan dan perlindungan pemilikan dapat dilakukan secara adil dan saksama. Pendekatan ini selaras dengan rangka kerja *maqasid al-syariah* dan membuka dimensi baharu dalam evolusi sistem perbankan Islam di Malaysia.

Teras utama *VBI*

BNM (2018a) telah menggariskan empat teras utama dalam pelaksanaan VBI iaitu: (1) Minda Keusahawanan (*Entrepreneurial Mindset*); (2) Pemeraksanaan Komuniti (*Community Empowerment*); (3) Tadbir Urus Diri yang Baik (*Good Self-Governance*); dan (4) Amalan Terbaik (*Best Practices*). Rajah 2 menunjukkan teras utama dalam pelaksanaan VBI.



RAJAH 2: TERAS UTAMA VBI

Sumber: BNM (2018a)

Teras minda keusahawanan dalam kerangka VBI memberi penekanan kepada penglibatan lebih aktif institusi perbankan Islam dalam memudahkan cara aktiviti keusahawanan melalui tawaran perkhidmatan yang holistik. Menurut BNM (2018a), tawaran ini merangkumi bukan sahaja aspek pembiayaan, malah turut meliputi sokongan proaktif seperti khidmat nasihat, infrastruktur pasaran dan rangkaian perniagaan. AIBIM (2022) menegaskan bahawa teras ini turut melibatkan pembangunan produk, alat dan model perniagaan baharu bagi membantu serta menyokong usahawan dan perniagaan.

Pemeriksaan komuniti merupakan teras strategik yang memberi tumpuan kepada usaha memperkasa masyarakat melalui penawaran penyelesaian kewangan yang berimpak positif (AIBIM, 2022). Selaras dengan konsep fardu kifayah dalam Islam, teras ini mencerminkan tanggungjawab institusi perbankan Islam untuk membantu golongan yang kurang berkemampuan melalui pengagihan kekayaan yang berkesan (BNM, 2018a). Pendekatan ini menuntut pertimbangan yang seimbang antara aspek komersial dan sosial dalam membuat keputusan strategik, melampaui aktiviti tanggungjawab sosial korporat biasa (Hassan dan Mohamad Nor, 2019). Institusi perbankan Islam dapat merealisasikan matlamat ini melalui pembangunan, pembiayaan dan pelaksanaan penyelesaian berkesan terhadap isu-isu yang dihadapi masyarakat, sambil meneroka peluang perniagaan baharu (AIBIM, 2022). Antara contoh inisiatif yang dilaksanakan termasuk pengintegrasian instrumen filantropi wakaf dan sedekah dalam transaksi kewangan Islam (Ismail *et al.*, 2020).

Manakala, teras tadbir urus diri yang baik memfokuskan kepada pemupukan disiplin organisasi dan penglibatan bermakna semua pihak berkepentingan dalam rangka kerja tadbir urus (AIBIM, 2022). Teras ini merangkumi dua komponen utama iaitu tadbir urus inklusif dan tadbir urus sendiri (BNM, 2018a). Dalam aspek tadbir urus inklusif, setiap keputusan yang dibuat oleh institusi perbankan Islam bukan sahaja memberi kesan kepada pemegang saham, malah turut melibatkan pihak berkepentingan yang lebih luas termasuk pelanggan dan pelabur, selaras dengan prinsip *istisharah* atau perundingan (Hassan dan Mohamad Nor, 2019). Sementara itu, tadbir urus sendiri menekankan pembudayaan disiplin diri dalam operasi dan amalan institusi, sejajar dengan prinsip ihsan dari perspektif syariah (BNM, 2018a). Pelaksanaan teras ini dapat direalisasikan melalui pelbagai strategi termasuk penanaman disiplin diri dalam kalangan pemimpin dan kakitangan, pembentukan tingkah laku positif melalui budaya yang baik, dan komitmen berterusan untuk menerapkan amalan terbaik sama ada di peringkat domestik mahupun antarabangsa (BNM, 2018b).

Akhirnya, teras amalan terbaik merujuk kepada pengamalan praktis yang bertujuan untuk menambah baik tawaran, proses dan layanan institusi perbankan Islam terhadap pihak berkepentingan termasuk pelanggan dan kakitangan (AIBIM, 2022). Teras ini menekankan kepentingan melindungi hak pihak berkepentingan melalui pendedahan yang adil dan telus dalam semua transaksi dan keputusan, selaras dengan prinsip syariah yang melarang amalan riba dan meminimumkan ketidakpastian (*gharar*) yang berpunca daripada kekurangan maklumat (BNM, 2018a; Hassan dan Mohamad Nor, 2019). Pelaksanaan amalan terbaik memerlukan komitmen berterusan untuk menerapkan piawaian terbaik sama ada di peringkat tempatan mahupun antarabangsa, seperti penyertaan dalam Komuniti Pengamal VB) (*Community of Practitioner – CoP*), *Equator Principles*, dan GABV (BNM, 2018b).

Garis panduan VBI

Prinsip VBI dilaksanakan melalui pelbagai rangka kerja dan inisiatif oleh bank, khususnya rangka kerja Produk dan Perkhidmatan Berimpak Hijau, Sosial, dan Lestari (*Green, Social, Sustainable Impact Products and Services - GSSIPS*) (UNEP-FI, 2019) yang membolehkan bank mencipta inovasi produk dan perkhidmatan untuk mencapai matlamat ekonomi, alam sekitar, dan sosial mereka, sambil menjana pendapatan. Hasil yang diharapkan daripada VBI ini turut dicerminkan dalam Prinsip Perbankan Bertanggungjawab (*Principle of Responsible Banking - PRB*) yang diumumkan oleh UNEP-FI (*International Federation of Accountants - IFAC*, 2022). Walaupun strategi VBI boleh diadaptasi dalam kedua-dua perbankan konvensional dan perbankan Islam, namun tumpuan utama adalah kepada perbankan Islam. Panduan utama bagi pelaksanaan VBI ialah kertas strategi VBI yang diperkenalkan pada tahun 2017. Dalam kertas strategi tersebut, BNM telah menekankan tentang empat teras utama VBI. Institusi perbankan yang menunjukkan komitmen untuk menerima pakai VBI perlu memastikan bahawa produk dan perkhidmatan mereka mempunyai kualiti unik yang menyerlahkan prinsip-prinsip asas VBI (BNM, 2018a). Dalam kertas strategi tersebut juga, BNM telah menetapkan enam hala tuju strategik dengan tujuan memperkukuh ekosistem kewangan Islam di Malaysia, iaitu:

1. Industri perbankan Islam menerima VBI sebagai visi bersama untuk industri;
2. Perbankan Islam dan pihak berkepentingan utama industri bersama-sama menentukan asas-asas VBI sebagai landasan tindakan kolektif;
3. Pengawal selia, bekerjasama dengan pemain industri, memupuk juara berpotensi untuk menonjolkan kejayaan VBI;
4. Industri perbankan Islam meningkatkan pendedahan mengenai niat mereka dalam menerima pakai VBI, disokong dengan strategi pelaksanaan dan laporan prestasi;
5. Pengawal selia, bersama industri perbankan Islam, akan membangunkan dan memperkenalkan kad skor VBI sebagai ukuran kejayaan umum dan pelengkap untuk industri; dan
6. Pembangunan rangkaian berkesan melalui penubuhan komuniti serta kerjasama strategik dengan komuniti berteraskan nilai, rakan kongsi utama, dan pihak berkepentingan.

Selain pengenalan Kertas Strategi VBI, BNM juga telah memperkenalkan tiga lagi dokumen penting untuk membimbing bank Islam iaitu: 1) Panduan Pelaksanaan VBI; 2) Rangka Kerja Penilaian Impak Pembiayaan dan Pelaburan VBI (VBIAF) dan 3) Skor VBI (VBISC). Selain itu, BNM turut memperkenalkan Rangka Kerja VBI untuk Takaful (VBIF) yang berfungsi sebagai panduan lengkap bagi pelaksanaan amalan dan nilai VBI dalam sektor takaful, yang terpakai kepada pengendali yang terlibat dalam Takaful Keluarga, Takaful Am, dan Retakaful. Semua dokumen panduan ini mempunyai fungsi khusus untuk mengorientasikan perbankan Islam ke arah merealisasikan objektif syariah selaras dengan agenda kelestarian (Mahadi *et al.*, 2019).

Bagi Panduan Pelaksanaan VBI, garis panduan ini bertujuan untuk menggalakkan pelaksanaan VBI dalam perbankan Islam melalui:

1. Perkongsian teknik perbankan yang berkesan kepada pihak berkepentingan yang lebih luas, dipacu oleh penciptaan impak;

2. Menggariskan 4 fasa pelaksanaan yang menunjukkan pergerakan ke arah landskap kewangan yang diinginkan; dan
3. Meneliti masalah dan isu-isu penting berkaitan pelaksanaan, serta penyelesaian praktikalnya (BNM, 2018a).

Sementara itu, Rangka Kerja Penilaian Impak Pembiayaan dan Pelaburan *VBI* (*VBIAF*) bertujuan untuk membantu institusi kewangan Islam menilai impak pembiayaan dan pelaburan mereka berdasarkan faktor-faktor sosial, alam sekitar, dan ekonomi. *VBIAF* menggariskan prinsip-prinsip yang mengawal sistem pengurusan risiko berasaskan impak yang menggambarkan komitmen *VBI* seperti yang dijelaskan dalam *Corporate-Value Intent (CVI)* (BNM, 2019). Seterusnya, Kad Skor *VBI* (*VBISC*) berperanan sebagai alat pengukuran yang membolehkan institusi kewangan Islam menilai prestasi mereka dalam mencapai matlamat *VBI*. Kad Skor *VBI* yang dibangunkan bersama oleh BNM dan *GABV*, bertujuan untuk menyediakan ringkasan komprehensif merangkumi objektif, elemen penting dalam penilaian, dan pendekatan yang dicadangkan untuk pengukuran (BNM, 2018b; Mahyudin dan Rosman, 2020; Engku Abdul Rahman *et al.*, 2022). Bagi meningkatkan nilai perbankan Islam, mereka mengambil inisiatif untuk mempertingkatkan tahap ketelusan melalui pendedahan impak yang dipertingkatkan. Tujuan laporan prestasi berasaskan impak adalah untuk memberikan pihak berkepentingan pemahaman menyeluruh tentang sumbangan yang dibuat oleh perniagaan dan organisasi yang didorong oleh impak, yang melangkaui pelaporan tradisional dengan merangkumi komponen kewangan dan bukan kewangan (BNM, 2018a). Pendekatan pelaporan ini bertujuan untuk meningkatkan pemahaman pihak berkepentingan terhadap impak yang lebih luas yang dihasilkan oleh entiti-entiti ini. Laporan tersebut boleh didedahkan oleh bank Islam melalui Laporan Bersepadu (IR), Laporan Kelestarian, laporan *VBI* khusus, atau bahagian dalam Laporan Kewangan (BNM, 2018a).

Perbezaan antara *VBI*, *ESG*, *EF*, *SRI* dan *CSR*

VBI bukanlah sebuah konsep yang sepenuhnya baharu. Malah, *VBI* mempunyai persamaan dengan beberapa konsep yang telah lama wujud seperti alam sekitar, sosial dan tadbir urus (*Environmental, Social, and Governance, ESG*), Kewangan Beretika (*Ethical Financing, EF*), Pelaburan Bertanggungjawab Sosial (*Socially Responsible Investment, SRI*) dan Tanggungjawab Sosial Korporat (*Corporate Social Responsibility, CSR*) (BNM, 2018a). Setiap satu daripada konsep ini memfokuskan pada aspek kelestarian dan etika dalam sektor kewangan (Engku Abdul Rahman *et al.*, 2022; Hassan dan Mohamad Nor, 2019), walaupun dengan pendekatan dan asal-usul yang berbeza.

ESG menyediakan kerangka kerja luas untuk menilai kelestarian, yang merangkumi faktor alam sekitar, sosial, dan tadbir urus (Singhania dan Saini, 2021). *ESG* menumpukan pada integrasi faktor-faktor ini ke dalam keputusan pelaburan dan mempromosikan ketelusan serta akauntabiliti melalui pelaporan (Wang *et al.*, 2022). Prinsip kewangan beretika pula memberi tumpuan yang lebih luas terhadap amalan dan tingkah laku beretika, yang merangkumi faktor 3P: *Planet, People*, dan *Profit* (Relano, 2011). *VBI* juga berbeza dengan *CSR*, yang mana *CSR* biasanya terpisah daripada aktiviti perniagaan (berdasarkan asas filantropi) dan tidak menghasilkan sebarang keuntungan kepada institusi (BNM, 2018a). *CSR* lebih bersifat sukarela dan universal serta tidak terikat dengan prinsip keagamaan. *SRI* pula adalah istilah umum yang merangkumi sebarang proses pelaburan yang menggabungkan objektif kewangan pelabur dengan keprihatinan mereka terhadap isu-isu *ESG* (Moghul dan Safar-Aly, 2014).

Sebaliknya, *VBI* yang dipromosikan oleh BNM menyelaraskan aktiviti perbankan dengan prinsip syariah, menekankan perbankan nilai dan kesan mampan terhadap ekonomi, komuniti, dan alam sekitar (Nik Abdullah dan Haron, 2022). Dengan fokus ini, *VBI* bukan sahaja mementingkan keuntungan, tetapi juga memberi impak positif terhadap masyarakat dan pemeliharaan alam sekitar. Menurut BNM (2018a), perbezaan utama antara *VBI* dan konsep-konsep ini terletak pada *raison d'être* (tujuan kewujudan) *VBI* di mana *VBI* bergantung pada Syariah dalam menentukan nilai-nilai

asas, tujuan, dan keutamaannya. Perbezaan antara konsep *VBI*, *CSR*, *EF*, *ESG* dan *SRI* dapat dijelaskan secara ringkas dalam Jadual 1 berikut:

JADUAL 1: PERBEZAAN ANTARA KONSEP *VBI*, *CSR*, *EF*, *ESG* DAN *SRI*

Konsep	Huraian
<i>VBI</i>	Menekankan pendekatan perbankan berasaskan nilai dan kesan mampan terhadap ekonomi, komuniti, serta alam sekitar dengan memberi keutamaan kepada impak positif terhadap masyarakat dan pemeliharaan alam sekitar, yang berpaksikan Syariah dalam menentukan nilai asas, objektif, dan keutamaannya.
<i>ESG</i>	Menumpukan kepada integrasi faktor alam sekitar, sosial, dan tadbir urus dalam keputusan pelaburan dan mempromosikan ketelusan serta akauntabiliti melalui pelaporan.
<i>EF</i>	Memberi tumpuan yang lebih luas terhadap amalan dan tingkah laku beretika merangkumi faktor 3P: <i>planet</i> , <i>people</i> , dan <i>profit</i> .
<i>SRI</i>	Merupakan istilah umum merangkumi proses pelaburan yang menggabungkan objektif kewangan pelabur dengan keprihatinan mereka terhadap isu-isu <i>ESG</i> .
<i>CSR</i>	Merupakan aktiviti filantropi yang terpisah daripada aktiviti perniagaan serta tidak menjana keuntungan kepada institusi.

Sumber: Olahan penulis (2025)

3. METODOLOGI KAJIAN

Kajian ini mengaplikasikan pendekatan kualitatif melalui reka bentuk kajian kes tunggal untuk memahami pelaksanaan Perbankan Berasaskan Nilai di Malaysia melalui inisiatif *Sadaqa House*. Selain itu, kajian kes membolehkan pengkaji menggunakan pelbagai kaedah pengumpulan data seperti pemerhatian, temu bual, dan analisis dokumen (Patton, 2002; Yin, 2009). Reka bentuk ini sesuai dengan pendekatan penerokaan, yang membolehkan pengumpulan maklumat daripada pelbagai sumber untuk mendapatkan gambaran yang lebih komprehensif (Merriam, 1988, 1998) tentang fenomena pelaksanaan *VBI* dalam konteks sebenar.

Data kajian dikumpul melalui dua sumber utama iaitu temu bual separa berstruktur sebagai data primer dan analisis dokumen sebagai data sekunder. Kaedah temu bual separa berstruktur dipilih kerana ia memberi ruang kepada pengkaji untuk menjalankan sesi temu bual secara berfokus dan terkawal, sambil mengekalkan fleksibiliti untuk menambah soalan susulan berdasarkan perkembangan perbualan (Becker dan Bryman, 2004). Temu bual dijalankan dalam bahasa Melayu mengikut pilihan informan bagi memastikan mereka dapat berkongsi maklumat dengan selesa dan tepat.

BIMB telah dipilih sebagai kajian kes menggunakan kaedah persampelan bertujuan berdasarkan statusnya sebagai institusi perbankan Islam tertua di Malaysia. Seorang pegawai BIMB telah dipilih sebagai informan kajian berdasarkan kepakaran dan penglibatan langsung mereka dalam pelaksanaan *VBI*. Beliau adalah Ustaz Mohd Zikri Mohd Shairy yang merupakan Penolong Pengurus Besar Bahagian Rangkuman Kewangan, BIMB. Beliau merupakan salah seorang yang bertanggungjawab dan terlibat secara langsung dalam merancang serta melaksanakan program *Sadaqa House* di BIMB. Pemilihan informan ini membolehkan pengumpulan data yang mendalam dan bermakna kerana mereka mempunyai pengetahuan serta pengalaman yang luas dalam bidang ini (Patton, 2002).

Data sekunder pula diperoleh melalui analisis dokumen daripada laman sesawang rasmi BNM dan BIMB, garis panduan *VBI*, laporan *VBI* yang dikeluarkan oleh AIBIM, laporan tahunan dan laporan kemampuan BIMB. Bagi analisis data, kajian ini menggunakan analisis tematik, yang mana data daripada temu bual dan dokumen, dianalisis dengan cara mengekodkan maklumat kepada kategori dan tema tertentu (Sekaran, 2003). Rakaman temu bual telah direkodkan dan ditranskripsikan bagi memudahkan proses pengekstrakan data. Teks transkrip kemudian dikodkan untuk menyusun maklumat berdasarkan tema yang berkaitan dengan objektif kajian. Data sekunder pula dianalisis menggunakan kaedah analisis kandungan (Sekaran & Bougie, 2013) untuk mengenal pasti corak dan

trend dalam pelaksanaan *VBI* di BIMB. Kesahan dan kebolehpercayaan data diperkukuh melalui triangulasi sumber data dan pengesanan pakar.

4. DAPATAN DAN PERBINCANGAN

Pada tahun 2014, Dato' Dr. Abdul Halim Ismail telah mengemukakan cadangan untuk menubuhkan sebuah institusi yang bertanggungjawab dalam pengurusan dan pengagihan dana kebajikan dalam Forum Kewangan Islam Global (Hameed *et al.*, 2024). Dana ini merangkumi pelbagai instrumen kewangan Islam seperti Sadekah, Wakaf, dan hibah yang di kumpul daripada sektor swasta untuk diagihkan kepada golongan yang memerlukan (Shahimi *et al.*, 2023). Pelaksanaan inisiatif ini membolehkan institusi perbankan Islam memenuhi objektif ekonomi Islam, khususnya dalam aspek pembasmian kemiskinan dan peningkatan kebajikan ummah. Sehubungan itu, Dato' Dr. Abdul Halim Ismail telah mencadangkan pembentukan produk baharu yang dikenali sebagai *Sadaqa House*.

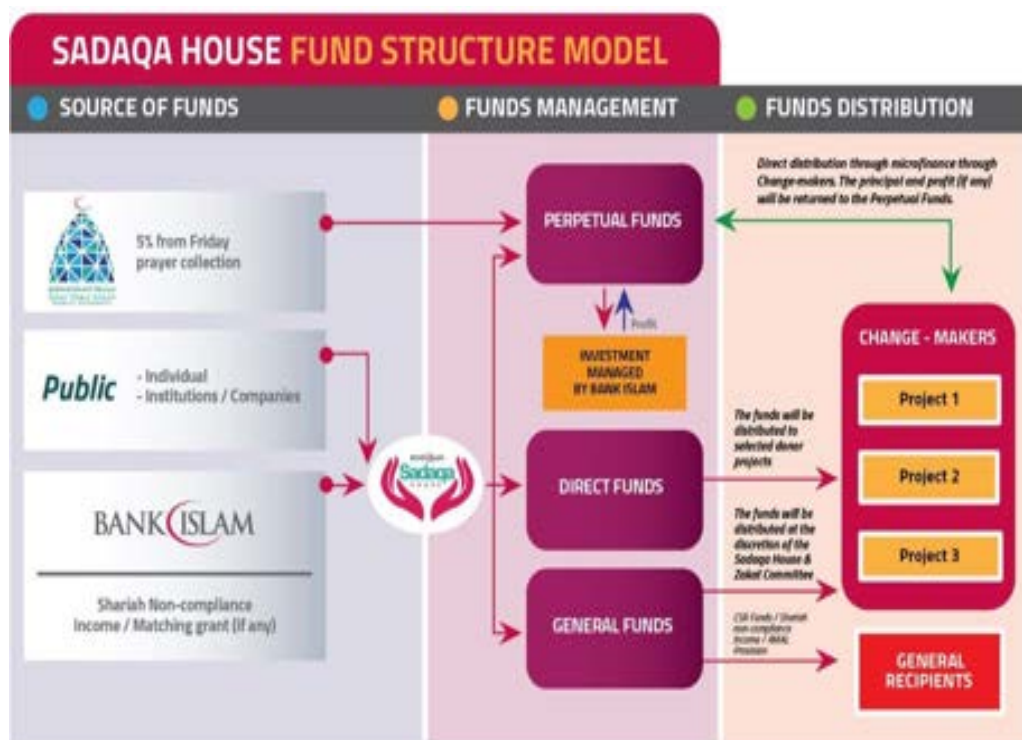
Dengan erti kata lain, BIMB telah mengambil langkah proaktif dengan menjadi pelopor kepada pengenalan produk dan perkhidmatan berteraskan nilai, sejajar dengan objektif *VBI* oleh BNM. Pelancaran *Sadaqa House*, yang boleh dianggap sebagai sebuah inisiatif *Start-Up* atau *FinTech*, bermula dengan langkah-langkah strategik yang teliti walaupun berskala kecil, namun memiliki aspirasi yang signifikan untuk perkembangan masa hadapan. BIMB telah menetapkan asas pelaksanaan dan operasi yang jelas, dengan mengenal pasti empat sektor tumpuan utama bagi membezakan *Sadaqa House* daripada platform pendanaan awam yang sedia ada. Sektor-sektor tersebut merangkumi kesihatan, pendidikan, pemeliharaan alam sekitar, dan pemerdayaan komuniti, yang selari dengan konsep *Triple Bottom Line* iaitu *planet*, *manusia* dan *keuntungan*. Oleh itu, dalam usaha mencapai matlamat pembangunan mampan, BIMB telah menjalin kerjasama strategik dengan pelbagai agensi penggerak perubahan, termasuk pertubuhan bukan kerajaan (NGO) dan institusi-institusi berkaitan bagi menyambut hasrat Dato' Dr. Abdul Halim Ismail. Seterusnya, pada tahun 2018, *Sadaqa House* telah dilancarkan secara rasminya dan menjadikannya inisiatif sulung *VBI* oleh BIMB (Shahimi *et al.*, 2023).

Pelaksanaan Sadaqa House

Sadaqa House telah menunjukkan pertumbuhan yang memberangsangkan dalam tempoh lima tahun operasinya dari 2019 hingga 2023, dengan kemasukan dana yang meningkat secara drastik daripada RM425,400 kepada RM15,755,070. Sepanjang tempoh 5 tahun ini, *Sadaqa House* telah mentransformasi peranannya sebagai pengantara dalam rangka kerja perbankan Islam dengan menggabungkan pendekatan berasaskan kredit tradisional dan *VBI*. *Sadaqa House* adalah sebuah inisiatif yang bertujuan menyumbang kembali kepada masyarakat dengan memainkan peranan penting sebagai perantara dan titik pertemuan antara penderma, penggerak perubahan, dan penerima manfaat. Hal ini membolehkan *Sadaqa House* memberi sumbangan yang bermanfaat dan bermakna kepada masyarakat (Shafruddin dan Shahimi, 2024).

Kejayaan *Sadaqa House* ini antara lain kerana model struktural pendanaannya yang sangat komprehensif dan sistematik (rujuk rajah 3). Terdapat tiga komponen utama dalam model struktur pendanaan *Sadaqa House* iaitu sumber dana, pengurusan dana, dan pengagihan dana. Dari segi sumber dana, ia diperolehi melalui tiga saluran utama iaitu kutipan 5% daripada solat Jumaat, sumbangan daripada orang awam (individu dan institusi/syarikat), serta pendapatan tidak patuh syariah serta geran padanan daripada Bank Islam. Dana-dana ini kemudiannya diuruskan melalui tiga kategori - Dana Berterusan yang dilaburkan dan diuruskan oleh Bank Islam untuk menjana keuntungan, Dana Langsung yang disalurkan kepada projek-projek terpilih, dan Dana Am untuk penerima umum. Pengagihan dana pula dilaksanakan melalui dua saluran utama iaitu kepada penggerak perubahan yang menjalankan projek-projek khusus (dengan pembiayaan mikro yang akan dikembalikan kepada Dana Berterusan), serta kepada penerima am berdasarkan garis panduan CSR/zakat/pendapatan tidak patuh syariah. Kini, pengoperasian *Sadaqa House* telah berkembang merangkumi pembiayaan campuran (*blended finance*) melalui program iTEKAD, projek impak

sosial, dan inisiatif terhadap anak yatim. Jumlah pengeluaran dana telah meningkat daripada RM341,924 pada tahun 2019 kepada RM12,811,637 pada tahun 2023, menunjukkan peningkatan ketara dalam skala operasi dan impak (BIMB, 2023).



RAJAH 3: STRUKTUR MODEL PENDANAAN SADAQA HOUSE

Sumber: Laporan Sadaqa House 2021

Pencapaian *Sadaqa House* boleh dilihat melalui pertumbuhan bilangan benefisiari daripada 34 orang pada tahun 2019 kepada 1,598 orang pada tahun 2023. Walaupun terdapat pengurangan berbanding tahun 2022 (10,545 benefisiari) disebabkan penyelarasan semula definisi dan pengukuran impak sosial berdasarkan Pelan Sektor Kewangan 2022-2026 yang dikeluarkan oleh BNM, ia tetap menunjukkan impak yang signifikan kepada masyarakat (BIMB, 2023). Inisiatif utama *Sadaqa House* dapat dibahagikan kepada dua kategori utama iaitu Pembangunan Usahawan (RM6,664,755 pada tahun 2023) dan Projek Impak Sosial (RM5,283,575 pada tahun 2023). Program seperti iTEKAD BangKIT dan iTEKAD Maju, menunjukkan fokus mereka dalam memperkasa ekonomi komuniti. Dalam aspek impak sosial, tumpuan diberikan kepada pemerikasaan komuniti, pendidikan, pemeliharaan alam sekitar, dan kesihatan. Jadual 2 menunjukkan pemetaan inisiatif *Sadaqa House*, pergerakan perubahan dan teras VBI.

Dalam sektor pendidikan, *Sadaqa House* telah menunjukkan komitmen yang tinggi dalam menyediakan akses pendidikan berkualiti kepada golongan yang memerlukan melalui pelbagai inisiatif. Di bawah tema "*From Cradle to Graduation*", mereka memberikan fokus khusus kepada anak-anak yatim dengan menyediakan biasiswa pendidikan melalui kerjasama dengan PEYATIM di *Universiti College Bestari (UCB)* yang memanfaatkan 11 orang anak yatim dengan peruntukan RM93,704, serta program bantuan pendidikan bersama Yayasan Pembangunan Belia (*Youth Empowerment Foundation - YEF*) Malaysia yang membantu 60 orang anak yatim dan asnaf dengan peruntukan sejumlah RM384,819. Selain itu, *Sadaqa House* turut menyokong pendidikan profesional dengan menaja 26 pelajar kurang berkemampuan untuk mengikuti kelayakan ACCA melalui kerjasama dengan MyPAC dengan peruntukan sebanyak RM725,883. Komitmen dalam menyediakan prasarana pendidikan juga dapat dilihat melalui sumbangan sebanyak RM150,000 untuk kos sewa bangunan empat tingkat di Chow Kit yang memberi manfaat kepada 110 pelajar kurang berkemampuan, serta pembinaan dan pembaikan surau di sekolah-sekolah terpilih seperti

Sekolah Kebangsaan Sungai Jernih, Batu Kurau, Perak yang memanfaatkan 146 pelajar dengan kos RM50,000. *Sadaqa House* turut memberi bantuan kewangan kepada pelajar institusi pengajian tinggi yang terkesan akibat pandemik COVID-19, yang mana pada tahun 2022 sahaja sebanyak RM168,950 telah diagihkan kepada 90 pelajar daripada 16 buah universiti melalui kerjasama dengan *Brain For Future (BFF)* (BIMB, 2022). Keseluruhan inisiatif dalam sektor pendidikan ini menunjukkan pendekatan holistik *Sadaqa House* dalam memastikan akses kepada pendidikan berkualiti merentasi pelbagai peringkat dan keperluan.

Dalam sektor kesihatan pula, *Sadaqa House* memfokuskan bantuan mereka kepada pesakit pediatrik yang menghidap penyakit jantung kongenital melalui kerjasama strategik dengan Yayasan Institut Jantung Negara (IJN). Program ini telah berjaya membantu 55 orang pesakit kanak-kanak daripada keluarga kurang berkemampuan untuk menjalani pembedahan jantung dengan peruntukan sebanyak RM250,000 untuk kos operasi. Keprihatinan *Sadaqa House* tidak terhad kepada bantuan perubatan sahaja, malah turut merangkumi aspek kebajikan penjaga pesakit melalui program penajaan sahur dan iftar. Program ini telah memberi manfaat kepada seramai 136 penjaga kanak-kanak yang sedang mendapatkan rawatan di wad IJN dengan sumbangan bernilai RM27,200.

Sadaqa House menunjukkan komitmen yang jitu terhadap kelestarian alam sekitar melalui kerjasama strategik dengan Universiti Teknologi Malaysia (UTM) dalam projek-projek tenaga diperbaharui. Fokus utama adalah untuk memastikan komuniti luar bandar dan terpinggir mendapat akses kepada tenaga bersih dan mampan, seperti yang ditunjukkan melalui projek pemasangan sistem solar fotovoltai di kawasan penempatan orang asli. Dengan pelaburan terkumpul sebanyak RM394,000 sejak tahun 2018, projek ini telah memberi manfaat kepada 70 buah keluarga dengan menyediakan akses kepada bekalan elektrik 24 jam pada kos yang lebih rendah (BIMB, 2022). Inisiatif terbaharu pada tahun 2024 pula, BIMB bersama UTM memperkenalkan projek *Smart Eco-PV Boat* dengan peruntukan sejumlah RM101,895 yang akan membantu 21 orang nelayan mengurangkan penggunaan diesel melalui penggunaan teknologi solar dalam operasi bot mereka. Pendekatan inovatif ini bukan sahaja dapat mengurangkan kos operasi nelayan, malah turut menyumbang kepada pengurangan pencemaran alam sekitar.

Inisiatif utama *Sadaqa House* yang paling menonjol adalah dalam pembangunan komuniti dan pemerikasaan ekonomi. *Sadaqa House* memainkan peranan penting dalam pemerikasaan komuniti melalui program pembangunan usahawan mikro yang komprehensif dan tersusun. Melalui inisiatif pembiayaan mikro iTEKAD yang merangkumi iTEKAD BangKIT, iTEKAD Maju, dan program pembiayaan bercampur, organisasi ini telah berjaya membantu seramai 457 orang usahawan mikro dengan jumlah pembiayaan melebihi RM6.5 juta. Program ini bukan sekadar memberikan bantuan kewangan, tetapi turut menyediakan bimbingan perniagaan, latihan pengurusan kewangan, dan peluang pemasaran. Kejayaan program ini dapat dilihat melalui pencapaian 155 orang usahawan yang telah mencatatkan peningkatan mobiliti ke atas, dengan 41 usahawan mencapai Gred 1 (peningkatan kelayakan kredit) dan 114 usahawan mencapai Gred 2 (pertumbuhan perniagaan dan pendigitalan). Program ini juga memberi tumpuan khusus kepada usahawan wanita melalui kerjasama dengan pelbagai organisasi seperti Yayasan Sultanah Bahiyah, membuktikan komitmen *Sadaqa House* dalam memperkasakan usahawan dari pelbagai latar belakang di seluruh Malaysia.

Melalui rangkaian program pemerikasaan komuniti yang komprehensif, *Sadaqa House* telah mengembangkan impaknya melampaui sektor keusahawanan. Organisasi ini telah melaksanakan pelbagai inisiatif berimpak tinggi termasuk program bantuan makanan di sekolah, sokongan institusi pendidikan, dan pembangunan infrastruktur komuniti. Mercy Mission Malaysia, sebagai contoh, telah menjadi penggerak kepada program “*Feed to Educate*” yang bertujuan membantu menangani isu kekurangan zat makanan dalam kalangan pelajar sekolah. Program ini bukan sekadar menyediakan bantuan makanan kepada 208 pelajar asnaf di empat buah sekolah dengan nilai bantuan sebanyak RM280,800, malah turut memperkukuh hubungan antara guru dan ibu bapa, sekali gus meningkatkan kadar kehadiran pelajar ke sekolah. Malah, di bawah program amal dan inisiatif CSR BIMB, seramai 197 orang asnaf telah menerima bantuan bernilai RM198,350 melalui program

Ramadan dan Syawal serta “*Back to School*”. Projek-projek inovatif seperti kerjasama dengan MyVista dalam penghasilan tangan prostetik 3D dan sokongan kepada EPIC Homes untuk pembinaan rumah bagi keluarga asnaf-Muslim orang asli di Kampung Orang Asli Serigala, Ulu Bernam, Selangor menunjukkan kesungguhan *Sadaqa House* dalam menangani keperluan komuniti secara holistik. Program-program ini telah memberi impak ketara, seperti yang dibuktikan melalui testimoni penerima bantuan, termasuk peningkatan kehadiran pelajar ke sekolah dan pemerkasaan golongan kurang bernasib baik.

Teras tadbir urus yang baik memainkan peranan penting dalam memastikan ketelusan dan keberkesanan pengurusan *Sadaqa House*. Seperti yang dinyatakan oleh Ustaz Zikri,

...Sebab bila kita buat Sadaqa House ni, kita masukkan elemen-elemen corporate governance, jadi bila dalam report tu sebenarnya dah sufficient untuk bagi tahu kepada donors la. Apa yang telah dibuat, pengurusannya, dekat mana duit tu diletakkan, siapa yang menerima, berapa ramai yang menerima, impak daripada penerimaan dana...

Sadaqa House menggabungkan elemen-elemen tadbir urus korporat dalam operasinya bagi memastikan setiap sumbangan diurus dengan teliti dan dilaporkan secara sistematik kepada para penyumbang. Laporan-laporan yang dihasilkan bukan sahaja memperincikan pengagihan dana, tetapi juga menunjukkan dengan jelas siapa yang menerima bantuan, jumlah penerima, serta impak sosial yang dicapai. Melalui pendekatan ini, *Sadaqa House* bukan sahaja menambah keyakinan penyumbang terhadap pengurusan dana, tetapi juga menunjukkan komitmen BIMB terhadap prinsip tadbir urus yang baik dalam memastikan setiap sumbangan memberi manfaat secara berterusan dan signifikan kepada komuniti.

Pemetaan inisiatif *Sadaqa House* dengan teras utama *VBI* menunjukkan komitmen menyeluruh Bank Islam dalam mencapai impak sosial yang berkesan. Setiap inisiatif *Sadaqa House* bukan sahaja diselaraskan dengan matlamat untuk memperkasakan komuniti bahkan juga menepati elemen-elemen *VBI* seperti tadbir urus yang baik, tingkah laku terbaik, dan pemerkasaan ekonomi. Program seperti pembiayaan mikro iTEKAD, biasiswa pendidikan untuk anak yatim, serta kerjasama strategik dengan pelbagai penggerak perubahan seperti Yayasan Sultanah Bahiyah, dan MyVista mencerminkan keupayaan *Sadaqa House* dalam menggabungkan kepentingan sosial dan kemampuan ekonomi. Setiap inisiatif *Sadaqa House* dijelaskan dengan terperinci dalam laporan impak tahunan yang dikeluarkan menunjukkan komitmen mereka yang tinggi terhadap tadbir urus yang baik. Kepelbagaian penggerak perubahan yang terlibat pula, bermula dari institusi pendidikan hingga ke badan-badan kebajikan, memperlihatkan pendekatan kolaboratif yang mantap dalam mencapai objektif *VBI*. Seperti yang dinyatakan oleh Ustaz Zikri,

...Sadaqa House ni sudah berada di tahun kelima... dia dah sampai masa kita dah banyak belajar daripada pengalaman-pengalaman yang lalu dari sudut model dia, dari sudut keberkesanan dia...

Pencapaian *Sadaqa House* dalam tempoh lima tahun ini menandakan permulaan yang kukuh bagi inisiatif ini dalam mentransformasi pendekatan filantropi dalam perbankan Islam. Melalui gabungan pelbagai dana, pengurusan yang teliti, dan sokongan penggerak perubahan yang berdedikasi, *Sadaqa House* telah membuktikan keberkesanannya dalam memperluas skop bantuan sosial dan memperkasa golongan yang memerlukan. Malah, keunikan *Sadaqa House* ini ialah kerana perkhidmatan yang disediakan tidak terhad kepada orang Islam malahan juga bukan Islam, sama ada penderma atau penerima manfaat, selaras dengan persepsi BIMB tentang keperluan semua orang untuk mempunyai peluang yang sama rata (Abd Wahab *et al.*, 2023). Melalui empat sektor tumpuan utama iaitu pendidikan, kesihatan, pemeliharaan alam sekitar dan pemerkasaan komuniti, *Sadaqa House* telah berjaya mentransformasikan peranannya daripada sekadar platform pengumpulan dana kebajikan kepada sebuah institusi yang membawa impak sosial yang signifikan dan mampan. Projek-projek *Sadaqa House* ini telah menunjukkan impak yang positif kepada pembangunan ekonomi ummah melalui peningkatan kualiti kesihatan, pemerkasaan ekonomi yang membuka peluang pekerjaan, dan

penyediaan prasarana asas untuk kemajuan ekonomi setempat, yang akhirnya akan membantu meningkatkan taraf hidup masyarakat seterusnya memacu pertumbuhan ekonomi negara (Hameed *et al.*, 2018). Pencapaian ini bukan sahaja memenuhi aspirasi asal penubuhan *Sadaqa House*, malah turut menjadi model rujukan dalam pelaksanaan inisiatif *VBI* di Malaysia, sekaligus membuktikan kejayaan BIMB dalam mengintegrasikan nilai-nilai Islam dengan pembangunan sosioekonomi mampan.

**JADUAL 2: PEMETAAN INISIATIF *SADAQA HOUSE*, PENGGERAK PERUBAHAN
DAN TERAS *VBI***

Sektor	Inisiatif	Penggerak Perubahan	<i>VBI</i>			
			Teras 1: Minda Keusahawan an	Teras 2: Pemeriksaan Komuniti	Teras 3: Tadbir Urus yang Baik	Teras 4: Tingkah Laku Terbaik
Pendidikan	Menaja kanak-kanak kurang berkemampuan mendapat pendidikan berkualiti.	Buku Jalanan Chow Kit (BJCK).		✓	✓	✓
	Membina atau membaiki pulih surau atau musala di sekolah-sekolah terpilih.	Pertubuhan Kegiatan Dakwah Islamiah Sekolah-Sekolah Malaysia (PEKDIS).		✓	✓	✓
	Menawarkan bantuan kewangan kepada pelajar universiti yang kurang berkemampuan.	<i>Brain For Future</i> (BFF).		✓	✓	✓
	Menyediakan biasiswa pendidikan.	Pertubuhan Kebajikan Anak Yatim Malaysia (PEYATIM).		✓	✓	✓
		Yayasan Pemberdayaan Belia (YEF).		✓	✓	✓
	Menyokong pendidikan professional (ACCA).	<i>Malaysia Professional Accountancy Centre</i> (MyPAC).		✓	✓	✓
	Membantu kanak-kanak berpenyakit jantung kongenital.	Yayasan Institut Jantung Negara (IJNF).		✓	✓	✓
Kesihatan	Menaja sahur dan iftar untuk penjaga pesakit.	Yayasan Institut Jantung Negara (IJNF).		✓	✓	✓

Alam Sekitar	Menyediakan tenaga elektrik untuk nelayan melalui program <i>Smart Eco-PV Boat</i> .	Universiti Teknologi Malaysia (UTM).	✓	✓	✓
	Menyediakan sistem tenaga solar bagi menjana elektrik di perkampungan orang asli terpilih.	Universiti Teknologi Malaysia (UTM).	✓	✓	✓
Komuniti	Menghasilkan lengan prostetik 3D untuk kanak-kanak kurang upaya dari keluarga berpendapatan rendah.	<i>MyVista</i>	✓	✓	✓
	Menaja sebuah rumah untuk keluarga asnaf Muslim orang asli.	<i>EPIC Homes</i>	✓	✓	✓
	Memberikan bantuan makanan kepada keluarga yang dikenal pasti melalui program <i>Feed to Educate</i> .	<i>Mercy Mission Malaysia</i>	✓	✓	✓
	Menyediakan program pembangunan usahawan kecil wanita.	Yayasan Sultanah Bahiyah (YSB)	✓	✓	✓
	Menyediakan pembiayaan mikro termasuk geran perniagaan BangKIT, iTEKAD, BangKIT, iTEKAD Maju, iTEKAD Jaya dan pembiayaan SME.	Persatuan Institusi Perbankan dan Kewangan Islam Malaysia (AIBIM), SME Bank, CEDAR, Majlis Agama Islam & Adat Istiadat Melayu Perlis (MAIPs), Lembaga Zakat Negeri Kedah (LZNK), Majlis Ugama Islam dan Adat Resam Melayu Pahang (MUIP), Majlis Agama Islam	✓	✓	✓

	Wilayah Persekutuan (MAIWP).			
Menyediakan dana anak yatim <i>Sadaqa House</i> .	Yayasan OrphanCare, PEYATIM, YEF Malaysia.	✓	✓	✓

Sumber: Olahan penulis (2025)

Cabaran dan Penyelesaian diketengahkan BIMB dalam Pelaksanaan Sadaqa House

BIMB menghadapi beberapa cabaran signifikan dalam pelaksanaan inisiatif *Sadaqa House* sebagai komponen *VBI*. Hasil temu bual bersama pegawai BIMB, penulis telah mengenal pasti empat cabaran utama yang dihadapi sejak penubuhan program ini.

Pemikiran masyarakat yang skeptikal

Pada peringkat awal penubuhan *Sadaqa House* pada tahun 2018, BIMB telah berdepan dengan persepsi skeptikal segelintir masyarakat yang menyamakan inisiatif ini dengan platform kutipan amal biasa. Namun, perbezaan ketara antara *Sadaqa House* terletak pada penggunaan dana berterusan, yang dilihat sebagai penggerak perubahan dalam menyokong keberlangsungan sumbangan untuk tempoh jangka panjang. Berbanding dengan kutipan amal biasa yang sering menghadapi masalah dana yang hangus selepas digunakan, BIMB berhasrat agar *Sadaqa House* membawa impak yang berterusan. Pada awal pelaksanaannya, inisiatif ini diakui masih berada di tahap rendah. Namun, BIMB telah meneroka potensi besar *Sadaqa House* melalui kaedah yang berbeza untuk melakukan sesuatu sehingga kaedah yang paling berjaya dijumpai kerana keterbatasan penyelidikan dan masa. Walaupun menghadapi beberapa kegagalan, BIMB terus komited untuk menjadikan *Sadaqa House* sebagai platform yang mampu memberi impak positif jangka panjang, melangkaui aktiviti *CSR* tradisional yang bersifat sementara.

Kutipan dana yang terhad

Selain itu, antara cabaran utama yang dihadapi oleh BIMB ialah kutipan dana yang masih rendah. Menurut informan:

... Setakat Sadaqa House punya sumbangan tu masih lagi sedikit, berbanding dengan benda yang lain, berbanding dengan real economy, dan elemen lain lagi dalam VBI tu kan...Jadi, kita tak adalah tonjolkan Sadaqa House tu within big framework of the VBI scorecard...

Kurangnya promosi dan pendedahan awal kepada masyarakat menyebabkan *Sadaqa House* sukar untuk bersaing dengan platform kutipan amal lain seperti Ethis Group, Launchgood, dan pitchIN, yang mengenakan caj pengurusan antara 2% hingga 5% bagi menampung kos operasi dan promosi. Berbeza dengan platform-platform tersebut, *Sadaqa House* menyalurkan 100% sumbangan kepada penerima manfaat tanpa mengambil sebarang bayaran pengurusan. Walaupun pendekatan ini mencerminkan komitmen BIMB terhadap kebajikan penerima, namun ia telah membataskan keupayaan promosi dan pengembangan program. Oleh yang demikian, BIMB kini merancang untuk mendaftarkan *Sadaqa House* sebagai entiti berasingan bagi membolehkan pengembangan operasi yang lebih luas, termasuk pemerolehan aset dan pelaburan hartanah. Sebagai contoh, inisiatif wakaf Annur di Johor. Langkah ini diharap dapat memperluaskan lagi skop dan keberkesanan *Sadaqa House* dalam jangka masa panjang.

Komitmen penerima manfaat

Cabaran ketiga berkaitan dengan komitmen penerima manfaat dalam mengekalkan prestasi perniagaan selepas menerima bantuan dana terutama dalam kalangan usahawan yang terlibat dalam program BangKIT. Terdapat situasi yang mana penerima manfaat menganggap penyampaian maklumat mengenai prestasi perniagaan sebagai sesuatu yang tidak perlu dan bersifat peribadi. Sebagai contoh, Ustaz Zikri menyatakan:

...Eh itu aku punya rahsia la kan? Kenapa Bank Islam nak tahu? Sibuk...

Masalah seperti ini timbul apabila usahawan tidak memahami kepentingan pemantauan prestasi dan pelaporan yang bersistematik. BIMB menyedari bahawa mereka perlu memberi pendidikan kepada usahawan tentang kepentingan laporan dan maklumat kewangan dalam membantu perkembangan perniagaan mereka. Perkara utama yang ditekankan sebenarnya ialah penerima manfaat memainkan peranan penting dalam memastikan kejayaan perniagaan mereka agar hasilnya tidak terhenti di pertengahan jalan.

Berhubung dengan hal ini, Ustaz Zikri turut berkongsi pengalaman tentang terdapat salah seorang usahawan menunjukkan peningkatan ketara dalam tempoh tiga bulan pertama, namun perniagaannya merosot selepas itu. Setelah membuat lawatan kawasan dan menilai keadaan, BIMB mendapati bahawa kelemahan produk, seperti rasa makanan yang kurang memuaskan, merupakan faktor utama kemerosotan tersebut. Sebagai langkah penyelesaian, BIMB mengambil pendekatan berdasarkan kes (*case-to-case basis*), termasuk mencari pakar untuk membantu usahawan tersebut memperbaiki kualiti produk mereka. Pendekatan ini mencerminkan usaha BIMB dalam mencari penyelesaian berkesan bagi menangani cabaran yang dihadapi oleh penerima manfaat, di samping menggalakkan mereka untuk terus komited terhadap perniagaan mereka. Hal ini juga menggambarkan usaha BIMB dalam memastikan keberkesanan dan ketelusan dalam pengurusan dana serta memupuk sikap bertanggungjawab dalam kalangan penerima manfaat.

Kerjasama penerima dana dalam penyediaan rekod perniagaan

Cabaran keempat melibatkan kesukaran mendapatkan kerjasama penerima dana dalam penyediaan rekod perniagaan yang bersistematik. Walaupun penerima dana pada awalnya menunjukkan komitmen dalam melaporkan perkembangan perniagaan, namun tahap kerjasama mereka sering merosot selepas beberapa tahun beroperasi. Kekurangan maklumat ini menyukarkan BIMB untuk menilai kemajuan perniagaan dan mengenal pasti sebarang masalah yang dihadapi. Oleh itu, bagi menangani cabaran ini, BIMB kini sedang membangunkan sebuah aplikasi yang membolehkan usahawan merekod jualan harian dan menghasilkan penyata kewangan secara automatik. Berhubung perkara ini Ustaz Zikri menjelaskan bahawa:

...Kita tengah nak onboard aplikasi supaya usahawan-usahawan kita dekat BangKIT tadi kan, dia tak payah nak isi borang untuk dihantar... dia boleh print satu financial statement...

Aplikasi ini juga akan dilengkapi dengan elemen *gamification* bagi memberi ganjaran kepada usahawan yang berjaya mencapai prestasi perniagaan memberangsangkan. Langkah ini bertujuan memotivasikan usahawan untuk terus berusaha dalam perniagaan mereka serta memastikan ketelusan dalam pemantauan prestasi.

Secara keseluruhannya, cabaran-cabaran yang dihadapi oleh BIMB dalam pelaksanaan inisiatif *Sadaqa House* telah membuka ruang untuk penambahbaikan dan inovasi yang berterusan. Bermula daripada persepsi masyarakat yang skeptikal hingga kepada isu kutipan dana yang terhad, BIMB berjaya mengadaptasi pendekatan baharu untuk memastikan *Sadaqa House* kekal relevan dan berdaya saing. Cabaran berkaitan komitmen penerima manfaat dan penyediaan rekod perniagaan juga mencerminkan keperluan kepada pendidikan berterusan serta sistem sokongan yang lebih berkesan. Inisiatif seperti penggunaan teknologi melalui aplikasi pemantauan kewangan dan pendekatan berdasarkan kes menunjukkan kesungguhan BIMB dalam menyelesaikan isu-isu yang timbul, sekali gus memastikan impak positif *Sadaqa House* dapat terus dinikmati oleh penerima manfaat dalam jangka panjang. Hal ini selaras dengan peranan institusi perbankan dalam mengukuhkan peranannya bukan sahaja sebagai penyedia perkhidmatan kewangan, tetapi juga sebagai pemangkin penyelesaian pembiayaan bagi menangani isu kemasyarakatan yang lebih luas (Shafruddin dan Shahimi, 2024). Kesimpulannya, meskipun BIMB menghadapi pelbagai cabaran, penyelesaian strategik yang diketengahkan membuktikan komitmen berterusan mereka dalam memperkasakan pelaksanaan *Sadaqa House* sebagai salah satu inisiatif VBI yang berkesan.

5. KESIMPULAN

Kajian ini bertujuan untuk meneroka peranan *Sadaqa House* sebagai inisiatif utama *VBI* di BIMB serta mengenal pasti cabaran-cabaran yang dihadapi dalam pelaksanaannya. Hasil kajian mendapati bahawa *Sadaqa House* telah memberi sumbangan penting dalam memperkasakan komuniti melalui pelbagai program sosial, termasuk pembiayaan mikro, pendidikan, kesihatan, dan kelestarian alam sekitar. Keberhasilan inisiatif ini disokong oleh pengurusan dana yang terancang, penglibatan penggerak perubahan, serta pendekatan kolaboratif yang menyeluruh. Namun, meskipun terdapat pelbagai cabaran seperti persepsi yang skeptikal daripada masyarakat, kutipan dana yang terhad, dan komitmen penerima manfaat dalam menguruskan perniagaan yang dibiayai, BIMB berjaya mengadaptasi strategi baharu yang lebih berkesan. Antara langkah yang telah diambil termasuk penggunaan teknologi dalam pemantauan kewangan serta penambahbaikan model pendanaan.

Oleh itu, bagi memastikan keberkesanan jangka panjang inisiatif *Sadaqa House*, pengukuhan tadbir urus dan pengurusan dana yang telus merupakan faktor kritikal yang perlu diberikan perhatian serius. Selain itu, dapatan kajian ini juga mampu memberikan panduan kepada institusi kewangan untuk terus mengembangkan program *VBI* serta menyumbang kepada pembangunan sosial dan ekonomi yang lebih inklusif. Walau bagaimanapun, kajian yang dilaksanakan ini terhad kepada inisiatif *Sadaqa House* yang dilaksanakan oleh BIMB sahaja. Oleh itu, kajian ini wajar diperluaskan lagi pada masa akan datang dengan melihat kepada kajian kes bagi pelaksanaan inisiatif *VBI* oleh institusi perbankan Islam yang lain di Malaysia. Hal ini bukan sahaja dapat memberikan gambaran yang lebih menyeluruh tentang keberkesanan inisiatif *VBI* dalam sektor perbankan Islam di Malaysia, malah ia juga membolehkan perbandingan dibuat bagi mengenal pasti amalan terbaik serta cabaran yang dihadapi oleh setiap institusi perbankan Islam yang ada di Malaysia. Dengan itu, kajian yang meluas tersebut dapat menjana input penting serta relevan yang dapat membantu memperkukuhkan lagi dasar dan garis panduan pelaksanaan inisiatif *VBI* dalam sektor perbankan Islam di Malaysia agar memberikan impak positif secara mampan terhadap pembangunan masyarakat, ekonomi, sosial dan alam sekitar.

PENGHARGAAN

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EXAMINING THE EFFECTS OF SELF-EFFICACY AND FACILITATING CONDITION ON PERCEIVED BEHAVIOURAL CONTROL TOWARDS FUTURE MUZAKKI

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ABSTRACT

The paper focuses on understanding the effect of self-efficacy and facilitating condition on the behavioural intentions of civil officers in Malaysia to be the future *muzakki*. In this study, a theoretical framework extracted from the Theory of Planned Behaviour (TPB) is applied to understand the factors associated with perceived behavioural control and intentions to be future *muzakki*. The study further believes that the theory will appreciate the factors that determine civil officers' intention to be a *muzakki*. Hence, though this research is one of the first attempts in this regard, it recognises some limitations in terms of the scope of theories, variables, and geographical coverage that risks or merits further research. The purpose of this study is to examine the governance practices of *zakat* institutions in Malaysia, especially in fostering trust and strengthening the willingness of civil officers' to contribute to *zakat* through formal channels. Finally, this article presents an examination of the effects of self-efficacy and facilitating condition on perceived behavioural control towards future *muzakki*. It contributes to the development of the existing theoretical framework by applying a novel theoretical synthesis.

KEYWORDS: BEHAVIOUR, ISLAMIC SOCIAL FINANCE, MUZAKKI, ZAKAT, MALAYSIA

ABSTRAK

Kajian ini memfokuskan untuk memahami kesan efikasi sendiri dan keadaan yang memudahkan ke atas niat tingkah laku penjawat awam di Malaysia untuk menjadi bakal pembayar *zakat*. Dalam kajian ini, kerangka teori yang diekstrak daripada Teori Tingkah Laku Terancang (TPB) digunakan untuk memahami faktor-faktor yang dikaitkan dengan kawalan tingkah laku yang ditanggapi dan niat untuk menjadi bakal pembayar *zakat*. Kajian selanjutnya percaya bahawa teori tersebut akan menghayati faktor-faktor yang menentukan hasrat penjawat awam untuk menjadi *muzakki*. Oleh itu, walaupun penyelidikan ini merupakan salah satu percubaan pertama dalam perkara ini, kajian ini mengalami beberapa batasan dari segi skop teori, pembolehubah, dan liputan geografi yang berisiko atau memerlukan penyelidikan lanjut. Kajian ini bertujuan untuk meninjau amalan tadbir urus institusi *zakat* di Malaysia khususnya dalam memupuk amanah dan mengukuhkan kesanggupan masyarakat Islam untuk menyumbang *zakat* melalui saluran formal. Akhir kata, artikel ini membentangkan kajian kesan efikasi sendiri dan keadaan yang memudahkan terhadap kawalan tingkah laku yang dirasakan

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terhadap bakal pembayar *zakat* dan menyumbang kepada pembangunan rangka kerja teori sedia ada dengan menggunakan sintesis teori yang baru.

KATA KUNCI: *TINGKAH LAKU, KEWANGAN SOSIAL ISLAM, MUZAKKI, ZAKAT, MALAYSIA*

1. INTRODUCTION

Zakat has increasingly been accepted worldwide as a financial tool that can help fight wealth inequality and eradicate poverty in Muslim societies. As one of the five pillars of Islam, *zakat* is not just religiously mandatory but also an economic system designed to fight social injustice (Qardawi, 1973). Globally, greater awareness of the potential of *zakat* has forced the majority of Muslim nations to enhance institutional governance mechanisms to increase the effectiveness of the disbursement of *zakat*, especially to the needy categories known as *asnaf* (Qardawi, 1973). Effective administration of *zakat* is considered a key element to guarantee that *zakat* reaches its potential for improving the economic welfare of the Muslim *ummah*.

Zakat is administered centrally by the State Islamic Religious Councils (SIRCs) in Malaysia to have a structured and coordinated process of collection and distribution. The state model was adopted to institutionalise the management of *zakat* to have uniformity in management and alignment with Islamic concepts (JAWHAR, 2024). *Zakat* donations are collected for general purposes such as poverty reduction, education bursaries, healthcare, development of infrastructure, and support for people in need. Selangor has the largest *zakat* collection and disbursement in Malaysia due to its natural resources, networks, and commercialisation (JAWHAR, 2024). However, despite the institutional frameworks put in place, the Malaysian *zakat* system still suffers from perennial issues such as low rates of collection relative to potential and public mistrust of the efficiency of disbursement (Tuan Mahmood *et al.*, 2021). Some donors are still inclined towards donating *zakat* directly to the recipients (*asnaf*) rather than channelling them through institutional mechanisms, an indication of a lack of confidence between the Muslim community and *zakat* institutions (Rahman *et al.*, 2012). Fairness, transparency, and governance deficits remain the essence of Malaysian *zakat* institutions (Rahman *et al.*, 2012).

Although *zakat* is religiously obligatory, people's willingness to channel *zakat* through proper institutions also hinges on the extent of their trust in the governance policies of the institution. What differentiates this study is that it seeks to examine the governance drivers, such as accountability, transparency, and integrity, which influence trust in *zakat* institutions. Unlike other research with a focus on compliance primarily or the functional role of *zakat*, this research is concerned with the relationship between governance quality and public trust and how indirectly these affect *zakat* contribution behaviour. This knowledge gap necessitates more research on the impact of these factors on their decisions. The theory of planned behaviour (TPB) is used in this study to fill such gaps and underscore the fact that civil officers are becoming future *muzakki*. Malaysian *zakat* donations depend on the growth of *muzakki*, or contributors. The focus of this study is to examine the practice of the governance of *zakat* institutions in Malaysia, with a special interest in how to establish trust and strengthen the commitment of the Muslim community to giving *zakat* in formal forms. The study endeavours to provide realistic suggestions that could improve the mechanism of governance as well as contribute to making the social and economic impact of *zakat* distributions grow.

There are multiple reasons why this study is important. First, it fills a significant need in the literature by investigating what motivates civil officers to become *muzakki* in future, and this is important for the continuation of *zakat* donations in Malaysia. This study delves into the motives and challenges faced by civil officers by analysing their self-efficacy and facilitating condition. It reveals important factors that influence how they see their ability to manage their behaviour. Additionally, policymakers and *zakat* institutions may put this study's conclusions into practice. Strategies to encourage increased involvement in *zakat* can be informed by analysing the elements that influence the propensity of civil officers to become *muzakki*. This will ensure that Islamic charitable donations can be sustained in the future. Gaining a better understanding of the factors that influence civil officers' *zakat* participation

can also aid in the design of more effective educational and outreach initiatives. In all, the primary aim of this study is to investigate exploring the impact of self-efficacy and facilitating condition on perceived behavioural control and intentions of civil officers to become future *muzakki*.

2. LITERATURE REVIEW

Zakat system in the world

The *zakat* system, a fundamental tenet of the Islamic faith, is a powerful tool for addressing poverty, wealth redistribution, and social justice worldwide. Originating in the *Quran* and *Hadith*, it is guided by principles of obligatory charity, wealth redistribution, and recipients of *zakat* (Al-Qaradawi, 1999). *Zakat* is mandatory for all Muslims who meet certain criteria and is collected and distributed in different ways in different countries. Countries like Saudi Arabia and Kuwait collect large amounts of *Zakat* due to their oil wealth, while others collect relatively small amounts. *Zakat* is often used to support social welfare programmes, education, healthcare, and poverty alleviation (Al-Qaradawi, 1999). The *zakat* system extends beyond national borders, with notable examples in Saudi Arabia, Malaysia, Indonesia, Qatar, and International Organisations (Hammad, 2022). Saudi Arabia has established charitable organisations to channel *zakat* funds to needy individuals and communities worldwide. Malaysia's *zakat* system integrates traditional Islamic principles with modern administrative practices to promote economic and social justice. Indonesia has a well-organised *zakat* collection and distribution system. At the same time, Qatar has created sophisticated mechanisms to manage and distribute *zakat* (Hammad, 2022).

Despite challenges such as ensuring transparency, effective governance, and reducing administrative costs, *zakat* presents opportunities for strengthening international cooperation and solidarity among Muslims to address global poverty, healthcare, and education needs. By integrating traditional values with modern administrative practices and technology, *zakat* is making a positive impact on the lives of the less fortunate, both within and beyond national borders (Hammad, 2022).

The concept of muzakki in Islamic economics

One of the five pillars of Islam, *zakat* is paid by those designated as *muzakki* designators. Integral to Islamic economic systems, *zakat* is a means of income redistribution that promotes social justice and helps to reduce poverty (Al-Qaradawi, 1999). Still, a lot of the present research focuses on the processes of *zakat* distribution carried out by institutions (Hindardjo & Evi, 2022), with little regard paid to the behavioural factors driving people, especially civil officers, to become future *muzakki*. Understanding the reasons behind this group is crucial since they represent the future generation of donors, so ensuring the lifetime of *zakat* systems in nations with a majority of Muslims.

Moreover, *muzakki* behaviour is greatly shaped by knowledge of the socio-psychological drivers such as religiosity, perceived social obligation, and trust in *zakat* institutions (Huda *et al.*, 2012). These components improve voluntary donations over the required level in addition to *zakat* compliance. Tailoring engagement tactics to fit civil officers' ethical and intellectual objectives becomes essential as they are more and more exposed to global values and financial literacy (Raimi *et al.*, 2014). Therefore, encouraging among this population a feeling of responsibility and spiritual fulfilment would help to create a more sustainable and powerful *zakat* ecosystem over time.

Self-efficacy and its role in charitable behaviour

Self-efficacy is a person's belief in their ability to complete specific tasks or behaviours (Bandura, 1977). Under the framework of religious obligations such as *zakat*, self-efficacy can greatly affect civil officers' view of their capacity to occupy the role of a *muzakki*. Prior studies have indicated that individuals with high self-efficacy are more likely to engage in prosocial behaviours, including philanthropic acts and volunteering (Schunk & Pajares, 2005).

Moreover, in the framework of Islamic generosity, *zakat* payment is not merely a financial requirement but also a representation of one's spiritual and moral responsibilities. When Muslims believe they are capable of executing this job effectively, they are more inclined to absorb the role of

muzakki as part of their identity. This fits with Ajzen's TPB, where self-efficacy (or perceived behavioural control) directly influences intention and, subsequently, behaviour (Ajzen, 1991). Therefore, efforts focused on improving self-efficacy, such as financial literacy education, transparent *zakat* systems, and peer-led religious engagement, could greatly enhance their desire to give, assuring continuous participation in the *zakat* ecosystem in the long run.

Facilitating condition and behavioural intentions

Facilitating condition relate to external elements or resources that can either promote or hinder an individual's capacity to undertake a given behaviour. In the context of civil officers' *zakat* donations, these factors cover technological, institutional, and social elements that can facilitate or obstruct the process. Understanding these favourable conditions includes analysing aspects such as accessibility of payment platforms, institutional transparency, religious instruction, and the availability of trusted *zakat* collecting channels (Azalan *et al.*, 2022).

Studies have demonstrated that streamlining the donation process through user-friendly digital platforms or automated contributions significantly improves philanthropic donations (Sharma & Morwitz, 2016). Furthermore, facilitating situations is directly linked to practical self-efficacy. When individuals sense that structural supports are in place, such as secure online portals, clear guidance from religious authorities, or peer encouragement, their confidence to participate as proactive contributors increases (Venkatesh *et al.*, 2003).

In addition, recent research suggests that the adoption of digital platforms such as quick response code (QR) for *zakat* payments considerably enhances behavioural intention, especially among Muslims who value convenience, efficiency, and institutional legitimacy (Rahmawati & Nurdin, 2023). Educational programs that promote understanding of *zakat*'s significance and relevance also serve as important facilitating condition, further strengthening one's incentive to donate (Abd Jalil *et al.*, 2023). Therefore, by strengthening favourable conditions through digital innovation, institutional transparency, and outreach efforts civil officers are more likely to consider themselves as capable and responsible *muzakki*, thereby promoting the sustainability of *zakat* systems in Muslim countries.

Theory of Planned Behaviour (TPB)

Ajzen (1991) developed TPB, which is a well-known psychological framework for predicting and understanding intention-shaped behaviours. According to TPB, attitude, subjective standards, and perceived behavioural control (PBC) all influence intention, the major predictor of behaviour. Attitude refers to an individual's favourable or negative assessment of certain behaviour. In contrast, subjective norms pertain to the impact of societal influences on decision-making. PBC, on the other hand, reflects an individual's perspective of their capacity to carry out the behaviour, which is influenced by previous experiences and predicted barriers. In the context of Islamic finance, particularly *zakat*, TPB is a useful theory for understanding individuals' behavioural intentions to complete religious responsibilities.

Next, TPB explains how people perceive *zakat* (attitude), respond to societal expectations (subjective norms), and assess their willingness and ability to comply (PBC). Furthermore, incorporating self-efficacy and facilitating condition enriches this approach. Self-efficacy, as defined by Bandura (1977), complements PBC by focusing on an individual's belief in their capacity to complete a task. Facilitating condition, which reflect external facilitators or barriers, have a greater influence on intentions, especially when considering the ease of giving to *zakat* (Sharma & Morwitz, 2016). Previous research by Rehman *et al.* (2021) has shown that TPB is successful at explaining philanthropic behaviours in a variety of cultural and religious contexts, emphasising its relevance in Islamic finance. The incorporation of self-efficacy and facilitating condition into this study adds a new dimension to understanding civil officers' willingness to become future *muzakki*.

Development of the conceptual framework

TPB was chosen for this study to explore the impact of self-efficacy and facilitating condition on perceived behavioural control and intentions of civil officers to become future *muzakki*. TPB offers a

comprehensive framework for understanding human behaviour (Ajzen, 1991). It breaks down self-efficacy, facilitating condition, and perceived behavioural control, providing a more nuanced understanding of the factors driving behavioural intentions. TPB enhanced predictive power and contextually meaningful analysis of *zakat* giving behavioural intentions among civil officers in Malaysia.

Figure 1 below shows the model of this study.

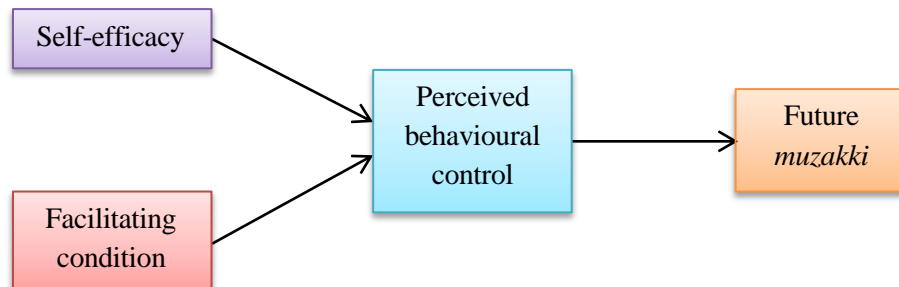


FIGURE 1: RESEARCH FRAMEWORK

Source: Figure by Author

This study only considers self-efficacy and facilitating condition as the main predictors of perceived behavioural control since these are the most relevant and applicable in the *zakat* contribution context. Self-efficacy refers to the belief that a Muslim performs *zakat*, and facilitating condition refer to the support and means at their disposal, such as payment systems and institutional services. The model was then restricted to include these two variables to simplify analysis and specificity to the Malaysian *zakat* scenario. Additional variables could render the model too general and inapplicable to practical *zakat* governance enhancement.

As shown in Figure 1, this study investigates the relationship between two independent under the TPB, which are self-efficacy and facilitating condition on civil officers' perceived behavioural control norm towards the dependent variable (future *muzakki*). Thus, three hypotheses were developed.

H₁: Self-efficacy has a significant influence on civil officers' perceived behavioural control norm towards behavioural intentions to be future *muzakki*.

H₂: Facilitating condition have a significant influence on civil officers' perceived behavioural control norm towards behavioural intentions to be future *muzakki*.

H₃: Perceived Behavioural Control has a positive influence on civil officers' to be future *muzakki*.

Research gaps

Much research has been done on some aspects of *zakat* behaviour. However, not many studies have looked at how self-efficacy and facilitating condition affect the behaviour plans of civil officers. Also, it has not been fully looked into how Islamic morals can be combined with behavioural ideas like TPB. To fill in these gaps, this study offers a conceptual framework that includes both behavioural and religious factors. This gives us a more complete picture of the factors that make civil officers intend to become future *muzakki*.

Evidence gap

A notable evidence gap exists in the empirical research concerning the behavioural intentions of civil officers in Malaysia to become future *muzakki*. Although the literature acknowledges the influence of cultural, religious, and socio-economic factors on philanthropic actions, there is a scarcity of empirical studies that specifically focus on this demographic. Most existing research generalises findings across broader demographic categories, thus overlooking the unique characteristics and behaviours of civil officers. For instance, while studies like those by Al-Qaradawi (1999) provide

valuable insights into *zakat*, they lack direct citations to primary sources, limiting their empirical rigour. Similarly, a research by Hindardjo and Evi (2022) does not find a significant positive effect of certain variables on *zakat* behaviour. However, it failed to address the specific behavioural intentions of civil officers. (Aziz, 2019; Abashah *et al.*, 2018) also contribute to understanding *zakat* but do not sufficiently address the specific intentions of future *zakat* givers or the significant factors influencing these intentions. Those papers do not significantly discuss self-efficacy and facilitating condition that influence civil officers' behavioural intentions to become future *muzakki*.

Knowledge gap

While existing literature covers various aspects of *zakat* giving, there is a lack of comprehensive studies that integrate these factors into a cohesive framework. For instance, Al-Qaradawi's (1999) study, while comprehensive in discussing *zakat* from multiple perspectives, lacks direct citations to classical and contemporary texts that could enhance its academic rigour. Additionally, studies such as those by Hindardjo and Evi (2022) focus on current *zakat* behaviours rather than future intentions. Abashah *et al.* (2018) investigate *zakat* compliance among government servants without addressing future intentions. There is also a need for a focused study that finds the factors that influence perceived behavioural control among civil officers. This research aims to show that self-efficacy and facilitating condition can affect civil officers to become *muzakki* in future.

Empirical gap

A study by Saad and Al Foori (2020) reveals that self-efficacy and facilitating condition significantly influence individuals' intentions to pay *zakat* in Malaysia. While over 70% of respondents were aware of *zakat*'s stipulations, many felt a lack of enforcement and regulation contributed to their reluctance to pay. Additionally, 55% of respondents believed there was no proper collection and distribution process for *zakat*, which could hinder effective payment (Yousef *et al.*, 2020). Improving facilitating condition and automatic deductions from bank accounts could enhance self-efficacy and encourage *zakat* payers. Self-efficacy refers to an individual's belief in their capability to execute a particular action (Bandura, 1977).

Next, according to a past study by Al-Qaradawi (1999), people are more inclined to participate in *zakat* when they have faith in their ability to manage their finances and recognise its significance. Conversely, supportive environments include the availability of resources (Sharma & Morwitz, 2016), like knowledge about *Zakat* guidelines and computations, community support, and financial security. These circumstances foster an atmosphere that motivates people to carry out their plans to pay *zakat* (Hagger *et al.*, 2017). For example, having a community that supports people and provides clear instructions for *zakat* responsibilities will greatly encourage people to perform their *zakat* commitments, which in turn promote social welfare and economic justice. In summary, we can see where the past research that scholars have done has proven that self-efficacy and facilitating condition greatly influence the behaviour of individuals to pay *zakat* in the future.

3. METHODOLOGY

This study uses a descriptive research design to investigate the behavioural factors that influence civil officers to become *zakat* payers (*muzakki*) in the future. The primary emphasis is on three essential constructs: self-efficacy, facilitating condition, and perceived behavioural control, as these factors are critical in establishing an individual's intention to fulfil *zakat* responsibilities. Self-efficacy relates to an individual's belief in their capacity to carry out behaviour, such as achieving the *zakat* obligation. External resources, support systems, or circumstances that make it easier or more challenging to make *zakat* payments are examples of facilitating condition (Sharma & Morwitz, 2016). Perceived behavioural control, a key component of TPB, refers to an individual's assessment of their ability to carry out the behaviour based on their control over relevant variables (Ajzen, 1991). These factors influence the intention of giving to *zakat*. This Islamic obligation promotes the distribution of wealth and social justice.

Furthermore, the study focuses on civil officers because they are more exposed to changes in their environment, such as technical developments, socioeconomic transformations, and developing cultural standards (Bandura, 1977). As the next generation of prospective *muzakki*, their behaviour and views have a huge impact on the long-term viability of *zakat* donations. Furthermore, the growth of the Muslim community (*ummah*) is strongly reliant on its members' active participation in social financing mechanisms such as *zakat*. Understanding the motivations and barriers that civil officers encounter is crucial to ensuring the long-term viability and expansion of *zakat* payers (Al-Qaradawi, 1999). If these concerns are not addressed effectively, involvement may decline, which could hurt the community's well-being. To achieve these goals, the researcher conducts surveys among Malaysian Muslims. This approach assures that the study is based on valid and legitimate data. Using current literature and *zakat* statistics, the researcher can uncover crucial factors that are strongly related to an individual's intention to become a *zakat* payer. Understanding the relationship between facilitating condition such as the availability of digital payment systems or accessible *zakat* education campaigns and intention is critical when developing measures to encourage *zakat* compliance.

Research design

The study uses TPB as a theoretical framework to investigate and explain the elements that influence *zakat* payment behaviour (Ajzen, 1991). TPB provides a solid framework for understanding how attitudes, subjective norms, and perceived behavioural control influence intentions. By applying TPB to the determining of *zakat*, this study contributes to a better understanding of the internal and external forces that inspire civil officers to participate in *zakat* giving actively. Finally, the findings aim to give policymakers, Islamic institutions, and *zakat* administrators practical insights for increasing participation rates and ensuring the long-term viability of *zakat* as a pillar of Islamic social finance.

Measurement scales

This study adopted a structured questionnaire as the major instrument for data collection, focusing on three key constructs: self-efficacy, facilitating condition, and perceived behavioural control. Fifteen items in all were meant to gauge these factors. Aiming to guarantee wide coverage of the Malaysian Muslim community, the questionnaire was issued to Muslim respondents aged between 25 and 45 years throughout Malaysia. Snowball sampling was performed to reach this specific target group, as it is regarded as successful in identifying populations with distinct traits that may be difficult to contact through random samples.

Next, the choice of the sample size followed the recommendation offered by Hair *et al.* (2014), which suggests a minimum of 10 respondents for each questionnaire item in structural equation modelling (SEM). Given 15 items overall, the minimum suggested sample size would be 150 responses (15 items \times 10 = 150). However, to enhance the robustness, reliability, and generalizability of the research findings, the study collected a total of 650 valid replies, significantly beyond the minimum criteria. Lastly, to enhance clarity and avoid misinterpretation, the questionnaire was developed in both English and Malay. This bilingual method enabled respondents to completely grasp each question, contributing to the quality and precision of the obtained data. Out of the 650 questionnaires issued, all were returned and judged usable, resulting in a 100% response rate and improving the validity of the study.

4. FINDINGS AND DISCUSSION

The demographic composition of the respondents, as presented in Table 1, provides useful insights into the population profile relevant to this investigation. A total of 650 persons participated, with a noteworthy female majority, 63.2% female compared to 36.8% male. The ethnic makeup remained highly homogenous, with 99.4% identifying as Malay and the remaining 0.6% as other ethnicities. All responses declared Islam, aligning with the ethnic composition and underlining the religious uniformity characteristic among Malay-majority institutions. The largest age group came within the 31–35 years range (52.3%), followed by those aged 36–40 (19.7%) and 25–30 years (14.2%), demonstrating that the majority of respondents were early to mid-career professionals. Educational attainment was extremely high, with 58.2% holding a bachelor's degree and 24.9% a master's degree.

Although only 2% had acquired a PhD, this nonetheless illustrates the existence of advanced degrees throughout the profession. A lower number (14.9%) possessed pre-university or diploma-level credentials. Notably, all participants were working in the government sector, validating the focused sampling of public sector personnel. In terms of marital status, 60.6% were single, compared to 39.4% who were married, potentially suggesting delayed marriage tendencies among urban, career-oriented persons. Such demographic patterns reflect prior studies showing the growing socio-economic profile, educational development, and gender dynamics within Malaysia's public sector (Abdullah *et al.*, 2023).

TABLE 1: DEMOGRAPHIC RESULTS

Demographic Variables	Categories	Frequency	Percentage
Gender	Male	239	36.8
	Female	411	63.2
Ethnic	Malay	646	99.4
	Others	4	0.6
Religion	Islam	650	100.0
Age	25 – 30 years old	92	14.2
	31 – 35 years old	340	52.3
	36 – 40 years old	128	19.7
	41 – 45 years old	90	13.8
Education	Matriculation/STPM/STAM/Diploma	97	14.9
	Bachelor's Degree	378	58.2
	Master's Degree	162	24.9
	Doctor of Philosophy (PhD)	13	2
Occupation	Government Sector	650	100
	Others	0	0
Marital Status	Single	394	60.6
	Married	256	39.4

Source: Table by Author

The findings of factor analysis for the two primary constructs, self-efficacy and facilitating condition, that explain the training and assistance required to become a future *muzakki* (*zakat* contributor) are shown in Table 2. Five items make up the self-efficacy construct, which measures an individual's self-assurance and comprehension of the value and advantages of being a *muzakki*. All of the items in the self-efficacy have factor loadings between 0.767 and 0.854, indicating that they all strongly represent the construct. Next, five additional items make up the facilitating condition construct, which focuses on the availability of resources and outside assistance, such as knowledge, planning time, and financial readiness, that aid in preparing someone for the role of *muzakki* (Bandura, 1977; Sharma and Morwitz, 2016; Glasman and Albarracin, 2006). With factor loadings ranging from 0.814 to 0.895, facilitating condition has strong factor loadings. According to the analysis, self-efficacy accounts for 18.811% of the variance.

In contrast, facilitating condition accounts for 56.783%, indicating that external support is more important in this situation. The data's suitability for factor analysis is confirmed by Bartlett's Test of Sphericity ($p < 0.001$) and the Kaiser-Meyer-Olkin (KMO) value of 0.782. To put it briefly, facilitating condition emphasises the significance of having adequate resources and support to become a future *muzakki*, whereas self-efficacy gauges motivation and self-assurance.

TABLE 2: FACTOR LOADINGS

Item	SEF	FC
<i>Self-efficacy</i>		
I know enough to be a Future <i>Muzakki</i> is important to me.	.829	
Being able to choose my plan to be a Future <i>Muzakki</i> is beneficial to me.	.803	
I know enough about my decision to be a <i>muzakki</i> in future.	.767	

I know being a Future <i>Muzakki</i> will benefit other people.	.829	
It is easy for me to stick to a plan to be a Future <i>Muzakki</i> .	.854	
<i>Facilitating condition</i>		
I have the time to think about my plan to be a <i>muzakki</i> .		.895
I can be a Future <i>Muzakki</i> .		.844
I have well-controlled financial planning to be a Future <i>Muzakki</i> .		.814
I know necessary to be a Future <i>Muzakki</i> .		.835
Being a Future <i>Muzakki</i> is important for the community.		.892
Eigen Value	1.881	5.678
Variance explained	18.811	56.783
Kaiser-Meyer-Olkin Measure of Sampling Adequacy		.782
Bartlett's Test of Sphericity	6096.461	
Significant		.000

Source: Table by Author

As stated in Table 3, this study examined the correlation between future *muzakki*, perceived behavioural control, facilitating condition, and self-efficacy. The findings indicate that individuals are more likely to plan for their future role as *zakat* contributors if they have strong support and resources surrounding them and feel confident in their abilities (Bandura, 1977). Future *muzakki* is strongly and favourably associated with both self-efficacy and facilitating condition. Additionally, there is a strong correlation between facilitating condition and self-efficacy, indicating that the more support someone receives, the more confident they feel (Glasman & Albarracín, 2006). The relationship between perceived behavioural control and the other three variables is weaker but still significant. This implies that even though perceived behavioural control is less important, it still has an impact on people's perceptions of their readiness and ability to become future *muzakki*.

TABLE 3: CORRELATION

Variables	PBC	SEF	FC	FM
Perceived Behavioural Control (PBC)	1			
Self-Efficacy (SEF)	.109**	1		
Facilitating Condition (FC)	.109**	.724**	1	
Future <i>Muzakki</i> (FM)	.100*	.721**	.752**	1

Notes:

* Correlation is significant at the 0.05 level (2-tailed).

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

Source: Table by Author

Meanwhile, Table 4's findings demonstrate the relationship between perceived behavioural control, self-efficacy and facilitating condition. The model has a high predictive power because it accounts for roughly 79% of the variations in perceived behavioural control. The greatest influence comes from self-efficacy, which shows how confident a person is in their capacity to complete a task. This implies that a person's perception of their control over their behaviour increases with their level of confidence (Bandura, 1977). Additionally, beneficial is the "facilitating condition," which describes the resources and assistance that are available. People feel more in control when they have access to the appropriate resources and assistance. Overall, the study shows that people can feel capable of controlling their behaviour with the help of both external support and personal confidence, with confidence playing a bigger role.

TABLE 4: MULTIPLE REGRESSION

Dependent Variable	Independent Variables	Standardised Coefficient Beta	t-value	Sig
Perceived Behavioural Control	Self-efficacy	.299	4.851	.035
	Facilitating Condition	.161	2.880	.019
	R Square		.790	

Adjusted R Square	.788
Std. Error of the Estimate	.32343
Durbin – Watson	1.819

Source: Table by Author

In summary, this study's findings contribute significantly in several ways. First, the factor loading results verify that all of the measurement items for future *muzakki*, perceived behavioural control, facilitating condition, and self-efficacy are robust and accurately reflect their constructs. This guarantees the validity and reliability of the instruments used to measure these variables. The correlation analysis then reveals significant and unambiguous relationships between the variables, emphasising the close ties among future *muzakki*, facilitating condition, and self-efficacy. This implies that future intentions to become a *muzakki* are significantly shaped by both personal confidence and outside assistance. Finally, the multiple regression analysis further strengthens these insights by showing that self-efficacy and facilitating condition significantly influence perceived behavioural control, with self-efficacy having the strongest effect. Together, these findings help to clarify how individual beliefs, the available support system, and control influence future intentions. This knowledge can help formulate policies and educational initiatives that will promote future *muzakki* behaviour in the community.

5. CONCLUSION, CONTRIBUTIONS, LIMITATIONS AND FUTURE RESEARCH

This study intends to investigate the characteristics that affect Malaysian Muslims' behavioural aspirations to become future *muzakki*. Specifically, it analyses how self-efficacy and enabling circumstances influence perceived behavioural control, which in turn affects the intention to fulfil *zakat* responsibilities. It is based on TPB. TPB gives a clear framework for appreciating how a combination of attitudes, subjective norms, and perceived behavioural control influences people's decisions about *zakat* contributions. The results underline the relevance of self-efficacy, suggesting that readiness to give is greatly influenced by one's belief in one's capacity to complete *zakat* responsibilities. Supportive features, including the simplicity of *zakat* payment, institutional support, and availability of necessary resources, significantly enhance perceived behavioural control, making *zakat* giving both practical and enticing.

Theoretically, this study expands TPB by integrating self-efficacy and enabling contexts as major beginnings to perceived behavioural control in the context of Islamic philanthropy. It contributes to Islamic behavioural finance literature by contextualising *zakat* payment intention within psychological and environmental dimensions relevant to Muslim societies. Practically, the findings offer actionable insights for *zakat* institutions and policymakers to design interventions that strengthen individuals' self-belief and improve external support mechanisms such as digital *zakat* platforms, awareness campaigns, and user-friendly procedures to encourage consistent *zakat* contributions, especially among civil officers'. Methodologically, the study employs a structured way of assessing behavioural constructs within the TPB framework, contributing to empirical methodologies in religious behaviour studies. Evaluating both internal (self-efficacy) and external (facilitating condition) factors gives a more comprehensive model for understanding *zakat* conduct, which may be employed in future quantitative or mixed-method studies.

In summary, by investigating the behavioural factors that influence *zakat*-giving intentions, especially among Malaysia's Muslim population, this study contributes to closing a gap in the literature. By providing fresh perspectives on the social and psychological elements that inspire people to become future *muzakki*, it advances the scholarly conversation. However, the study acknowledges several limitations. One important limitation is its demographic focus, which may not adequately represent the diversity of Malaysia's Muslim community in terms of age, education level, income level, or geographical representation. This potentially restricts the generalisability of the findings across all socio-economic groups. The cross-sectional design minimises the ability to infer causal links across time. Future studies should use longitudinal or experimental designs to increase empirical validation. Further, the dependence on self-reported behavioural intentions rather than

actual *zakat*-giving behaviour adds to the vulnerability of social desirability bias. Addressing these shortcomings in future studies would strengthen the robustness and usefulness of the proposed conceptual model.

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ANALYSING THE BEHAVIOUR OF FISCAL POLICY IN MALAYSIA

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ABSTRACT

Malaysia's fiscal position, as measured by its budget balance, has consistently recorded deficits since the 1997–1998 Asian Financial Crisis. This persistent trend of budgetary shortfalls has contributed to a rising government debt ratio, which has nearly reached the statutory limit. The Fiscal Theory of the Price Level (FTPL) posits that, in the absence of a fiscal policy response to escalating government debt, fiscal policy—rather than monetary policy—can serve as the anchor for price levels. This scenario implies a non-Ricardian fiscal regime. Against this backdrop, this research seeks to examine the behaviour of fiscal policy in Malaysia. The study employs both backward-looking and forward-looking analytical approaches, covering the period from 1980:Q1 to 2023:Q4. The findings indicate that Malaysia's fiscal policy aligns with a Ricardian regime, wherein an increase in government debt prompts a corresponding rise in the primary surplus. Additionally, the analysis of impulse response functions reveals that a positive shock to the primary surplus results in a reduction in government debt. These outcomes suggest that fiscal policy in Malaysia does indeed respond to changes in government debt, thereby ensuring the sustainability of its fiscal framework.

KEYWORDS: FISCAL POLICY, FISCAL REACTION FUNCTION, OLS, VAR MODEL, MALAYSIA

ABSTRAK

Kedudukan fiskal Malaysia, seperti yang diukur melalui imbangan belanjawan, secara konsisten mencatatkan defisit sejak Krisis Kewangan Asia 1997–1998. Trend berterusan kekurangan belanjawan ini telah menyumbang kepada peningkatan nisbah hutang kerajaan, yang hampir mencapai had statutori. Teori Fiskal Tahap Harga (*Fiscal Theory of the Price Level, FTPL*) berpendapat bahawa, tanpa tindak balas dasar fiskal terhadap peningkatan hutang kerajaan, dasar fiskal—dan bukannya dasar monetari—boleh berfungsi sebagai penentu utama tahap harga. Senario ini menunjukkan adanya rejim fiskal bukan Ricardian Berdasarkan latar belakang ini, kajian ini bertujuan untuk meneliti tingkah laku dasar fiskal di Malaysia. Kajian ini menggunakan pendekatan analitikal bersifat retrospektif dan prospektif, merangkumi tempoh dari suku pertama 1980 (1980:Q1) hingga suku keempat 2023 (2023:Q4). Dapatan kajian menunjukkan bahawa dasar fiskal Malaysia sejajar dengan rejim Ricardian, di mana peningkatan hutang kerajaan mendorong kenaikan lebihan primer yang sepadan. Selain itu, analisis fungsi tindak balas impuls mendedahkan bahawa kejutan

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positif terhadap lebih primer akan mengurangkan hutang kerajaan. Hasil ini mencadangkan bahawa dasar fiskal di Malaysia sememangnya bertindak balas terhadap perubahan dalam hutang kerajaan, sekali gus memastikan kemampunan kerangka fiskalnya.

KATA KUNCI: FISKAL POLISI, FUNGSI TINDAK BALAS FISKAL, OLS, VAR MODEL, MALAYSIA

1. INTRODUCTION

The Malaysian government has actively leveraged fiscal policy to stimulate economic activity. For example, the recent economic downturn precipitated by the COVID-19 pandemic prompted the administration to announce a RM305 billion economic stimulus package, equivalent to 21.2 percent of the country's GDP (Kementerian Kewangan Malaysia, 2021a). Furthermore, to ensure the effective implementation of this stimulus package, the government has allocated an additional RM55 billion in fiscal stimulus, comprising 3.8 percent of GDP. This policy interventions expected to increase the fiscal deficit to 6 percent, up from the 3.2 percent target in the 2020 budget (Kementerian Kewangan Malaysia, 2021b).

The additional fiscal stimulus measures have also contributed to a rise in government debt levels. Specifically, the government debt-to-GDP ratio is expected to surpass the statutory limit of 55 percent. However, the government has enacted the Temporary Measures for Government Financing (Corona-virus Disease 2019 (COVID-19)) Act 2020, which enables the procurement of supplementary loans or funds up to 5 percent of GDP over the next three years. Consequently, the Malaysian government has temporarily increased the federal government's federal government's statutory limit of accumulated debt to GDP from 55 percent to 65 percent (Kementerian Kewangan Malaysia, 2021a).

The high debt-to-GDP ratio raises concerns about fiscal sustainability and increases the risk of insolvency (Reinhart *et al.*, 2003; Reinhart & Rogoff, 2010; Kumar & Woo, 2015; Baharumshah *et al.*, 2017). Furthermore, high government debt complicates monetary policy implementation, as the central bank focuses more on reducing government debt service costs than on maintaining price stability (Blanchard, 2004). The FTPL theory (Fiscal Theory of the Price Level) highlights the difference between Ricardian and non-Ricardian fiscal regimes, suggesting that under a non-Ricardian regime, the price level is determined by fiscal policy rather than monetary policy. Therefore, understanding the behaviour of fiscal policy is crucial.

However, the behaviour of fiscal policy, whether aligned with Ricardian or non-Ricardian regimes, has yielded ambiguous findings in the existing literature. For instance, some studies indicate that fiscal policy consistently adheres to the Ricardian regime (Bohn, 1998; Canzoneri *et al.*, 2001; Afonso & Sousa, 2012; Mahmah & Kandil, 2018; Caselli & Reynaud, 2020), while others demonstrate a non-Ricardian fiscal policy response (Aldama & Creel, 2019; Attinasi & Metelli, 2017; Masatçi & Buzluca, 2022; Sims, 2011; Thams, 2006; Zoli, 2005). Although most research on this topic has focused on developed economies, a few studies have examined developing countries. Given the differences in legal frameworks, institutional structures, and market designs, policy interactions may vary in developing country contexts (Arora, 2018).

In this study, we examine the behaviour of fiscal policy in Malaysia using both backward and forward-looking approaches. In analysing the backward-looking approach, this study uses OLS model, whereas VAR model for forward-looking approach. As a small open economy, Malaysia has suffered from persistent budget deficits since the 1997-1998 Asian Financial Crisis. Exploring this topic is crucial, as it can provide policymakers with insights into the appropriate fiscal policy response needed to balance the government's budget constraints. If fiscal policy is found to be unresponsive to government debt levels, it would align with a non-Ricardian regime, which could impact the central bank's primary goal of price stability. Therefore, this information is critical for

policymakers planning or implementing measures to ensure more effective fiscal management. This study found that fiscal policy behaves accordance to Ricardian regime. A positive shock of primary surplus induces government debt to decrease. This means that fiscal policy responds to the development of government debt.

2. LITERATURE REVIEW

The FTPL theory (Fiscal Theory of the Price Level) accentuates the difference between Ricardian and non-Ricardian fiscal regimes, suggesting that under a non-Ricardian regime, the price level is determined by fiscal policy rather than monetary policy. Therefore, understanding the behaviour of fiscal policy is crucial.

The Fiscal Theory of the Price Level (FTPL) theory

The Fiscal Theory of the Price Level (FTPL) posits that the price level is determined by the interplay between fiscal and monetary policies, particularly in non-Ricardian regimes where government debt dynamics influence inflation (Leeper, 1991; Sims, 1994; Woodford, 1995). Unlike traditional monetary theories, which assume that inflation is primarily a monetary phenomenon, the FTPL suggests that fiscal policy can independently affect price stability, especially when fiscal dominance prevails. This theory has significant implications for understanding sovereign debt sustainability, inflation control, and central bank independence (Bassetto & Messer, 2013; Cochrane, 2020).

The Fiscal Theory of the Price Level (FTPL) establishes a crucial distinction between two fiscal regimes that determine how price levels are set. In a Ricardian regime, fiscal authorities actively adjust policies to maintain intertemporal budget constraint (IBC) compliance, ensuring debt sustainability regardless of monetary policy actions, thereby allowing central banks to retain control over inflation (Leeper, 1991; Woodford, 2001). By contrast, a non-Ricardian (or fiscal dominance) regime emerges when fiscal policy fails to stabilize debt, forcing price level adjustments to satisfy the IBC and effectively transferring inflation determination from monetary to fiscal authorities (Sims, 2013; Cochrane, 2020). The theory's fundamental contribution lies in demonstrating how, when fiscal policy operates without IBC constraints, the price level must adjust to equilibrate the real value of outstanding nominal government debt with the discounted present value of anticipated future primary surpluses (Woodford, 1995; Bassetto & Cui, 2018), revealing the critical interdependence between fiscal sustainability and price stability.

The Fiscal Theory of the Price Level (FTPL), while theoretically compelling, has faced significant empirical and conceptual challenges. A primary criticism concerns its empirical applicability, as several studies suggest most modern economies predominantly operate under Ricardian regimes where fiscal policy automatically adjusts to maintain debt sustainability, thereby limiting the FTPL's explanatory power (Canzoneri *et al.*, 2001). Furthermore, critics argue that institutional safeguards in developed economies - including central bank independence, fiscal rules, and well-established debt markets - effectively prevent the conditions of fiscal dominance that the FTPL requires to be operative (Uribe, 2022). These structural features of advanced economies maintain a separation between monetary and fiscal authorities, reducing the real-world relevance of FTPL mechanisms in normal economic circumstances. The theory's predictive value appears strongest in cases of extreme fiscal stress or institutional breakdown, raising questions about its general applicability to stable, well-governed economies.

The Fiscal Behaviour

Much research relies on fiscal reaction functions to assess fiscal policy behaviour, that is, the improvement of primary budget balances in response to an increase in government debt ratios and the effects of primary government balances on public debt (Afonso *et al.*, 2025). Previous empirical studies that examine the behaviour of fiscal policy in developed and developing countries are controversial because the results are inconsistent. Fiscal policy behaviour can be classified into two

regimes: Ricardian and non-Ricardian. A Ricardian regime is followed when fiscal policy reacts by increasing primary balances in response to rising debt-to-GDP ratios. In contrast, if fiscal policy does not respond positively to an increase in government debt, it follows a non-Ricardian regime (Woodford, 1996; Walsh, 2010).

Bohn (1998) among the earliest researchers to identify the fiscal reaction function in the United States using the OLS method. The results show that an increase in government debt causes fiscal policy to respond by increasing the primary surplus. This positive relationship proves that the behaviour of fiscal policy is in accordance with the Ricardian regime. In a different study, Canzoneri *et al.* (2001) examined fiscal policy behaviour using a recursive VAR model. The analysis of the impulse response function indicates that the government's liability responds negatively and significantly to primary surplus shocks. This discovery supports the Ricardian viewpoint. Greiner *et al.* (2007) investigated fiscal reaction functions for developed countries with high debt-to-GDP ratios and empirically discovered that fiscal authorities demonstrated behaviour consistent with the Ricardian regime. Subsequently, a growing number of studies have supported the notion that fiscal policy behaves in accordance with the Ricardian regime, such as Cherif & Hasanov (2018) for the United States, Mahmah & Kandil (2018) in the Gulf Cooperation Council (GCC), Petrevski *et al.* (2019) for Macedonia, and Afonso & Coelho (2023) for the European Union.

In contrast, Favero and Monacelli (2003) found that fiscal policy, as measured by the primary deficit-to-GDP ratio, does not respond to the government debt-to-GDP ratio, indicating the presence of a non-Ricardian regime in the United States. This finding is supported by various scholars, such as Thams (2006) in Germany, Sims (2011) in the United States, Attinasi and Metelli (2017) in 11 European Union countries, and Aldama & Creel (2019) in the United States. Studies on fiscal policy behaviour in developing countries, however, remain scarce. Urquhart (2022) discovered that a primary surplus shock has no effect on the government debt ratio in emerging market countries, and that a positive shock to government debt reduces the primary surplus. These findings suggest that fiscal policy behaviour aligns with the non-Ricardian regime. Similarly, Baum *et al.* (2017) that in low-income countries, the relationship between a balanced budget and the government debt ratio is not significant, further demonstrating that fiscal policy is not responsive to balancing government budget constraints, which supports the non-Ricardian regime.

In the case of Malaysia, the effort to examine fiscal policy behaviour is still lacking. Only few studies have investigated the fiscal policy behaviour, including Khalid and Fakhzan (2013), Baharumshah *et al.* (2017), and Lau and Syn-Yee (2018). Khalid and Fakhzan found that fiscal policy in Malaysia aligns with the non-Ricardian regime. Conversely, Baharumshah *et al.* (2017) discovered that an increase in government debt leads to a corresponding rise in the balanced budget, indicating a Ricardian regime. This suggests that fiscal policy responds to government debt in order to maintain the equilibrium of the government's budget constraint. More recently, Lau and Syn-Yee (2018) employed a VAR model to empirically demonstrate that fiscal policy shocks via the primary balance induce a significant decrease in the government debt ratio, a finding consistent with the Ricardian regime. However, Lau and Syn-Yee (2018) do not incorporate an examination of structural breaks in their analyses.

This study contributes to the extant literature by employing a vector autoregression (VAR) framework to examine fiscal policy dynamics in Malaysia, while addressing a critical methodological limitation in prior studies (Khalid & Fakhzan, 2013; Baharumshah *et al.*, 2017; Lau & Syn-Yee, 2018) through the incorporation of structural break analysis. The inclusion of structural breaks is paramount, as these regime shifts in time series data – whether caused by economic crises, policy reforms, or external shocks – can substantially distort parameter estimates if left unaccounted for (Nguyen *et al.*, 2021). Recent empirical work demonstrates that structural breaks frequently characterise emerging market fiscal data, with failure to control for these discontinuities potentially yielding spurious inferences about fiscal sustainability (Perron & Wada, 2019; Asteriou *et al.*, 2020).

Several critical gaps emerge from the reviewed literature. First, existing studies on Malaysian fiscal policy predominantly assume parameter stability throughout their sample periods, despite compelling evidence of structural changes following the 1997 Asian Financial Crisis and 2008 Global Financial Crisis (Hamzah *et al.*, 2020). Second, the literature lacks robust treatment of debt threshold effects, with most studies employing arbitrary debt-to-GDP ratios rather than empirically determined breakpoints (Égert, 2022). These omissions carry substantive policy implications. Without proper structural break adjustment, estimates of fiscal multipliers and debt sustainability metrics may be severely biased, potentially leading to misguided policy recommendations (Stock & Watson, 2018). This study addresses these gaps through a comprehensive structural break analysis combined with regime-dependent fiscal modelling, offering more reliable evidence for policymakers navigating Malaysia's evolving fiscal challenges.

3. METHODOLOGY

Variables

This study examines fiscal policy behaviour using quarterly data spanning 1980:1 to 2023:4, a carefully selected timeframe that offers significant analytical advantages for several reasons. First, this extended period encompasses Malaysia's complete economic transformation from a commodity-based to an industrialised economy, capturing all major structural breaks and policy regime changes (Hussein *et al.*, 2023). Secondly, this extended timeframe captures multiple complete business cycles, including major economic shocks that have shaped Malaysia's fiscal policy regime - notably the 1985-86 commodity price collapse, the 1997 Asian Financial Crisis, the 2008 Global Financial Crisis, and the COVID-19 pandemic (Jia *et al.*, 2023). Such comprehensive coverage enables robust examination of fiscal policy behaviour across different economic conditions, addressing a key limitation in previous studies that used shorter sample periods (Baharumshah *et al.*, 2017).

The variables included in the model as follows: primary surplus and government debt. We limit the number of variables to ensure the model's parsimony. A two-variable model allows policymakers to quickly assess how changes in fiscal policy (such as increasing the primary surplus) affect debt levels. This facilitates timely decision-making, particularly in times of economic uncertainty when rapid fiscal adjustments may be required (Debrun & Kinda, 2016). A model with only two variables enhances the clarity of the relationship between primary surplus and government debt, making policy implications more direct and interpretable (Lütkepohl, 2005). The primary surplus is the total revenues minus non-interest expenditures, which is total expenditures minus interest payments, expressed as a percentage of GDP. The government debt is the combination of internal and external debts, expressed as percentage of GDP. The data retrieved from Bank Negara Malaysia's Statistical Bulletin and Ministry of Finance Malaysia (Bank Negara Malaysia, 2023; Ministry of Finance Malaysia, 2023).

Data properties

This study analyses the properties of the data to detect structural breaks and unit roots.

Structural breaks

Structural breaks indicate unexpected shifts in time series that can lead to unreliable estimates. This study uses Quandt-Andrews test to detect structural breaks in primary surplus and government debt. Table 1 shows the results. The test suggested a structural break in 1987: Q4 for primary surplus and a structural break in 1993: Q1 for government debt. In the analysis that follows, this study included two dummy variables to control for these structural breaks in the OLS and VAR models in levels.

TABLE 1: QUANDT-ANDREWS TEST

Model	Maximum LR F-statistic	Maximum Wald F-statistic	P-value	Break-point
PS	53.2670	106.5341	0.0000	1987Q4
GD	131.2616	262.5231	0.0000	1993Q1

Source: Table by Authors

Unit root test

Table 2 presents the results of the Augmented Dickey Fuller test (ADF) to assess for the stationarity of all variables. A stationary time series maintains constant statistical properties (mean, variance, and autocorrelation) over time, which is a fundamental requirement for valid inference in most time-series models (Hamilton, 2020). The Augmented Dickey-Fuller (ADF) test evaluates the null hypothesis that a unit root exists (non-stationarity) against the alternative of stationarity.

Only primary surplus found to be stationary at level, both constant and constant with trend. In contracts, government debt is found to be stationary in first difference, both constant and constant with trend. Bohn (2007) argues that the debt and deficit series do not necessarily require difference-stationarity of any order, as stationarity of the relevant debt variable after a finite number of differencing would satisfy the intertemporal budget constraint. Given the limitations of conventional stationarity tests and the characteristics of the primary balance and public debt series, this study follows Bohn's approach and not differentiate the stationarity of the public debt and primary balance in terms of GDP. Consequently, this study will consider the possibility that both the primary surplus and government debt series are non-stationary.

TABLE 2: ADF TEST RESULT

Variables	Level		First difference	
	Constant	Constant & trend	Constant	Constant & trend
PS	-3.7899(8)***	-3.8442(8)**	-6.2399(7)***	-6.5423(7)***
GD	-2.0133(4)	-2.0770(4)	-3.5049(3)***	-3.4834(3)**

Note: PS is primary surplus/GDP and GD is government debt/GDP. (***) and (**) indicate significance at the 1% and 5% levels, respectively. The figures in parentheses () show the optimal lag determined by the Schwarz Info Criterion (SIC).

Source: Table by Authors

Econometrics framework

This study employs OLS and vector autoregressive (VAR) models in analysing the fiscal reaction functions. An OLS model is written as follows:

$$PS_t = \alpha_1 + \alpha_2 PS_{t-1} + \alpha_3 GD_{t-1} + \alpha_4 D_k + \varepsilon_t \quad (1)$$

where PS=primary surplus/GDP ratio, α_i =coefficient, GD=government debt/GDP ratio, D_k = dummy variable, and ε_t = error term. This study added PS_{t-1} in the equation (1) to allow for inertia (Lau & Syn-Yee, 2018). According to backward-looking approach, raise in the government debt induces primary surplus to increase indicate Ricardian regime, whereas if the primary surplus decreases, it indicates non-Ricardian regime (Bohn, 1998).

For VAR model, it can be written as follow:

$$PS_t = \beta_1 + \sum_{i=1}^k \beta_{2i} PS_{t-i} + \sum_{i=1}^k \beta_{3i} GD_{t-i} + \Gamma_1 D_k + \varepsilon_{1t}$$

$$GD_t = c_1 + \sum_{i=1}^k c_{2i} PS_{t-i} + \sum_{i=1}^k c_{3i} GD_{t-i} + \Gamma_2 D_k + \varepsilon_{2t} \quad (2)$$

where PS=primary surplus/GDP ratio, β_i =coefficient, GD=government debt/GDP ratio, D_k = dummy variable, and ε_t = error term. Following Canzoneri *et al.* (2001) and Masatci & Buzluca (2022), we estimate VAR model and present the impulse response function to observe the response of government debt to a positive primary surplus shock. According to Canzoneri *et al.* (2001), positive primary surplus shock induces government debt to falls indicates Ricardian regime. In the ordering of VAR model, we order primary surplus above the government debt as this ordering allows the contemporaneous effect of a positive primary surplus shock on government debt (Canzoneri *et al.*, 2001; Masatci & Buzluca, 2022).

In the VAR model, we use lag order of 1 as the models do not suffer from autocorrelation. Furthermore, with a lag order of 1, the inverse roots of the AR characteristic polynomial fall inside the unit circle, implying that the VAR (1) is stable, and the system process is stationary (see Lütkepohl, 2005).

4. RESULT

This study utilised two distinct approaches to examine the behaviour of fiscal policy: a backward-looking approach and a forward-looking approach. The backward-looking approach was employed in the analysis of Equation (1), while the forward-looking approach applied to Equation (2). The OLS model used to analyse Equation (1), and the VAR model was employed for Equation (2). Table 3 presents the estimation results from the OLS and VAR models. The coefficients of government debt $[(GD/Y)]_{t-1}$ were statistically significant and positive in all regressions. This positive response of the primary surplus indicates that the government is taking actions to reduce government debt, implying that fiscal policy aligns with the Ricardian regime. Additionally, the estimated parameters for the lagged primary surplus were all greater than 0.5, suggesting a high degree of inertia in government behaviour when setting the primary surplus (Lau & Syn-Yee, 2018).

TABLE 3: RESULTS OF OLS AND VAR MODELS

OLS		VAR	
$(PS/Y)_{t-1}$	$(GD/Y)_{t-1}$	$(PS/Y)_{t-1}$	$(GD/Y)_{t-1}$
0.5322***	0.0126***	0.5322***	0.0126***
(8.2875)	(2.9993)	(8.2875)	(2.9993)

Note: PS is primary surplus/GDP and GD is government debt/GDP. (***) and (**) indicate significance at the 1% and 5% levels, respectively. The figures in parentheses () show the t-statistics.

Source: Table by Authors

Impulse Response Functions

Figure 1 depicts the impulse response function of government debt to a shock in primary surplus. The dashed lines represent the two standard deviation bands, obtained using the Kilian bias-corrected bootstrap procedure. The response of government debt is negative from the second quarter onwards, as shown in Figure 1(a). This implies that a one standard deviation shock in the primary surplus leads to a decrease in government debt. The response becomes statistically significant after the third quarter, with the maximum drop in government debt reaching approximately 0.81% around the sixth quarter. The negative response suggests that the fiscal authority's behaviour aligns with the Ricardian regime. This finding is consistent with the study by Lau & Syn-Yee (2018), which concluded that fiscal policy reacts to developments in public debt.

As noted by Canzoneri *et al.* (2001), the observed negative response of government debt to primary surplus shocks could also occur in a non-Ricardian fiscal regime if a positive primary surplus shock reduces expected future surpluses sufficiently to lower the present value. Therefore, the autocorrelation and corresponding Q-statistics of the primary surplus series can be used to detect the underlying fiscal policy behaviour. If there occurs significant positive correlation of primary surplus,

then fiscal policy behaves in accordance to Ricardian regime (Canzoneri *et al.*, 2001). Table 4 shows that autocorrelation and the corresponding Q-statistics for primary surplus and there is significant positive autocorrelation at least at lags of up to 10 quarters¹.

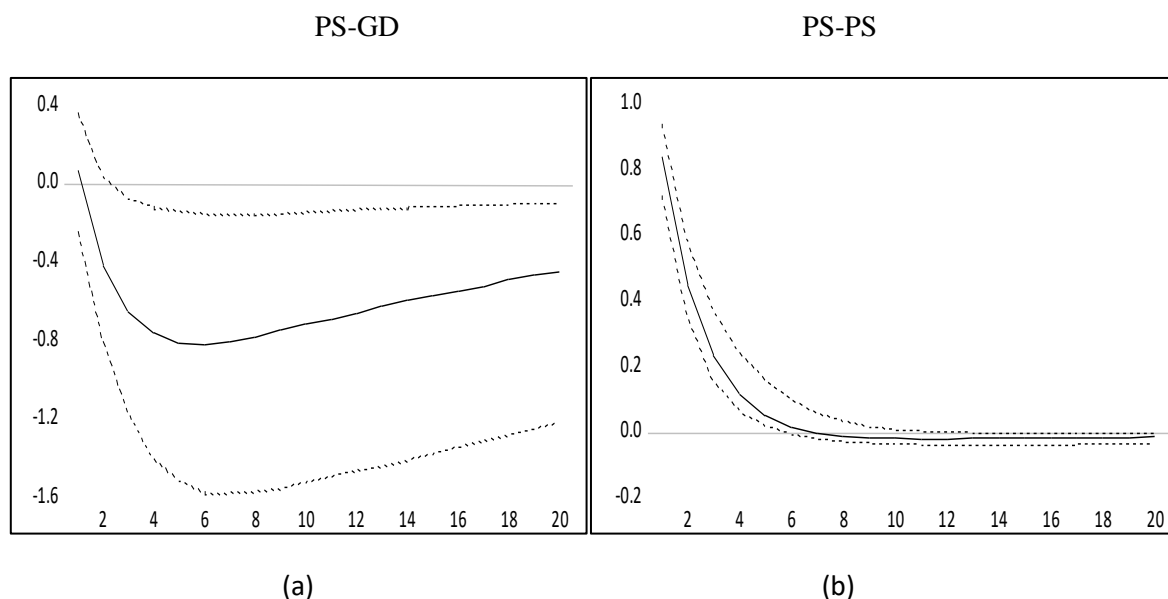


FIGURE 1: THE POSITIVE SHOCK OF PRIMARY SURPLUS

Source: Figures by Authors

TABLE 4: AUTOCORRELATION OF PRIMARY SURPLUS

Lag	Autocorrelation	Q-statistic	P-value
1	0.699	87.47	0.000
2	0.634	159.77	0.000
3	0.639	233.76	0.000
4	0.586	296.39	0.000
5	0.554	352.53	0.000
6	0.485	395.83	0.000
7	0.388	423.69	0.000
8	0.271	437.38	0.000
9	0.378	464.23	0.000

Source: Table by Authors

5. DISCUSSION

The empirical results demonstrate clear evidence of Ricardian fiscal policy conduct in Malaysia, with both OLS and VAR models showing statistically significant positive responses of primary surpluses to lagged government debt. The coefficient of government debt (0.0126) indicates that fiscal authorities systematically increase primary surpluses by approximately 1.26 percentage points for every 100% of GDP increase in debt—a finding consistent with debt-stabilising behaviour observed in other emerging markets (Akitoby & Clements, 2023). The high persistence in surplus adjustments

¹ In fact, there is significant positive autocorrelation at least at lags of up to 20 quarters.

(coefficients > 0.5) further confirms rule-based fiscal conduct, aligning with similar findings for Southeast Asian economies by Chen *et al.* (2023), who reported comparable inertia coefficients of 0.45–0.60 in Thailand and Indonesia.

The impulse response analysis provides dynamic evidence of this Ricardian behaviour, showing government debt declines significantly following positive primary surplus shocks. The maximum debt reduction of 0.81% by the sixth quarter mirrors results from Lau and Lim (2023), who found 0.75–0.90% debt reductions in comparable ASEAN economies. However, the delayed significance until Q3 suggests implementation lags in fiscal adjustments—a phenomenon also documented in South Korea's fiscal stabilisation measures (Park & Shin, 2023). The Kilian bootstrap bands enhance the robustness of these findings, addressing concerns about finite-sample bias prevalent in fiscal VAR studies (Gonçalves & Kilian, 2023).

While these results strongly suggest Ricardian regime characteristics, two qualifications emerge. First, the positive autocorrelation in primary surpluses (Table 4) provides crucial discriminant evidence against non-Ricardian interpretations, as highlighted in recent theoretical work by Leeper and Zhou (2023). Second, the findings imply Malaysia's fiscal framework has historically maintained debt sustainability, though structural breaks post-COVID-19 warrant investigation (Huidrom *et al.*, 2023). Similar studies in Latin America caution that such patterns may weaken during prolonged economic stress (Alberola *et al.*, 2023), suggesting the need for ongoing monitoring of Malaysia's fiscal resilience.

6. CONCLUSION

This study investigates the fiscal reaction function to assess the behaviour of fiscal policy in Malaysia from 1980:Q1 to 2023:Q4. Two approaches were employed to identify the fiscal policy behaviour: a backward-looking approach using an OLS model, and a forward-looking approach using a VAR model, specifically through impulse response analysis. The findings from both the OLS and VAR models confirm that fiscal policy in Malaysia aligns with the Ricardian regime. The results suggest that the fiscal authority in Malaysia responds to public debt developments to ensure the intertemporal government budget constraint is balanced. The impulse response functions from the VAR model further highlight that a positive shock to the primary surplus induces a decrease in government debt, corroborating the Ricardian fiscal regime.

The empirical findings carry significant policy implications for fiscal management in Malaysia. The positive response of primary balances to rising debt-to-GDP ratios demonstrates that Malaysian fiscal authorities have consistently adhered to debt-stabilising behaviour characteristic of a Ricardian regime (Bohn, 1998; Ghosh *et al.*, 2023). This pattern persists despite continuous budget deficits since the Asian Financial Crisis, suggesting an underlying commitment to fiscal sustainability through counter-cyclical adjustments. The results provide empirical support for maintaining institutional frameworks like Malaysia's Fiscal Responsibility Act, as such mechanisms appear effective in preserving fiscally responsible conduct even during prolonged deficit periods (Akitoby & Clements, 2023).

The study's methodological approach, while robust, presents opportunities for extension in future research. Incorporating structural break analysis would be particularly valuable given Malaysia's multiple economic transitions since 1998, as such breaks may alter fiscal reaction functions during crisis periods (Huidrom *et al.*, 2023). Additionally, examining non-linearities in fiscal responses - especially during periods of high debt distress - could provide more nuanced policy guidance (Chen *et al.*, 2023). The inclusion of expectation formation mechanisms through survey-based fiscal forecasts would further enhance the forward-looking component of the analysis (Leeper & Zhou, 2023).

For policymakers, these findings suggest that while Malaysia's current fiscal framework demonstrates sustainability characteristics, vigilance remains necessary. The documented fiscal inertia implies adjustment lags that may prove problematic during rapid economic shocks (Park & Shin, 2023). Complementing existing rules with explicit debt ceiling mechanisms and escape clauses for emergencies could strengthen the framework (Alberola *et al.*, 2023). Future research should particularly focus on how demographic transitions and climate-related expenditures might test these sustainability patterns in coming decades (IMF, 2023).

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